



爪哇集團
SEA Group

Stock Code 股份代號: 251

BUILDING
WITH
THE
TIMES

與時創建

2019

ANNUAL REPORT 年報



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DIRECTORY

DIRECTORS

Executive Directors

Mr. Lu Wing Chi, Jesse (*Chairman*)
Mr. Lambert Lu (*Chief Executive*)

Non-executive Directors

Mr. Lam Sing Tai
Mr. Lincoln Lu

Independent Non-executive Directors

Mr. Walujo Santoso, Wally
Mr. Leung Hok Lim
Mr. Chung Pui Lam
Mr. Chan Kwok Wai

AUDIT COMMITTEE

Mr. Leung Hok Lim (*Chairman*)
Mr. Walujo Santoso, Wally
Mr. Chung Pui Lam
Mr. Chan Kwok Wai

NOMINATION COMMITTEE

Mr. Lu Wing Chi, Jesse (*Chairman*)
Mr. Walujo Santoso, Wally
Mr. Leung Hok Lim

REMUNERATION COMMITTEE

Mr. Chung Pui Lam (*Chairman*)
Mr. Lu Wing Chi, Jesse
Mr. Lambert Lu
Mr. Walujo Santoso, Wally
Mr. Leung Hok Lim

AUTHORISED REPRESENTATIVES

Mr. Lambert Lu
Ms. Chow Siu Yin, Dora

COMPANY SECRETARY

Ms. Chow Siu Yin, Dora

LEGAL ADVISERS

Stephenson Harwood
Mayer Brown
Clifford Chance
Conyers Dill & Pearman

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Credit Suisse AG Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

26/F., Everbright Centre
108 Gloucester Road
Wanchai, Hong Kong
Tel: (852) 2828 6363
Fax: (852) 2598 6861
E-mail: info@seagroup.com.hk

BRANCH REGISTRAR IN HONG KONG

Tricor Standard Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2528 3158

LISTING

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

STOCK CODE AND BOARD LOT

251/2,000 shares

WEBSITE

www.seagroup.com.hk

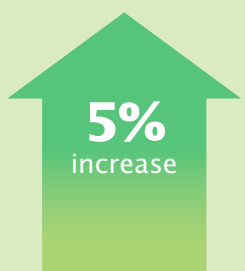
HIGHLIGHTS

(For the year ended 31 December 2019)



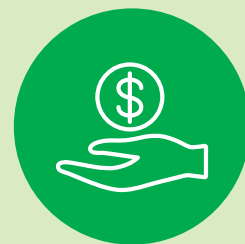
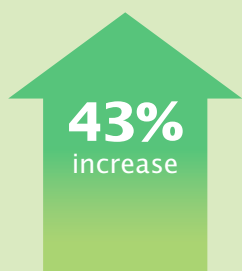
Revenue

HK\$816.4 million
(2018: HK\$778.8 million)



Profit attributable to the Shareholders

HK\$173.1 million
(2018: HK\$121.0 million)



Net asset value ("NAV")

HK\$11,564.2 million[#]

NAV per share of the Group attributable to the Shareholders

HK\$17.5[#]

[#] The NAV is calculated on the basis of the Group's book NAV of HK\$6,250.4 million after adjusting hotel property (which is on cost basis in the book) to fair market value determined by an independent property valuer.

BUILDING WITH THE TIMES

SEA Group was founded in Hong Kong in 1956, its subsidiary went public in 1973 and redomiciled to Bermuda in 1989. S E A Holdings Limited became the flagship listed company of the Group.



Through the combined essence of its professional management team, a prudent financial position, its well-structured corporate governance and the adherence to the Company's philosophy of "Building with the Times", the Group has been diligently carrying out property projects with delicate attention to details. It is the Group's mission to deliver quality projects in a pragmatic and trustworthy way in order to satisfy the needs of our clients.

Over the years, the Group has over 200 residential, commercial and industrial projects in Hong Kong, United Kingdom, Australia, New Zealand, Canada and Mainland China, etc. The Group has since become a renowned international property conglomerate. Looking ahead, the Group is committed to continue building its portfolio of quality projects and add value for shareholders, at the same time contribute for the betterment of the society.



FINANCIAL HIGHLIGHTS

Five-Year Financial Summary

For the year ended 31 December

Results	2019	2018	2017	2016	2015
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Revenue	816.4	778.8	627.6 ^{Note i}	566.0	732.7
Profit for the year before non-controlling interests	173.1	121.3	268.0	571.9	1,463.2
Non-controlling interests	—	(0.3)	(0.7)	112.4	(27.3)
Profit for the year attributable to the Shareholders	173.1	121.0	267.3	684.3	1,435.9

As at 31 December

Assets and Liabilities	2019	2018	2017	2016	2015
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Total assets	20,537.8	19,986.1	19,011.1	17,279.9	19,079.7
Total liabilities	(14,287.4)	(13,974.5)	(12,867.0)	(4,947.2)	(5,561.3)
Adjusted NAV attributable to the Shareholders ^{Note iii & iv}	11,564.2	11,405.4	9,516.4	14,831.0	13,074.4

Performance Data	2019	2018	2017	2016	2015
	HK\$	HK\$	HK\$	HK\$	HK\$
Basic earnings per share for profit attributable to the Shareholders	0.26	0.18	0.39	1.01	2.09
Basic earnings per share excluding fair value changes on investment properties net of deferred tax	0.20	0.17	0.37	1.13	0.70
Dividends declared (per share) ^{Note ii}	0.05	0.05	3.05	0.11	2.11
Adjusted NAV per share attributable to the Shareholders ^{Note iii & iv}	17.5	17.2	14.1	21.9	19.3

Note i: The revenue for 2017 represented continuing operations HK\$576.5 million and discontinued operations HK\$51.1 million respectively.

Note ii: Other than the above cash dividend declared, the distribution of a special non-cash dividend by way of distribution in specie of HK\$3,883.8 million was completed on 15 May 2017.

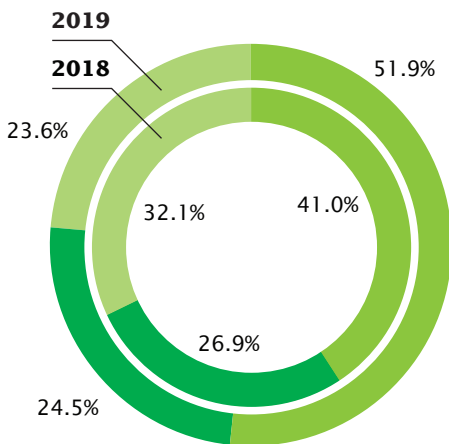
Note iii: The adjusted NAV and adjusted NAV per share attributable to the Shareholders as at 31 December 2019, 2018, 2017 and 2016 are calculated on the basis of the Group's respective book NAV after adjusting hotel property (which is on cost basis in the book) to fair market value determined by independent property valuers.

Note iv: The NAV and NAV per share attributable to the Shareholders as at 31 December 2015 are calculated on the basis of the Group's respective book NAV without adjusting hotel property to fair market value.

FINANCIAL HIGHLIGHTS

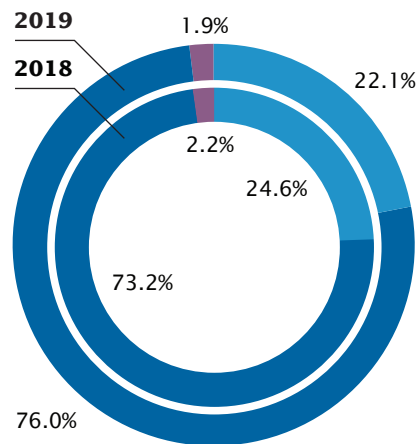


Segment Revenue for External Sales



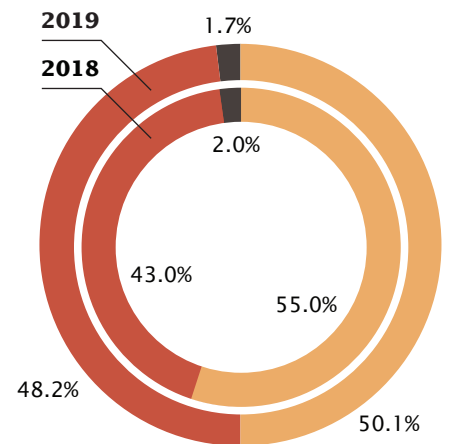
- Financial Investment
- Property Investment
- Hotel Operation

Revenue for External Customers by Geographical Location of Properties



- United Kingdom
- Hong Kong
- Australia

Property Assets by Geographical Segment



- United Kingdom
- Hong Kong
- Australia

Crowne Plaza Hong Kong
Causeway Bay

1 Shouson Hill Road East



Hong Kong

20 Moorgate,
London

33 Old Broad Street,
London



United Kingdom

Lizard Island Resort, Queensland

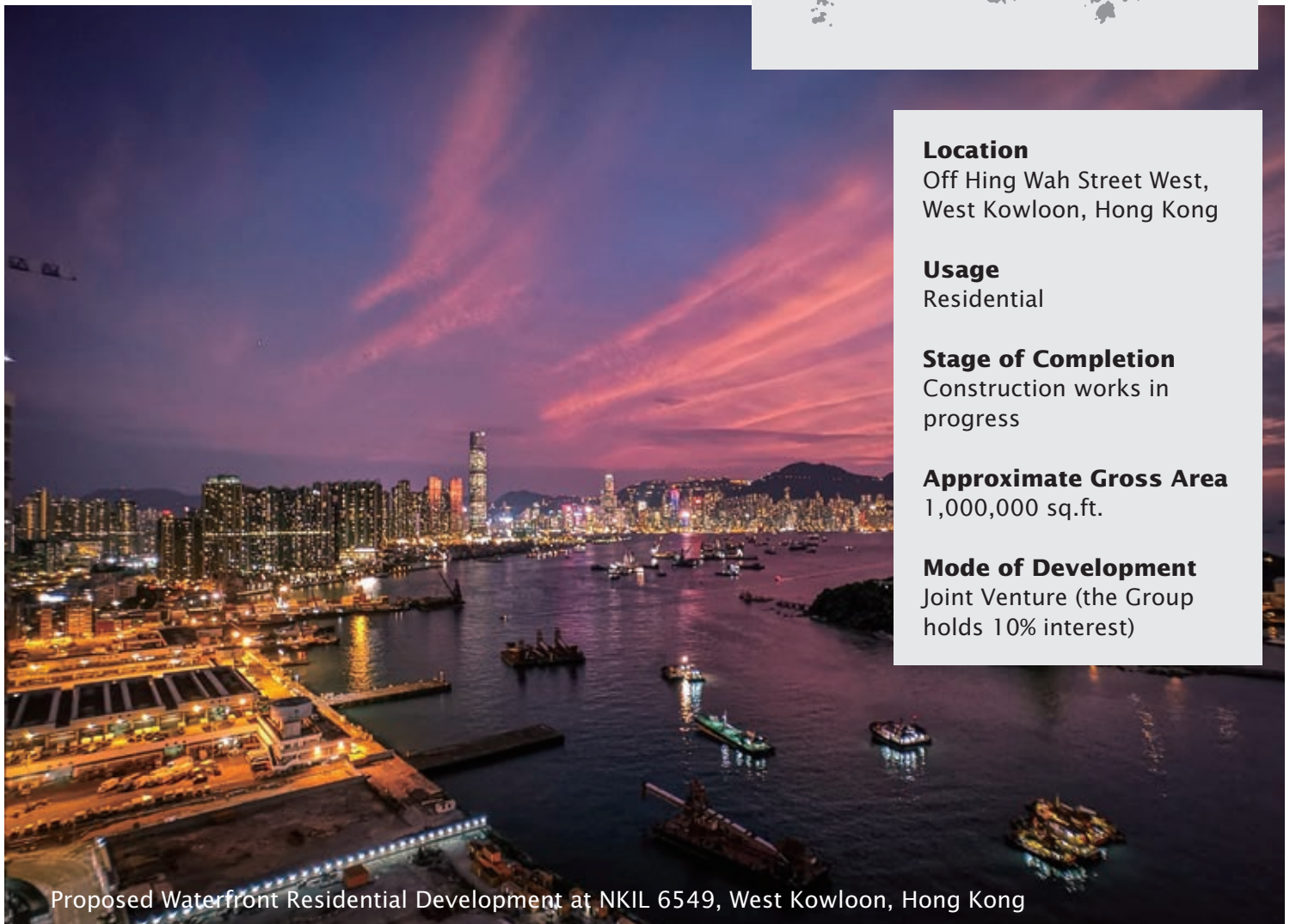


Australia

Proposed Waterfront Residential Development at NKIL 6549, West Kowloon

Hong Kong

Located at the West Kowloon waterfront, this 208,200 square feet site is a joint venture project with several developers. The location enjoys excellent connectivity with the MTR station providing seamless linkages with Central, the airport, the high-speed rail terminus as well as most of the commercial districts in the region. The project will be developed as a premium waterfront property, compliment with various green architectural features and smart home provisions.



Location

Off Hing Wah Street West, West Kowloon, Hong Kong

Usage

Residential

Stage of Completion

Construction works in progress

Approximate Gross Area

1,000,000 sq.ft.

Mode of Development

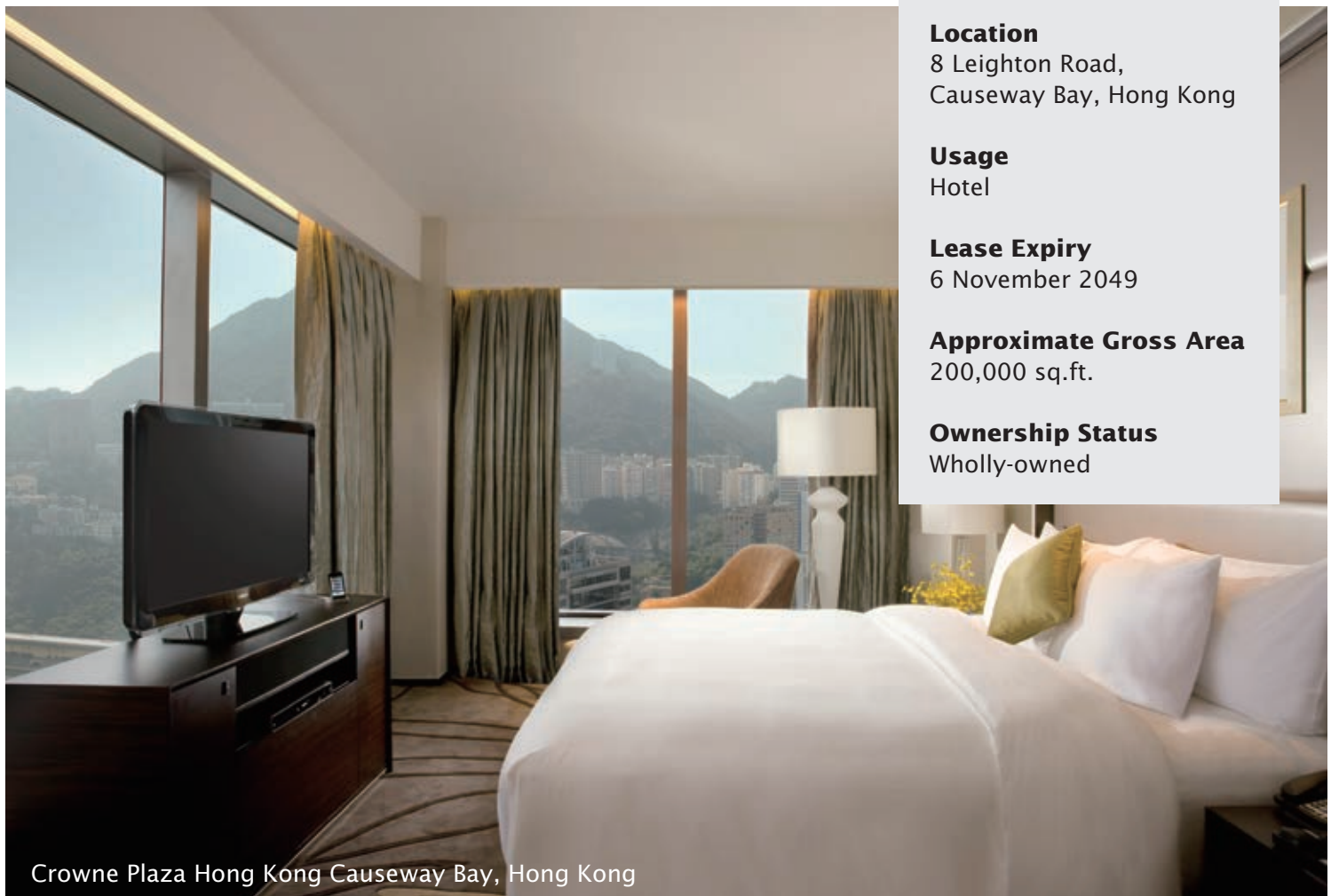
Joint Venture (the Group holds 10% interest)

Proposed Waterfront Residential Development at NKIL 6549, West Kowloon, Hong Kong

Crowne Plaza Hong Kong Causeway Bay

Hong Kong

Situated at the heart of Hong Kong's most renowned shopping district, the hotel has spectacular views of the vibrant city as well as the greenery views of the Happy Valley race course, and it has become the premium choice of hotel accommodation for both business and leisure travellers. Crowne Plaza Hong Kong Causeway Bay's 263 guest rooms and suites are spacious and comfortable, and are the largest of any hotels in the area. Since its opening in late 2009, the hotel has established an excellent reputation offering a unique experience to the international travellers around the world.



Location

8 Leighton Road,
Causeway Bay, Hong Kong

Usage

Hotel

Lease Expiry

6 November 2049

Approximate Gross Area

200,000 sq.ft.

Ownership Status

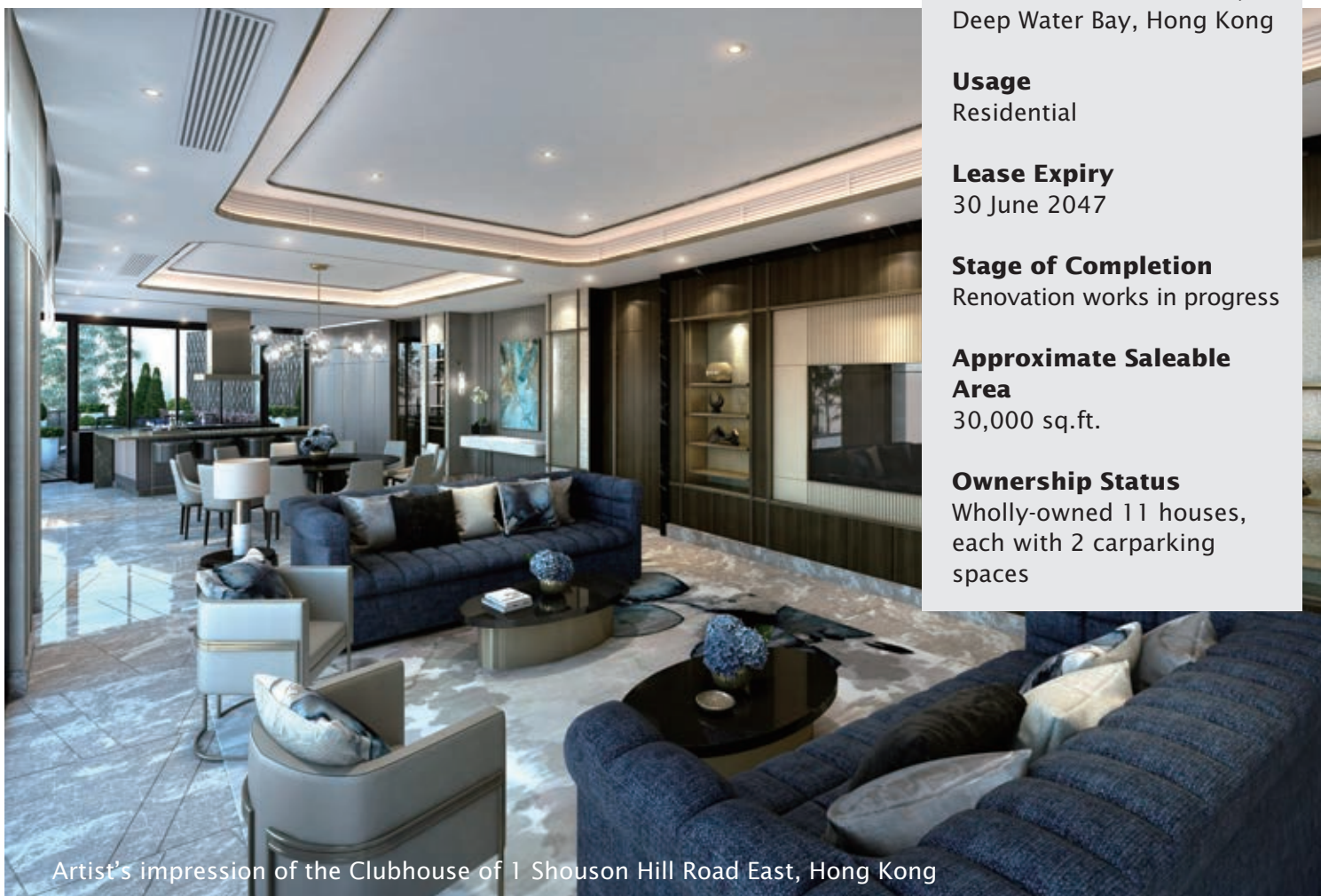
Wholly-owned

Crowne Plaza Hong Kong Causeway Bay, Hong Kong

1 Shouson Hill Road East

Hong Kong

Prestigiously situated in the luxurious residential area in the Deep Water Bay area of Island South, the project possesses the lush panoramic views of Mount Nicholson and residents could enjoy the convenience of commuting to Central and Causeway Bay by just a few minutes of driving. The development features 20 blocks of 3-storey detached houses, each with a sizable private garden, roof top and covered car parking spaces accessible directly from the house. The property has a brand new club house with outdoor heated swimming pool, gym room, banquet room and children playground.



Artist's impression of the Clubhouse of 1 Shouson Hill Road East, Hong Kong

Location

1 Shouson Hill Road East,
Deep Water Bay, Hong Kong

Usage

Residential

Lease Expiry

30 June 2047

Stage of Completion

Renovation works in progress

Approximate Saleable Area

30,000 sq.ft.

Ownership Status

Wholly-owned 11 houses,
each with 2 carparking
spaces

Winway Building

Hong Kong

A 24-storey commercial tower located at the prime area of Central. It comprises of 20-storey of office floor space occupied mainly by professional service providers, such as clinics, law firms as well as beauty centres; while the G/F-2/F retail portion provides an ideal location for tenants to establish their presence in Central.



Winway Building, Hong Kong

Location

50 Wellington Street,
Central, Hong Kong

Usage

Commercial

Lease Expiry

999 years commencing
from 26 June 1843

Approximate Gross Area

58,207 sq.ft.

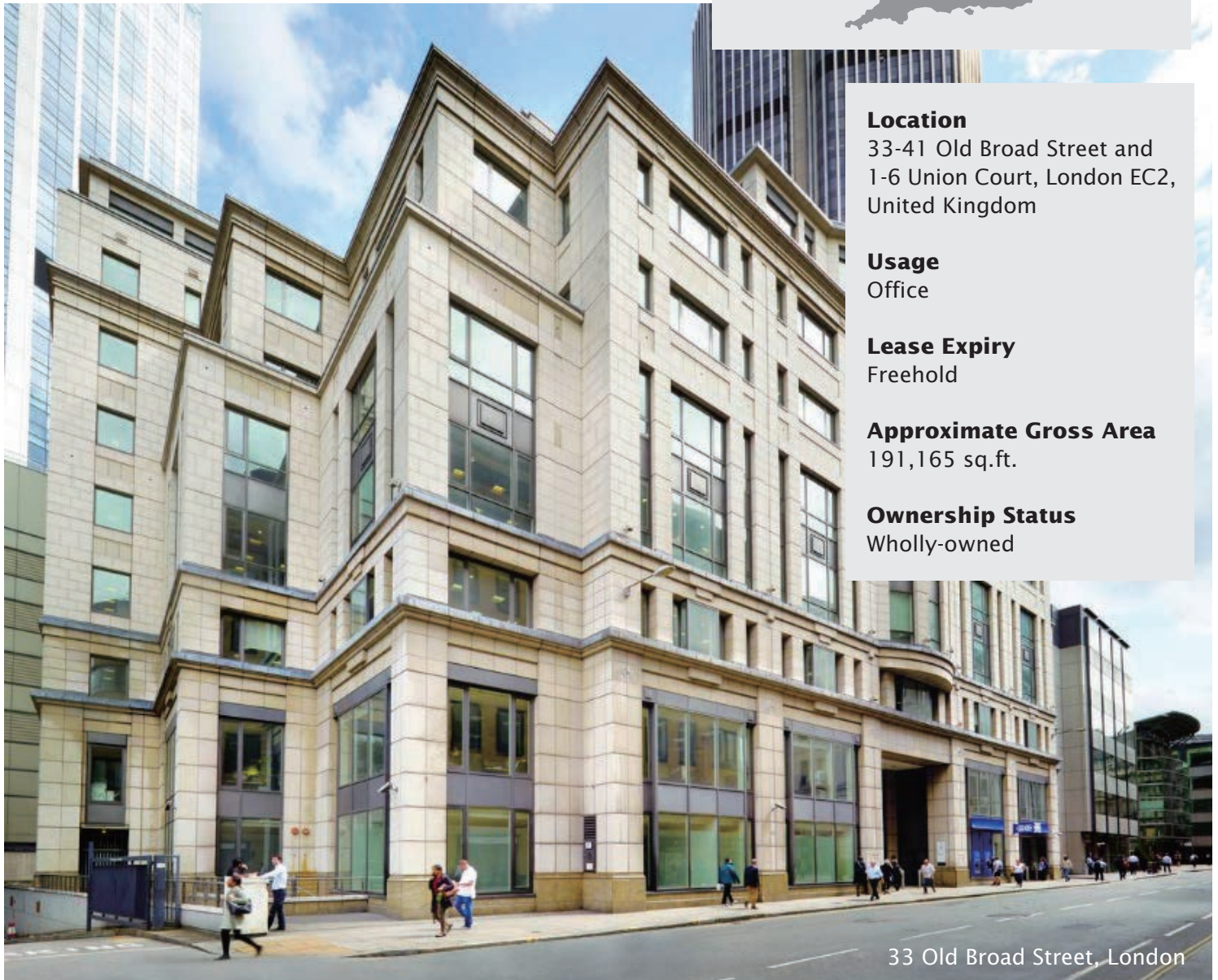
Ownership Status

58.83 % owned

33 Old Broad Street, London

United Kingdom

33 Old Broad Street is prominently located at the core of the City of London with only 150 metres away from the Liverpool Street Crossrail Station. This strategic location appeals to global occupiers from the financial, insurance and professional sectors. Moreover, the 9-storey property is located in “the Eastern Cluster” identified by the City of London Corporation, which is identified as suitable for development of high-rise buildings, providing a promising redevelopment opportunity as a landmark development. The property is currently leased to Bank of Scotland as their London Headquarter.



Location

33-41 Old Broad Street and
1-6 Union Court, London EC2,
United Kingdom

Usage

Office

Lease Expiry

Freehold

Approximate Gross Area

191,165 sq.ft.

Ownership Status

Wholly-owned

33 Old Broad Street, London

20 Moorgate, London

United Kingdom

The property is a seven-storey office building located in the heart of London with less than 100 metres of walking distance from the Bank of England. The development provides a sizable floor space of Grade A office, retail and ancillary accommodation. The commercial part of the property is fully let as the Headquarter of United Kingdom Prudential Regulation Authority (a regulatory body of the Bank of England).



20 Moorgate, London

Location

20 Moorgate, London EC2R 6DA,
United Kingdom

Usage

Office

Lease Expiry

Long lease

Approximate Gross Area

155,000 sq.ft.

Ownership Status

Wholly-owned

Lizard Island Resort, Queensland

Australia

Lizard Island Resort is an island resort uniquely located on the Great Barrier Reef, 240 kilometers north of Cairns, Australia. It provides 40 luxurious beach lodges and is surrounded by 24 powdery-white beaches and over 1,000 hectares of national park. Lizard Island is recognized as one of the luxurious island resorts of the world.



Location

Lizard Island,
Tropical North,
Queensland, Australia

Usage

Resort Hotel

Lease Expiry

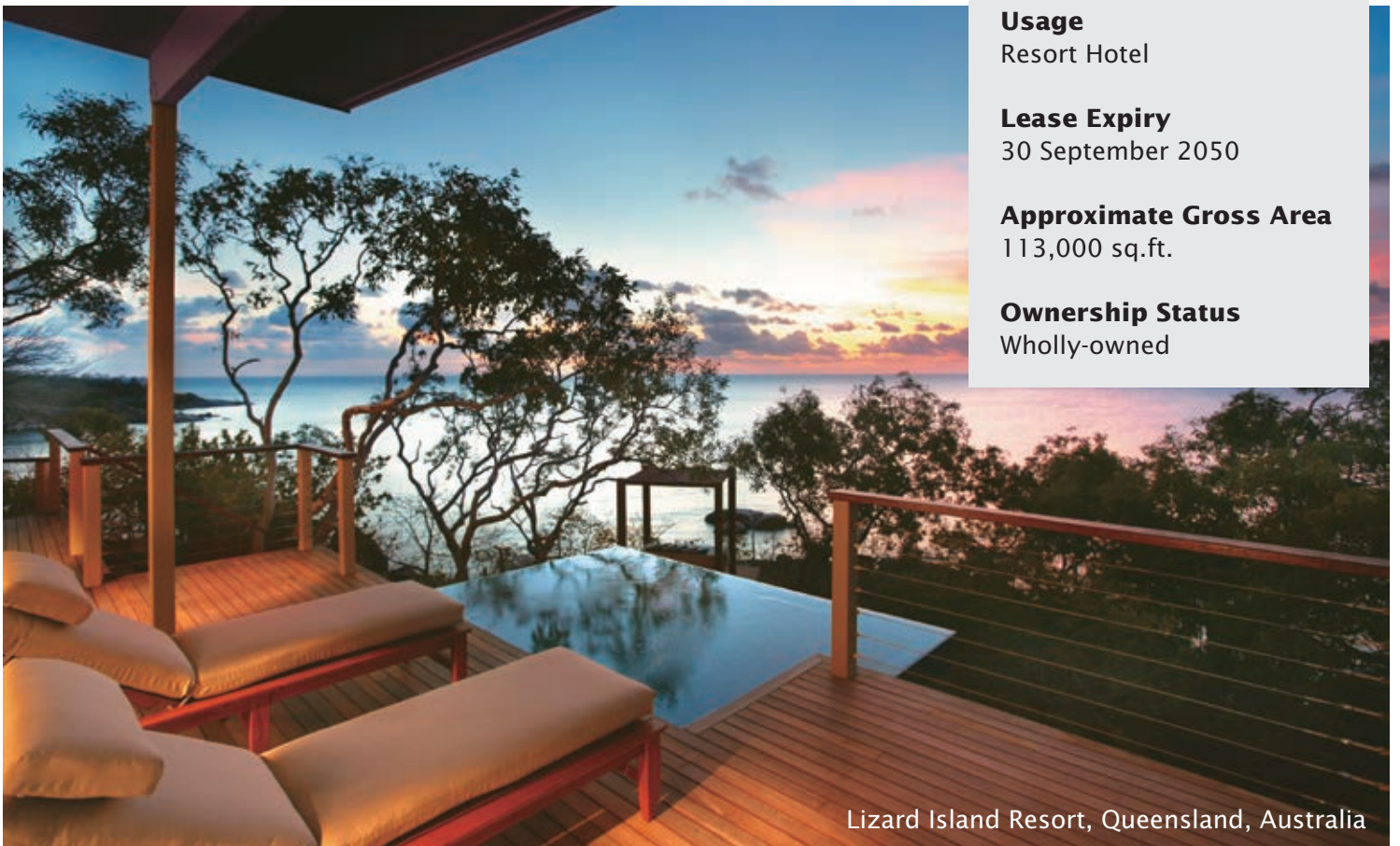
30 September 2050

Approximate Gross Area

113,000 sq.ft.

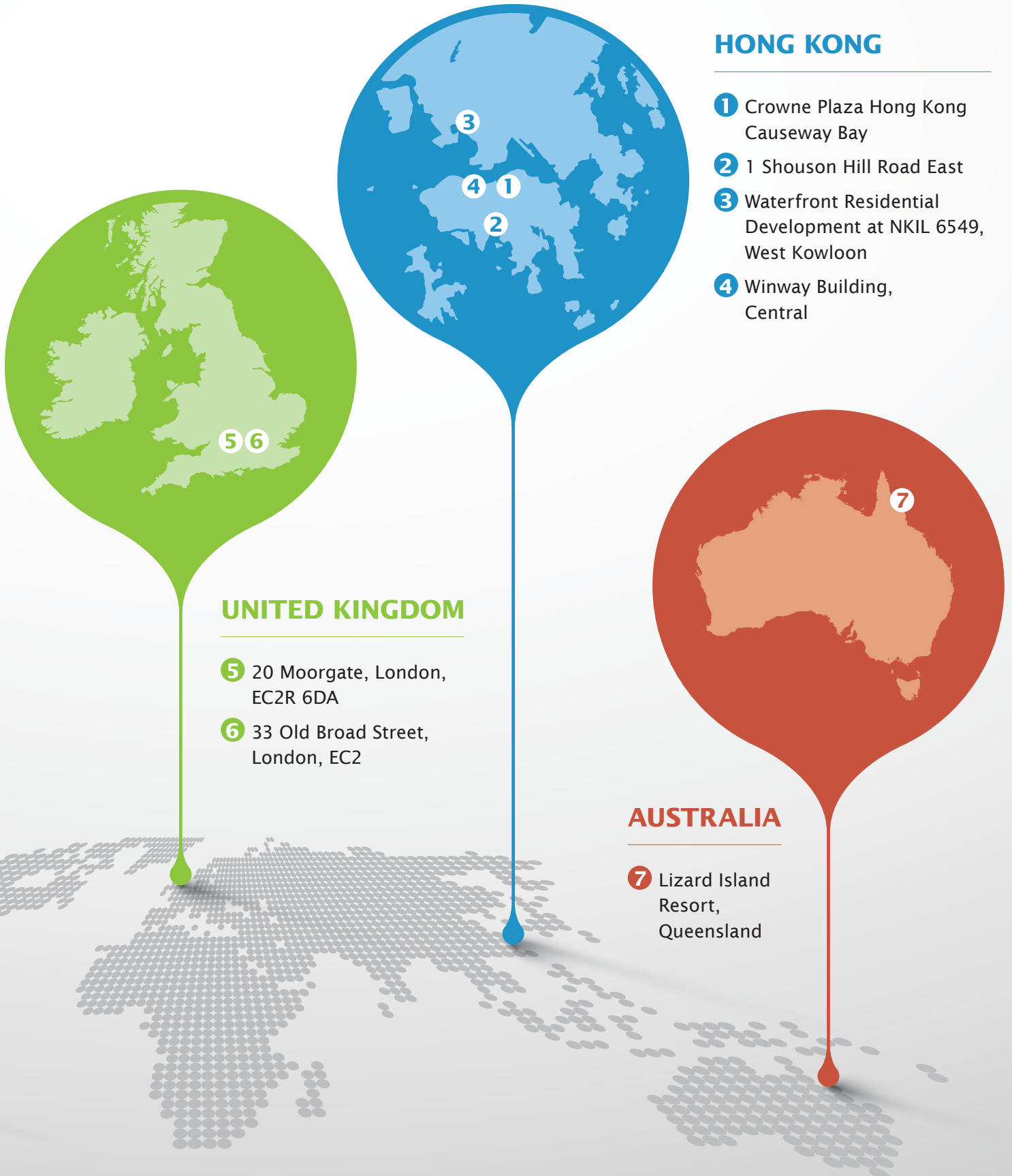
Ownership Status

Wholly-owned



Lizard Island Resort, Queensland, Australia

LOCATION OF THE GROUP'S PROPERTIES/PROJECT



FINANCIAL CALENDAR

Results Announcements

2019 Annual results announcement _____ 31 March 2020 (Tuesday)

2020 Interim results announcement _____ on or before 31 August 2020 (Monday)

Book Close Date

For ascertaining Shareholders' eligibility to attend and vote at the 2020 Annual General Meeting

Latest time to lodge transfer documents _____ 4:30 p.m. on 18 May 2020 (Monday)

Closure of register of members _____ 19 May 2020 (Tuesday) to 26 May 2020 (Tuesday)
(both days inclusive)

Record date _____ 19 May 2020 (Tuesday)

For ascertaining Shareholders' entitlement to the proposed final dividend

Latest time to lodge transfer documents _____ 4:30 p.m. on 29 May 2020 (Friday)

Closure of register of members _____ 1 June 2020 (Monday) to 3 June 2020 (Wednesday)
(both days inclusive)

Record date _____ 3 June 2020 (Wednesday)

Annual General Meeting

2020 AGM _____ 26 May 2020 (Tuesday)

Final Dividend

Ex-dividend date for 2019 final dividend _____ 28 May 2020 (Thursday)

Payment of 2019 final dividend _____ 15 June 2020 (Monday)
(subject to Shareholders' approval at the 2020 AGM)

DIRECTORS' BIOGRAPHICAL INFORMATION



Mr. Lu Wing Chi, Jesse

*CHAIRMAN
EXECUTIVE DIRECTOR*

Mr. Lu Wing Chi, Jesse, aged 73, joined the Group in 1969 and is currently the Chairman and Executive Director. He is also the chairman of the Nomination Committee and the Executive Committee and a member of the Remuneration Committee.

Mr. Lu is a director of various members of the Group and holds directorship in NLI (the controlling shareholder of the Company), NYH, Port Lucky and SEA Fortune (all of them are substantial shareholders of the Company). He has more than 50 years of experience in property development and investment in Hong Kong and overseas as well as godown and factory operations.

Mr. Lu is the son of Mr. Lu Chu Mang (the founder of the Group) and the father of Mr. Lambert Lu (the Chief Executive and Executive Director) and Mr. Lincoln Lu (the Non-executive Director).



Mr. Lambert Lu

*CHIEF EXECUTIVE
EXECUTIVE DIRECTOR*

Mr. Lambert Lu, aged 43, joined the Group in 1999 and is currently the Chief Executive and Executive Director. He is also a member of the Executive Committee and Remuneration Committee.

Mr. Lu is a director of a number of companies within the Group and holds directorship in NLI (the controlling shareholder of the Company), NYH, Port Lucky and SEA Fortune (all of them are substantial shareholders of the Company).

Mr. Lu is a member of the Henan Committee of Chinese People's Political Consultative Conference and the Advisory Board of the MBA Programmes of The Chinese University of Hong Kong. He was previously the vice chairman of The Chamber of Hong Kong Listed Companies. He holds a Bachelor's degree from the University of British Columbia in Canada.

Mr. Lu is the son of Mr. Lu Wing Chi, Jesse (the Chairman and Executive Director) and the brother of Mr. Lincoln Lu (the Non-executive Director).

DIRECTORS' BIOGRAPHICAL INFORMATION



Mr. Lam Sing Tai

NON-EXECUTIVE DIRECTOR

Mr. Lam Sing Tai, aged 73, joined the Group in 1973 and has acted as a Non-executive Director since April 2006. Mr. Lam is a director of various members of the Group. He has over 45 years of solid experience in property development and investment.

Mr. Lincoln Lu

NON-EXECUTIVE DIRECTOR

Mr. Lincoln Lu, aged 45, has acted as a Non-executive Director since May 2017. Mr. Lu joined the Group in 1998 and served as an Executive Director during the period from December 2003 to May 2017. He is also a director of various members of the Group and holds directorship in NYH, Port Lucky and SEA Fortune (all of them are substantial shareholders of the Company). Mr. Lu is the Managing Director of Orion Land Limited. In addition, he was a director of NLI (the controlling shareholder of the Company) until August 2018.

Mr. Lu holds a Bachelor of Arts degree from the University of British Columbia in Canada. He is currently a member of the 10th and 11th Sichuan Committee of Chinese People's Political Consultative Conference ("CPPCC") and a standing member of the 12th Sichuan Committee of CPPCC. He is also an executive member of the 11th and 12th All-China Federation of Industry and Commerce.

Mr. Lu is the son of Mr. Lu Wing Chi, Jesse (the Chairman and Executive Director) and the brother of Mr. Lambert Lu (the Chief Executive and Executive Director).



DIRECTORS' BIOGRAPHICAL INFORMATION

Mr. Walujo Santoso, Wally

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Walujo Santoso, Wally, aged 66, has acted as an Independent Non-executive Director since December 1994. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Santoso is also the Managing Director of Grand Ocean (International) Limited (a private company in which Mr. Santoso is a shareholder) and has over 40 years of experience in international trading and manufacturing. He holds a Diploma in Accounting.

Mr. Santoso did not hold any directorship in other listed public companies in the last three years.



Mr. Leung Hok Lim

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Leung Hok Lim, *FCPA(Aust.), FCPA(Practising), CPA(Macau)*, aged 84, has acted as an Independent Non-executive Director since February 1999. He is the chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee.

Mr. Leung is the founding and senior partner of PKF, Accountants and Business Advisers. He is the independent non-executive director of High Fashion International Limited and Phoenix Media Investment (Holdings) Limited (both are companies listed in Hong Kong). Mr. Leung resigned as an independent non-executive director of Fujian Holdings Limited (a company listed in Hong Kong) in January 2019.



DIRECTORS' BIOGRAPHICAL INFORMATION



Mr. Chung Pui Lam

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Chung Pui Lam, *GBS, OBE, JP*, aged 79, has acted as an Independent Non-executive Director since September 2004. He is the chairman of the Remuneration Committee and a member of the Audit Committee.

Mr. Chung is a practicing solicitor in Hong Kong. He is also a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of Datronix Holdings Limited (both are listed companies in Hong Kong). In addition, Mr. Chung is serving as consultant for numerous district organisations, industrial and commercial associations, trade unions and body corporates.

Mr. Chan Kwok Wai

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Chan Kwok Wai, *FCCA, FCPA, FCPA(Aust.), ACIS, TEP, AFP*, aged 63, has acted as an Independent Non-executive Director since June 2019. He is a member of the Audit Committee.

Mr. Chan served as an independent non-executive director of IntelliCentrics Global Holdings Ltd. (a company listed in Hong Kong) for the period from March 2019 to January 2020. Mr. Chan was also an executive director and the head of greater China at Hang Seng Bank Limited from February 2016 to May 2017. Prior to that, he served as an executive director of Sun Hung Kai Properties Limited from July 2009 to November 2015 and the chief financial officer of the same company from July 2009 to January 2016. From 1995 to 2009, Mr. Chan held various roles at Hang Seng Bank Limited including executive director and general manager, chief financial officer, deputy general manager, assistant general manager and head of Financial Control Division. He was also appointed as an accounting consultant of the Ministry of Finance of the People's Republic of China. Mr. Chan has more than 20 years of experience in accounting, banking and professional services industries. Mr. Chan holds a Master of Business Administration degree from the University of Warwick England.



CHAIRMAN'S STATEMENT



Artist's impression of 1 Shouson Hill Road East, Hong Kong

Financial Summary

Revenue for the year ended 31 December 2019 amounted to HK\$816.4 million (2018: HK\$778.8 million). The revenue was principally attributable to the recognition of rental income from investment properties, revenue from hotel operation and income from financial investment.

Profit for the year amounted to HK\$173.1 million (2018: HK\$121.3 million). The improved result in current year was mainly due to (i) increase in interest income from financial investment during the year; and (ii) fair value gain on investment property of 33 Old Broad Street in London, United Kingdom.

Profit attributable to the Shareholders for the year amounted to HK\$173.1 million (2018: HK\$121.0 million), equivalent to a basic earnings per share of HK26.1 cents (2018: HK18.2 cents).

The reported profit attributable to the Shareholders included a revaluation surplus on investment properties net of deferred taxation of HK\$38.5 million (2018: HK\$10.9 million). By excluding the effect of such surplus, the Group's net profit attributable to the Shareholders was HK\$134.6 million (2018: HK\$110.1 million), equivalent to HK20.3 cents (2018: HK16.6 cents) per share.

I am pleased to present the consolidated financial results of the Group for the year 2019 to the Shareholders.

CHAIRMAN'S STATEMENT

As at 31 December 2019, the Group's equity attributable to the Shareholders amounted to HK\$6,250.4 million (31 December 2018: HK\$6,011.6 million). The net asset value per share attributable to the Shareholders as at 31 December 2019 was HK\$9.4 as compared with HK\$9.1 as at 31 December 2018.

The Group's property assets (including interests in joint venture) by geographical location at the year end were as follows:

	31 December 2019 HK\$' million	31 December 2018 HK\$' million
Hong Kong	4,365.2	3,317.1
United Kingdom	4,542.3	4,243.1
Australia	156.1	157.7
Total	9,063.6	7,717.9

The Group's hotel property is stated at cost less accumulated depreciation charges at a carrying value of HK\$586.2 million (2018: HK\$606.2 million), whereas the market value as at 31 December 2019 as determined by an independent professional market valuation carried out by independent property valuer is HK\$5,900.0 million (2018: HK\$6,000.0 million). For the purpose of providing supplementary information, if the carrying value of the Group's hotel property was restated to its market value as at 31 December 2019, the adjusted total property assets, the adjusted net asset value and adjusted net asset value per share attributable to the Shareholders would be HK\$14,377.4 million (2018: HK\$13,111.7 million), HK\$11,564.2 million (2018: HK\$11,405.4 million) and HK\$17.5 (2018: HK\$17.2) respectively.

Dividends

The Board has resolved to recommend for Shareholders' approval at the forthcoming 2020 AGM of the Company the payment of a final dividend of HK3 cents (2018: HK3 cents) per share for the year ended 31 December 2019 to the Shareholders whose names appear on the register of members at the close of business on Wednesday, 3 June 2020. The relevant dividend warrants are expected to be despatched on or before Monday, 15 June 2020.

Together with the interim dividend of HK2 cents per share already paid (2018: HK2 cents), the total dividends for the year will be HK5 cents (2018: HK5 cents) per share.

CHAIRMAN'S STATEMENT

Business Review

Property Investment and Development

The Group continues to focus on property development and property investment projects, but has not committed to limit its sphere of activities solely to outside the PRC or to property related development and investments. The strategy of the Group will be determined by the Board taking into consideration market opportunities, the Group's financial resources and its core competence. It is the Group's approach to review and optimize the project portfolios from time to time. Currently, the Group's core projects mainly consist of a residential project (No. 1 Shouson Hill Road East), an investment property in Hong Kong (a portion of Winway Building) and a joint venture residential development project (West Kowloon Waterfront) in Hong Kong, two investment properties in London, the United Kingdom (20 Moorgate and 33 Old Broad Street) and an investment property in Australia (Lizard Island).

Hong Kong

On 16 September 2019, the Group entered into an agreement with an independent third party to acquire a commercial property (a portion of Winway Building) located at No.50 Wellington Street, Central, Hong Kong at a total consideration of approximately HK\$780.0 million. Completion of the acquisition took place on 31 October 2019. Revenue generated from the property for the year ended 31 December 2019 was HK\$3.3 million.

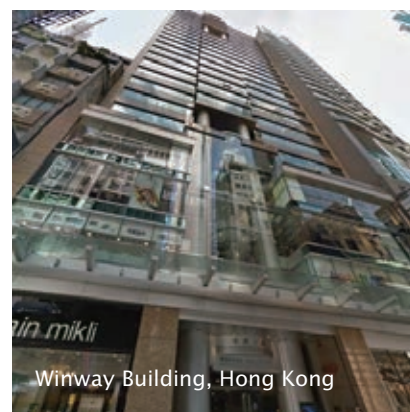
The Group, as part of the consortium comprised of well-known property developers, is developing the urban waterfront residential plot with harbor view in Off Hing Wah Street West, West Kowloon. The site is being developed into a premium-graded residential project with walking distance to MTR. This project is under construction work in progress stage as scheduled and targets to be completed by 2022.

The Group owns residential properties at Shouson Hill Road East, Hong Kong as investment properties. The renovation works are to be completed in 2020 by phases.

United Kingdom

The Group owns two investment properties in the United Kingdom, namely, (i) an office building at 33 Old Broad Street, London, EC 2; and (ii) an office building at 20 Moorgate, London, EC2R 6DA.

The revenue generated from these investment properties in the United Kingdom for year ended 31 December 2019 was HK\$180.7 million (2018: HK\$191.6 million).



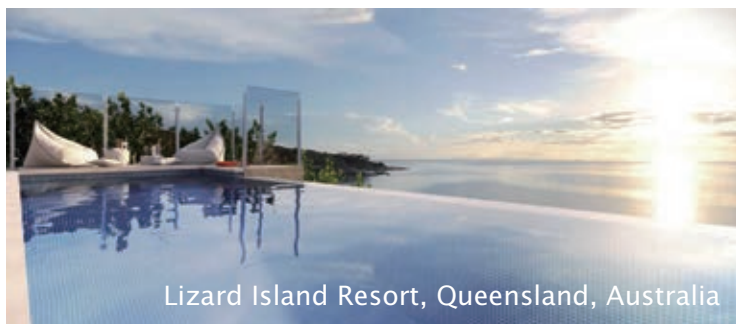
CHAIRMAN'S STATEMENT

Australia

Revenue generated from the property investment projects in Australia for year ended 31 December 2019 was HK\$15.4 million (2018: HK\$16.8 million).

Hotel Operation

Crowne Plaza Hong Kong Causeway Bay is a 29-storey five-star hotel comprising 263 guest rooms with ancillary facilities and is operated under the brand of Crowne Plaza of the InterContinental Hotels Group. Its revenue and operating results in 2019 was less than 2018, which was resulted from the social unrest during the year. The hotel will strive to implement cost saving measurement and gain further market share in the challenging market conditions.



Financial Investment

As at 31 December 2019, the Group held financial investment of approximately HK\$5,880.8 million (2018: HK\$4,732.0 million), which are comprised of listed debt securities and unlisted investments. The portfolio increase arose from a further investment in listed debt securities during the year.

Financial Resources and Liquidity

Working Capital and Loan Facilities

As at 31 December 2019, the Group's total pledged bank deposits, bank balances and cash was HK\$5,526.1 million (2018: HK\$7,471.2 million), total financial investments (including debt instruments at fair value through other comprehensive income and financial assets at fair value through profit or loss) were HK\$5,880.8 million (2018: HK\$4,732.0 million) and unutilised facilities were HK\$2,412.4 million (2018: HK\$1,707.8 million).

As at 31 December 2019, the Group's bank borrowings was HK\$11,060.0 million (2018: HK\$10,979.4 million) and the guaranteed notes was HK\$2,718.3 million (2018: HK\$2,726.7 million). After netting the bank balance, cash and the financial investments, the Group had a net debt position of HK\$2,371.5 million (2018: HK\$1,502.9 million) with gearing ratio of 16.5% (2018: 11.5%) (calculated on the basis of net debt as a percentage of the adjusted total property assets with hotel property adjusted to fair market value of HK\$5,900.0 million (2018: HK\$6,000.0 million)).

CHAIRMAN'S STATEMENT



Crowne Plaza Hong Kong Causeway Bay, Hong Kong

As at 31 December 2019, maturity of the Group's outstanding borrowings (including the guaranteed notes) was as follows:

	31 December 2019 HK\$' million	31 December 2018 HK\$' million
Due		
Within 1 year	7,327.3	6,217.9
1–2 years	1,382.7	1,619.0
3–5 years	5,109.2	5,913.1
	13,819.2	13,750.0
Less: Unamortised front-end fee and notes issued expenses	(40.9)	(43.9)
	13,778.3	13,706.1

CHAIRMAN'S STATEMENT

Pledge of Assets

For the Company's subsidiaries operating in Hong Kong, the total bank borrowings drawn as at 31 December 2019 amounted to HK\$8,303.2 million (2018: HK\$8,216.1 million) which comprised of secured bank borrowings of HK\$6,144.2 million (2018: HK\$5,936.1 million) and unsecured bank borrowings of HK\$2,159.0 million (2018: HK\$2,280.0 million). The secured bank borrowings were secured by properties valued at HK\$2,330.2 million (2018: HK\$2,225.2 million), listed debt securities of HK\$4,891.5 million (2018: HK\$3,689.8 million) and pledged cash of HK\$499.0 million (2018: HK\$1,598.5 million).

Subsidiaries of the Company operating in Australia and the United Kingdom pledged its investment properties with an aggregate carrying value of HK\$4,698.5 million (2018: HK\$4,400.8 million) as at 31 December 2019 and there was no pledged bank deposits (2018: HK\$2.7 million) to secure bank borrowings of HK\$2,790.7 million (2018: HK\$2,793.3 million).

Treasury Policies

The Group adheres to prudent treasury policies. As at 31 December 2019, all of the Group's borrowings except the guaranteed notes were raised through its wholly-owned subsidiaries on a non-recourse basis.

Staff and Emolument Policy

As at 31 December 2019, the Group had a total of 225 employees (2018: 239 employees) in Hong Kong. Employee costs, including the emoluments of the directors of the Group, amounted to HK\$115.8 million for the year ended 31 December 2019 (2018: HK\$153.3 million).



The Group maintains a good working relationship with its employees and continues to recruit, retain and develop competent individuals committed for its long-term success and growth. Salary and benefits of employees are reviewed at least annually both in response to market conditions and trends, and in conjunction with individual appraisals based on qualifications, experience, skills, responsibilities, performance and development potentials. Discretionary bonuses are granted in line with the Group's financial results and employees' performance. Fringe benefits including medical insurance scheme, study and training allowances, examination leave and voluntary employer contributions to retirement schemes are offered to employees. In addition, to retain and motivate management staff and good performers, the Company has adopted an employee share option scheme and a Share Award Scheme with options to subscribe for shares in the Company and awards of shares being granted by the Board to the Group's employees (including Directors) on a discretionary basis. To further enhance employee relations and communications, recreational activities for general staff with senior management's participation are arranged.

CHAIRMAN'S STATEMENT

Outlook

The US-China trade war continued to cast a cloud over global economy throughout 2019. In January 2020, some of the biggest economic uncertainties partially eased as US-China Phase I trade deal and the agreement outlining how UK will leave the European Union were made. However, since the outbreak of Covid-19, global stock markets dropped sharply in March. A sharp slowdown in the global economic growth is expected. To limit the economic fallout from the coronavirus, the Federal Reserve further cut interest rate. Meanwhile, massive stimulus packages have been announced by countries worldwide.

Despite of the pressure from trade tensions, China's economy remained resilient in 2019. Nonetheless, the coronavirus outbreak in the past few months has weighed on China's economy. The growth of China's economy in 2020 is expected to be slower as compared with last year.

In the second half of 2019, the social unrest has taken a heavy toll to Hong Kong economy. As a whole in 2019, the GDP dropped by 1.2%, the first annual decline since 2009. Entering 2020, the unemployment rate has risen to the highest level in more than three years. With the economic blow of coronavirus, the outlook for local economy for 2020 is uncertain.

Hong Kong's residential property market was volatile in 2019. In the first five months of 2019, the market remained active. However, since the social incident in June, the residential property market quietened visibly and the flat prices softened. The office leasing market is expected to be under pressure in 2020 because of local economy slowdown. Looking ahead, the market sentiment will only improve if the ongoing social unrest and the recent epidemic end soon. We will prudently plan and adjust our sale and leasing strategies in accordance with the market situation.

Compared with the previous years, UK GDP growth has slowed and was volatile throughout 2019 due to slower global growth and elevated Brexit-related factors. Despite of the agreement outlining how UK will leave the European Union and government's fiscal stimulus, the coronavirus outbreak will cast a cloud over economic activity in UK. Nonetheless, having reputable tenants under long leases with high grade covenants, the Group's property portfolio in UK is expected to continue to contribute stable rental income to the Group.

2019 is a difficult year to Hong Kong hotel industry. The social unrest severely affected the performance of inbound tourism in the second half of 2019. Going into 2020, the already-weak tourism-related sector has been further hard hit by the outbreak of coronavirus. The outlook for hotel industry for 2020 is an unprecedented challenge. Our Group has proactively improved our efficiency and cost management to sustain our business while prepared to restore our performance once tourism industry recover its momentum.

2020 will not only be a challenging year but also a beginning of close to zero interest rate era. Over its long history, SEA Group has witnessed the economic turbulence and social upheavals in Hong Kong and the world. Throughout the years, the Group had weathered these storms with equanimity. Our Group has been monitoring of the global and local economy development and performed prudent risk and crisis management over the Group's financial liquidity and investment and property portfolio. With the Group's professional management team, robust financial capabilities, quality corporate governance and adherence to its philosophy of "Building with the Times", we are confident that our Group will withstand the current market instability and grow as opportunities arise.

CORPORATE GOVERNANCE REPORT

The Company recognises the importance of good corporate governance to the Company's development and has devoted considerable efforts to identifying, formulating, establishing and enhancing corporate governance practices appropriate to the Company's needs. The Board, having regard to the size and nature of businesses of the Group, periodically reviews the Company's corporate governance practices to meet the rising expectations of Shareholders and comply with increasingly stringent regulatory requirements.

Corporate Governance Practices

Throughout the year ended 31 December 2019, the Company has applied the principles and complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules.

Board of Directors

Composition

The Board currently have eight members comprising two Executive Directors, two Non-executive Directors and four INED.

To promote higher standards of governance of the Group and to bring more independent judgement and advice on the affairs of the Company, the Board, with the recommendation of the Nomination Committee, appointed Mr. Chan Kwok Wai as an additional INED on 1 June 2019.

Executive Directors

Mr. Lu Wing Chi, Jesse (*Chairman*)

Mr. Lambert Lu (*Chief Executive*)

Non-executive Directors

Mr. Lam Sing Tai

Mr. Lincoln Lu

Independent Non-executive Directors

Mr. Walujo Santoso, Wally

Mr. Leung Hok Lim

Mr. Chung Pui Lam

Mr. Chan Kwok Wai (*appointed on 1 June 2019*)

An updated list of Directors and their respective roles and functions have been maintained on the websites of the Company and HKEX. Biographical particulars of the existing Directors are set out in the section headed "Directors' Biographical Information" on pages 18 to 22.

CORPORATE GOVERNANCE REPORT

Role and Function

The Company is governed by the Board and the Directors are accountable to the Shareholders for the activities and performance of the Group. To oversee the Group's business and development, the Board has reserved for its decision and consideration the following matters:

- (i) adoption and overall oversight of objectives and strategic plans;
- (ii) amendment to memorandum of association and bye-laws as well as alteration of share capital;
- (iii) approval of interim dividends and other distribution and recommendation of final dividends for Shareholders' approval;
- (iv) establishment of Board committees and delegation of powers of the Board to the Board committees;
- (v) appointment, re-appointment, re-designation and removal of Board members;
- (vi) approval of significant accounting policies and practices;
- (vii) oversight of corporate governance, risk management and internal controls; and
- (viii) other significant matters.

Matters other than mentioned above have been delegated by the Board to the management and the major ones are execution of the Board's decisions (including business strategies and initiatives it has adopted) and daily operations, preparation of annual and interim financial statements for the Board's approval before public reporting, implementation of adequate systems of internal control and risk management as well as compliance with relevant requirements, rules and regulations.

Corporate Governance Function

The Board is also responsible for performing the corporate governance duties including:

- (i) to develop and review the Company's policies and practices on corporate governance;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (iv) to develop, review and monitor the code of conduct applicable to employees and Directors; and
- (v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2019, the Board reviewed the Company's corporate governance practices.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance and adopted the Board Diversity Policy in August 2013.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be considered by the Company from a number of aspects, including but not limited to cultural and educational background, experience, skills, knowledge, length of service, age and gender. The Company's business model and specific needs will also be taken into account in determining the optimum composition of the Board.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and will from time to time review the Board Diversity Policy, as appropriate, and recommend revisions to the Board for consideration and approval.

Directors' Appointment, Retirement and Re-election

All Non-executive Directors (including INED) have entered into letters of appointment with the Company for a term of three years. Pursuant to the Company's Bye-laws and the CG Code, every Director shall retire from office no later than the third AGM after he was last elected or re-elected. Further, any Director appointed by the Board as an additional Board member or to fill a casual vacancy shall hold office only until the next general meeting of the Company and shall then be eligible for re-election.

For an INED who has served the Company for more than nine years, his further appointment will be subject to a separate resolution to be approved by the Shareholders. The papers to the Shareholders accompanying that resolution will include the reasons why the Board believes he is still independent and should be re-elected.

Meetings

The Board conducts meetings on a regular basis with at least 14 days' notice and on an ad hoc basis with reasonable notice that are required for significant and important issues. Before each Board and committee meetings, relevant agendas and documents with appropriate information are sent to Directors who are consulted for including matters in the agendas. The Board has four scheduled meetings a year to, amongst other matters, approve the final results and interim results respectively and consider financial and operating performances of the Company. All businesses transacted at the Board meetings are well-documented and the records are maintained properly. The Board members are provided with appropriate and sufficient information in a timely manner to keep abreast of the Group's latest developments.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Board held four meetings and the attendance record of each Director is set out in the following table:

Directors	Attendance/Number of Board meetings held in 2019
<i>Executive Directors</i>	
Mr. Lu Wing Chi, Jesse (<i>Chairman</i>)	4/4
Mr. Lambert Lu (<i>Chief Executive</i>)	4/4
<i>Non-executive Directors</i>	
Mr. Lam Sing Tai	4/4
Mr. Lincoln Lu	2/4
INED	
Mr. Walujo Santoso, Wally	4/4
Mr. Leung Hok Lim	4/4
Mr. Chung Pui Lam	4/4
Mr. Chan Kwok Wai (<i>appointed on 1 June 2019</i>)	2/2

The Chairman met all INED without the presence of the Executive Director and Non-executive Directors in 2019.

Relationship

Mr. Lu Wing Chi, Jesse (the Chairman and Executive Director) is the father of Messrs Lambert Lu (the Chief Executive and Executive Director) and Lincoln Lu (the Non-executive Director). Other than this, there is no financial, business, family and other material relationship among other members of the Board.

Notwithstanding the above relationships, there has been an effective and balanced board collectively responsible for the Company's activities and affairs. In addition, the roles of the Chairman and the Chief Executive are separate and performed by different Directors. Their roles and responsibilities had been clearly set out and approved by the Board. During the year 2019, more than half of the Board members were Non-executive Directors (including INED) whose views carry significant weight in the Board's decisions. Directors have been free to discuss issues properly put to the Board meetings and express their views and concerns. No individual or small group can dominate the Board's decision-making process.

Training, Professional Development and Insurance for Directors

When a newly-appointed Director joins the Group, he/she will receive an induction briefing that will give him/her an understanding of the Group, its businesses and Director's responsibilities. The Company has provided the new Director, Mr. Chan Kwok Wai, with an induction on his appointment in 2019.

CORPORATE GOVERNANCE REPORT

Directors are provided with timely updates on changes in laws and compliance issues relevant to the Group. The Company also encourages its Directors to enroll in relevant professional development courses to continually update and further improve their relevant knowledge and skills. An in-house training session conducted by a solicitors' firm was organised by the Company for the year 2019 as part of the continuous professional development for its Directors to update them on the latest developments regarding the Listing Rules and applicable regulatory requirements in discharging their duties.

During the year ended 31 December 2019, Directors were also provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

A summary of training participated by the Directors during the year ended 31 December 2019 is as follows:

Directors	Attend seminars and/or reading materials in relation to updates on laws, rules and regulations	Reading regulatory updates and information relevant to the Group or its business
<i>Executive Directors</i>		
Mr. Lu Wing Chi, Jesse (<i>Chairman</i>)	✓	✓
Mr. Lambert Lu (<i>Chief Executive</i>)	✓	✓
<i>Non-executive Directors</i>		
Mr. Lam Sing Tai	✓	✓
Mr. Lincoln Lu	✓	✓
<i>INED</i>		
Mr. Walujo Santoso, Wally	✓	✓
Mr. Leung Hok Lim	✓	✓
Mr. Chung Pui Lam	✓	✓
Mr. Chan Kwok Wai (<i>appointed on 1 June 2019</i>)	✓	✓

The Company has also arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities.

Non-executive Directors

The Non-executive Directors (including INED) serve the relevant function of bringing independent judgement and valuable guidance and advice on the development, performance and risk management of the Group.

Independent Non-executive Directors

More than one-third of the Board are INED and at least an INED possesses appropriate professional qualifications or accounting or related financial management expertise.

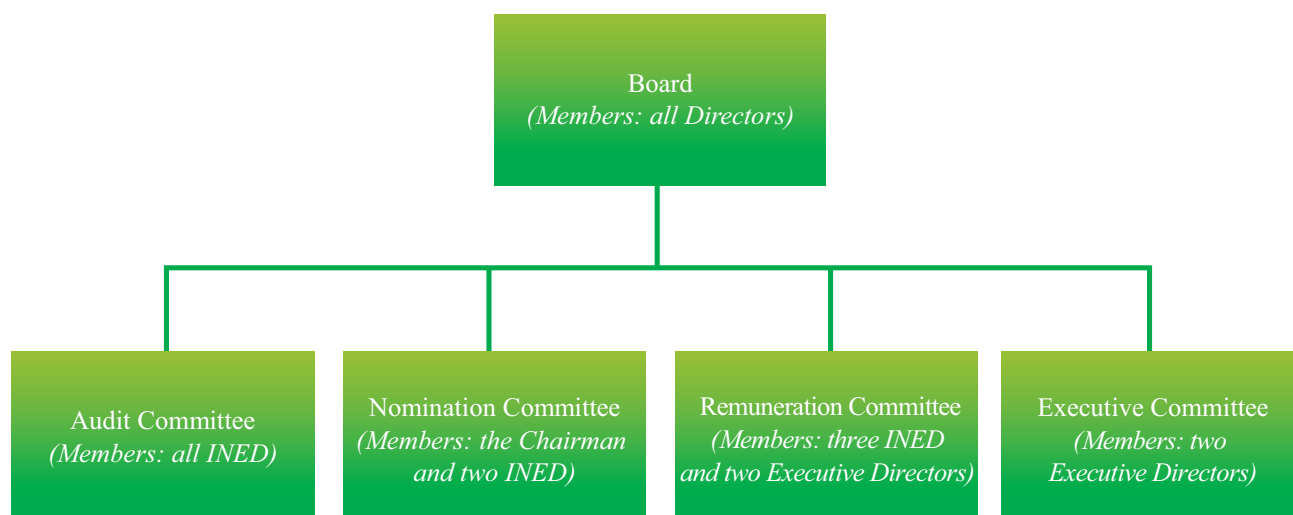
CORPORATE GOVERNANCE REPORT

The four INED come from diverse business and professional backgrounds in the fields of international trading, financial, accounting, laws and business management, rendering valuable expertise and experience to promote the best interests of the Company and its Shareholders as a whole and ensuring that issues are considered in an independent and a more objective manner. The INED also serve on the Audit, Remuneration and Nomination Committees. Compositions of these Board Committees are set out on pages 35 to 38.

The Company has received from each of the INED an annual confirmation in writing of his independence pursuant to Rule 3.13 of the Listing Rules and considers all of the INED including their immediate family members (as defined in the Listing Rules) are independent.

Delegation — Board Committees

The Board has properly delegated its powers and established the Audit Committee, Nomination Committee, Remuneration Committee and Executive Committee with specific written terms of reference that clearly deal with their authority and duties, to oversee particular aspects of the Company's affairs and assist in the execution of the Board's responsibilities.



Audit Committee

Composition

The Audit Committee was established in 1999. The terms of reference of the Audit Committee were published on the websites of the Company and HKEX. The Audit Committee currently comprises of four members and all of them are INED. The attendance record of the committee members at the meetings held during the year ended 31 December 2019 is set out below:

Committee Members	Attendance/Number of Audit Committee meetings held in 2019
<i>INED</i>	
Mr. Leung Hok Lim (<i>chairman</i>)	2/2
Mr. Walujo Santoso, Wally	2/2
Mr. Chung Pui Lam	2/2
Mr. Chan Kwok Wai (<i>appointed on 1 June 2019</i>)	1/1

CORPORATE GOVERNANCE REPORT

Role and Function

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting, the effectiveness of the audit process in accordance with applicable standards, the effectiveness and adequacy of the Group's risk management and internal control systems as well as to maintain an appropriate relationship with the independent external auditor of the Company.

During the year ended 31 December 2019, the Audit Committee met twice with representatives of the management and Deloitte (the independent auditor of the Company) to discuss the auditing and financial reporting matters. During the meetings, the Audit Committee in particular reviewed and discussed about:

- (i) the accounting principles and policies adopted by the Group;
- (ii) the annual results (including the announcement thereof) and the audited financial statements for the year ended 31 December 2018;
- (iii) the interim results (including the announcement thereof) and the financial statements for the six months ended 30 June 2019;
- (iv) any significant findings by the independent auditor during the financial audit and other audit issues;
- (v) the letters of management representations issued to the independent auditor in connection with the audit or review of the Group's relevant financial statements; and
- (vi) the risk management and internal control systems including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

It also recommended to the Board for the re-appointment of Deloitte and reviewed the relevant audit fees. In March 2020, the Audit Committee reviewed with representatives of the management and Deloitte the audited consolidated financial statements of the Company for the year ended 31 December 2019 and was of the opinion that such financial statements had been prepared in compliance with applicable financial reporting standards and requirements and adequate disclosure had been made.

Nomination Committee

Composition

The Nomination Committee was established in 2012. Its terms of reference can be found on the websites of the Company and HKEX. The Nomination Committee currently comprises of three members including the Chairman and two INED. The attendance record of the committee members at the meeting held during the year ended 31 December 2019 is set out in the following table:

Committee Members	Attendance/Number of Nomination Committee meeting held in 2019
<hr/>	
<i>Executive Director</i>	
Mr. Lu Wing Chi, Jesse (<i>chairman</i>)	1/1
<i>INED</i>	
Mr. Walujo Santoso, Wally	1/1
Mr. Leung Hok Lim	1/1

CORPORATE GOVERNANCE REPORT

Role and Function

The principal role of the Nomination Committee includes, inter alia, reviewing the structure, size and composition of the Board with due regard to the Board Diversity Policy, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Board adopted the Nomination Policy in March 2014 setting out the criteria, procedures and process for nomination of Directors. When identifying candidates to be appointed as Director, the Nomination Committee shall make evaluation of the proposed candidate pursuant to the nomination criteria and make recommendation to the Board if appropriate. The Board shall make decisions on the appointment based on the recommendation of the Nomination Committee. The Nomination Policy contains a number of factors in assessing the suitability of a proposed candidate which include the candidate's skills, competence, experience, professional and educational qualifications, time commitment, diversity perspectives set out in the Board Diversity Policy and the independence criteria under Rule 3.13 of the Listing Rules if the candidate is proposed to be appointed as an INED.

The Nomination Committee also reviews the expertise and overall contribution of the retiring Directors to the Company and recommends the retiring Directors to the Board for re-election at the AGM.

The Nomination Committee held a meeting in the financial year under review and a meeting in January 2020 to review the structure, size, composition of the Board and the Board Diversity Policy, assess the independence of INED and make recommendations in relation to the re-appointment of retiring Directors at the coming AGM.

In May 2019, the Nomination Committee recommended the Board to appoint Mr. Chan Kwok Wai as an INED and a member of the Audit Committee. In arriving the decision of nomination of Mr. Chan, the Nomination Committee considered various factors including the size, structure and composition of the Board, Mr. Chan's qualification, past experience, independence and time commitment to the Company and diversity of the Board. The Board accepted the Nomination Committee's recommendation and appointed Mr. Chan as INED and Audit Committee member on 1 June 2019.

Remuneration Committee

Composition

The Remuneration Committee was established in 2005. Its terms of reference can be found on the websites of the Company and HKEX. The Remuneration Committee currently comprises of five members including the Chairman, the Chief Executive and three INED. The attendance record of the committee members at the meeting held during the year ended 31 December 2019 is set out in the following table:

Committee Members	Attendance/Number of Remuneration Committee meeting held in 2019
<i>INED</i>	
Mr. Chung Pui Lam (<i>chairman</i>)	1/1
Mr. Walujo Santoso, Wally	1/1
Mr. Leung Hok Lim	1/1
<i>Executive Directors</i>	
Mr. Lu Wing Chi, Jesse	1/1
Mr. Lambert Lu	1/1

CORPORATE GOVERNANCE REPORT

Role and Function

The Remuneration Committee is responsible for, amongst other matters, establishing a formal and transparent procedure for developing remuneration policies and overseeing the remuneration packages for the Executive Directors and Non-executive Directors and ensuring that no Director will be involved in deciding his own remuneration. The Remuneration Committee has adopted the operation model where it determines the remuneration packages of individual Executive Directors and makes recommendations to the Board on the remuneration packages of individual Non-executive Directors.

In determining the Directors' emoluments, the Remuneration Committee takes into consideration factors such as the qualifications, experience, time commitment, responsibilities, performance, contribution and remuneration of the Directors for previous years, the Company's profitability, emoluments paid by comparable companies and employment conditions elsewhere in the Group.

In 2019, the Remuneration Committee, having reviewed the responsibility, experience and abilities required of the Directors, level of care, commitment and amount of time needed to spend to the Company as well as the directors' fees offered for similar positions of other listed companies, recommended the Board to adjust the Directors' fees for the year 2019 as follows:

- (a) increase of annual director's fee of each of the Executive Directors and Non-executive Directors from HK\$20,000 to HK\$40,000;
- (b) increase of annual director's fee of each of the INED from HK\$200,000 to HK\$400,000; and
- (c) increase of additional annual director's fee for acting as the chairman of each of the Audit Committee and Remuneration Committee from HK\$50,000 to HK\$100,000.

The Board accepted the recommendation from the Remuneration Committee on the proposed Directors' fees for the year 2019.

At the AGM held in 2005, the Shareholders passed an ordinary resolution to authorise the Directors to fix the directors' fees for an aggregate amount not exceeding HK\$1.0 million per annum.

To allow sufficient flexibility to accommodate any additions to the Board together with inflationary adjustments in fees required to ensure that the Board compensation remains competitive and appropriate, the Remuneration Committee also recommended the Board to raise the annual fee cap from HK\$1,000,000 to HK\$5,000,000.

The adjusted annual fee cap of HK\$5,000,000 recommended by the Remuneration Committee were accepted by the Board and approved by the Shareholders at the AGM held in 2019.

Details of the Directors' emoluments for the year ended 31 December 2019 is set out in note 15 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Executive Committee

Composition

The Executive Committee was set up in 1990 and is currently comprised of the Chairman and the Chief Executive, namely:

Mr. Lu Wing Chi, Jesse (*Chairman*)

Mr. Lambert Lu (*Chief Executive*)

Role and Function

The Executive Committee is primarily responsible for supervising and undertaking the day-to-day operations of the Group. It exercises leadership and develops and keeps under review business development initiatives of the Group and monitors their implementation. The Executive Committee meets as and when necessary.

Securities Transactions by Directors and Employees

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

In response to the specific enquiry made on them by the Company, all the Directors have confirmed in writing that they had complied with the required standard as set out in the Model Code throughout the year ended 31 December 2019.

Directors' interests in shares and underlying shares in the Company are contained in the section headed "Directors' Report" on pages 53 and 54.

The Company has also adopted a code with no less exacting terms than the Model Code for the directors and employees of the Group (other than the Directors) to regulate their dealings in the shares of the Company, as they are likely to be in possession of inside information in relation to such shares because of their office or employment.

Directors' Responsibility for Preparing Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Group which give a true and fair view of the state of the Group's affairs and of its results. Their responsibilities have also been stated in the section headed "Independent Auditor's Report" on page 63. 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 department of the Company, the Directors ensure that the financial statements of the Group are prepared in accordance with statutory requirements and appropriate financial reporting standards.

In addition, the Directors ensure timely publication of the financial statements of the Group.

Independent Auditor's Reporting Responsibility

The statement of Deloitte, Certified Public Accountants, the independent auditor of the Company, about their reporting responsibility on the financial statements of the Group is set out in the section headed "Independent Auditor's Report" on pages 63 and 64. Representatives of Deloitte also attend the AGMs to answer questions which the Shareholders may have.

CORPORATE GOVERNANCE REPORT

Independent Auditor's Remuneration

At the AGM held on 31 May 2019, Deloitte were re-appointed by the Shareholders as independent auditor of the Company at a fee to be agreed by the Board. The total fees paid/payable to Deloitte in respect of the audit and non-audit services provided during the year ended 31 December 2019 are set out as follows:

	HK\$'000
Audit services	1,942
Non-audit services (reviewing and other reporting services)	551
Total	2,493

Going Concern

The Directors confirm that, to the best of their knowledge, information and belief and having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Risk Management and Internal Control

The Board has overall responsibility for maintaining and ensuring effective implementation of the risk management and internal control systems of the Group and reviewing their effectiveness through the Audit Committee to safeguard the Shareholders' interest and the Company's assets. However, these systems are designed to manage rather than eliminate risk of failure in operational system, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has implemented an effective internal control system which includes a defined management structure with clear lines of responsibility and limits of authority, proper procedures for income and expenditure, monthly review by the Executive Directors of operational and financial reports provided by the management, regular business meetings between the Executive Directors and the core management team and periodic review of the Group's financial results by the Board.

The Board, through the Audit Committee, reviews regularly the effectiveness and adequacy of the Group's internal control system which includes financial, operational and compliance mechanisms and risk management functions in order to identify, evaluate and manage risks and take appropriate measures to avoid or mitigate those risks that could adversely impact the Group's business activities. The review also includes the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The review process consists of, amongst other matters, assessment and implementation of material control issues identified by an independent external auditor during statutory audit.

CORPORATE GOVERNANCE REPORT

During the year 2019, the Company has engaged an independent consultant to perform an internal audit review for the Group. The review included making enquiries with appropriate management and key process owners and performing walkthrough tests to identify the major risks and significant deficiencies, and making recommendations for improving and strengthening the internal control system to the Audit Committee for approval. In the year under review, no material issues on the Group's internal control system have been identified in the reviewed areas and reported to the Audit Committee. The independent consultant also performed follow-up review on the remedial actions undertaken by the management of the Group on the control deficiencies identified during the course of the internal audit review conducted in 2018. The Board considered that the risk management and internal control system was adequate and effective.

Handling and Dissemination of Inside Information

The Group acknowledges its responsibilities under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision.

The Board adopted an Inside Information Policy in August 2019 which provides a general guide to the Group's officers and employees in handling confidential information and ensure that inside information of the Company is to be disseminated to the public in a timely manner in accordance with the applicable laws and regulations.

Below is a summary of key provisions of the Inside Information Policy:

- (i) officers and employees must follow the reporting channels for disclosing the inside information and take reasonable care for safeguard the confidentiality of all inside information;
- (ii) the Executive Directors are empowered to take appropriate actions to ensure compliance with the disclosure requirements including issuing announcements and making a request to the Stock Exchange for a trading halt in case the Company is facing an unexpected and significant event; and
- (iii) Directors and employees of the Group must not deal in the Company's securities when they are in possession of unpublished inside information.

The Group also keeps the Directors and employees apprised of the latest regulatory updates on disclosure requirements of inside information.

CORPORATE GOVERNANCE REPORT

Dividend Policy

The Board adopted a Dividend Policy in December 2018 which sets out the frequency, forms and criteria of dividend payout in order to provide stable and sustainable returns to the Shareholders that allows the Shareholders to participate in the Company's profits and for the Company to retain adequate reserves for future development.

The Company may distribute dividends by way of cash and/or by way of distribution in specie, subject to the applicable rules and requirements under the Bermuda law and the Company's constitutional documents. The Board takes into account, inter alia, the following factors in deciding whether to propose a dividend and in determining the dividend amount:

- (i) the Group's actual and expected financial performance;
- (ii) retained earnings and distributable reserves of the Company and its subsidiaries;
- (iii) the cash flow position of the Group;
- (iv) the Group's working capital requirements and future expansion plans; and
- (v) general economic conditions and other internal and external factors that may have an impact on the business or financial performance and position of the Group.

The Company will review the Dividend Policy from time to time and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way to obligate the Company to declare a dividend for any given period.

Communication with Shareholders

The Board has adopted a shareholders' communication policy with the objective of ensuring that its communications with the Shareholders are timely, transparent, accurate and open. Information of the Company is disseminated to the Shareholders through a number of channels as follows:

- (i) corporate communication such as annual reports, interim reports and circulars are available in printed form and electronic form on the websites of the Company and HKEX;
- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Company and HKEX;
- (iii) corporate information is made available on the Company's website;
- (iv) AGMs and SGMs provide a forum for Shareholders to make comments and exchange views with the Directors and senior management; and
- (v) the Company's Hong Kong branch share registrar serves the Shareholders in respect of share registration, election of means of receipt of corporate communications and related matters.

CORPORATE GOVERNANCE REPORT

To preserve environment and increase efficiency in communication with the Shareholders, the Company made arrangements pursuant to Rule 2.07A of the Listing Rules and the Bye-laws of the Company for the Shareholders to elect to receive future corporate communications in printed form or by electronic means through the Company's website. Shareholders have the right to change their choice of receipt of our corporate communications at any time by giving reasonable notice to the Company. The change request form may be downloaded from the websites of the Company and HKEX.

Separate resolutions are proposed at general meetings on each substantial issue including the election of individual Directors.

During the year ended 31 December 2019, an AGM was held on 31 May 2019. All resolutions relating to ordinary businesses and special businesses proposed at the AGM were duly passed.

The attendance records of the Directors at the AGM are set out in the following table:

Directors	Attendance at the 2019 AGM
<i>Executive Directors</i>	
Mr. Lu Wing Chi, Jesse (<i>Chairman</i>)	✓
Mr. Lambert Lu (<i>Chief Executive</i>)	✓
<i>Non-executive Directors</i>	
Mr. Lam Sing Tai	✓
Mr. Lincoln Lu	x
<i>INED</i>	
Mr. Walujo Santoso, Wally	✓
Mr. Leung Hok Lim	✓
Mr. Chung Pui Lam	✓
Mr. Chan Kwok Wai (<i>appointed on 1 June 2019</i>)	N/A

Constitutional Documents

The constitutional documents of the Company can be found on the websites of the Company and HKEX and there is no change in the constitutional documents during the year ended 31 December 2019.

Shareholder's Rights

Convening Special General Meeting

Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company may request the Board to convene a SGM. The purposes of the meeting must be stated in the related requisition and deposited at the Company's registered office and principal place of business in Hong Kong. If the Directors do not within 21 days from the date of the deposit of a request (after being verified to be valid) proceed to convene a SGM, the Shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of three months from the date of the deposit of the request.

CORPORATE GOVERNANCE REPORT

Putting forward proposals at general meetings

Shareholders holding not less than one-twentieth of the total voting rights of those Shareholders having the right to vote at a general meeting or not less than one hundred Shareholders can submit a written request to move a resolution at a general meeting. The written request must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution and deposited at the Company's registered office and principal place of business in Hong Kong not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. Upon the request verified to be valid, the Company will give notice of the resolution or circulate the statement provided that the Shareholders concerned have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

Investor Relations

The Company keeps 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 Company by the following means:

- (i) By phone at (852) 2828 6363 during normal business hours
- (ii) By fax at (852) 2598 6861
- (iii) By e-mail to info@seagroup.com.hk
- (iv) By post to 26/F., Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong

Looking Forward

The above corporate governance practices will be monitored, reviewed, amended and revoked from time to time as considered necessary by the Board. The Company will take appropriate actions to ensure compliance with the required practices and standards including the code provisions and if reasonably practicable, the recommended best practices of the CG Code at all times.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Principal Activities

During the year 2019, the Company acted as an investment holding company and the activities of its principal subsidiaries were property investment, property development, hotel operation and financial investment in Hong Kong, Australia and the United Kingdom.

Other particulars of the principal subsidiaries of the Company as at 31 December 2019 are set out in note 44 to the consolidated financial statements.

Business Review and Performance

A review of the business of the Group during the year ended 31 December 2019 and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 23 to 29 of this Annual Report.

Description of the financial risk management objectives and policies of the Group can be found in note 35 to the consolidated financial statements.

An analysis of the Group's performance during the year ended 31 December 2019 using financial key performance indicators is provided in the Chairman's Statement on pages 23 to 29 and the Financial Highlights on pages 6 and 7 of this Annual Report.

Environmental Protection

The Group recognises its responsibility to protect and preserve the environment from its business operations and has formulated a corporate social responsibility policy statement to demonstrate its determination to care for the environment. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities and strives to minimise these impacts.

Energy saving measures have been implemented in order to reduce power and paper consumption. Use of power-saving mode in office equipment, LED lighting and indoor temperature control are applied to minimise power consumption. Application of e-system, recycling of papers, and stationery are carried out to reduce paper consumption and to achieve cost savings. The Group also makes an effort to raise its staff's energy-saving awareness and regularly reminds them to switch off lighting and electronic devices after use.

The Group has also actively promoted material-savings and implemented policies to reduce waste generated from business activities. Water saving practices such as water saving signage is posted at the pantry. Its financial reports have been printed on Forest Stewardship Council-certified (FSC) papers since 2015. To further save paper resources, the Company has made arrangements to its Shareholders to receive corporate documents like financial reports and circulars in electronic form instead of hard copy. Waste Electrical and Electronic Equipment (WEEE) such as computers, printers and photocopiers were sent to recyclers for processing. The recycling of materials in our operations, including papers, plastic bottles, stationery and office equipment, are highly encouraged. Hazardous waste such as used ink and toner cartridges are returned to the service provider to minimise adverse impacts on the environment.

DIRECTORS' REPORT

Crowne Plaza Hong Kong Causeway Bay ("Crowne Plaza") has also adopted a number of supportive measures in its hotel operations to reduce energy consumption. It has systematically adopted LED lighting in the hotel and switched off 50% guest floor corridor lights from midnight to 7:00 in the morning. In July 2019, all ceiling incandescent light bulbs (except compact fluorescent lamp) in guest rooms, guest corridors and certain floors of Crowne Plaza were replaced by LED lights. Besides, all equipment is serviced and maintained ensuring maximum efficiency and major equipment including chiller plants is subject to seasonal adjustments for reducing electricity consumption but without affecting the comfort of the hotel's occupants.

At Crowne Plaza, water is mainly used for guests rooms and outlets kitchens. To reduce water consumption, Crowne Plaza has installed water-saving taps in kitchens and washrooms since 2018 that reduced approximately 32% water intensity after installation.

Crowne Plaza strives to minimize waste generation by reusing and recycling of papers, battery and card boards. In 2019, a recycle collection area was set up in the staff canteen for staff to classify and distribute the waste papers, plastic bottles and aluminum cans. To raise the staff awareness in protecting environment, a Christmas tree was made with approximately 100 used soft drink cans in the staff canteen in December 2019.

Compliance with Laws and Regulations

The Group complies with applicable rules and regulations governing property development and property investment in Hong Kong and holds relevant required licences for provision of services. With respect to the overseas properties held by the Group, it engages external professional advisors to ensure the compliance with applicable laws and regulations of that jurisdictions. During the year under review, there was no reported incident of material non-compliance with the relevant laws and regulations that had a significant impact on the Group's business.

The Group establishes and protects its intellectual property rights and has registered its domain name. Various trademarks have been applied for or registered in various classes in Hong Kong, the PRC and other relevant jurisdictions. The Group takes all appropriate actions to enforce its intellectual property rights.

It is the policy of the Group to strictly prohibit bribery, corruption and money laundering activities to ensure the conduct of the Group companies and employees are in compliance with the applicable rules and regulations. All staff members are required to strictly adhere to the provisions of the Prevention of Bribery Ordinance and may not solicit or accept for his personal benefit any advantage which includes benefits in money or in any kind from any business partners. The Company has provided sufficient information on the Group's anti-corruption principles to all employees. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

Further 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 will be provided in the 2019 Environmental, Social and Governance Report to be published on the websites of the Stock Exchange and the Company by July 2020.

DIRECTORS' REPORT

Workplace Quality

The Group believes that a motivated and balanced workforce is crucial for building a substantial business model and delivering long-term returns.

The Group has formulated an employee handbook which clearly sets out company policies and procedures, expectations for employees' conduct and behavior, employees' rights and benefits. We establish and implement policies that promote a harmony and respectful workplace. Recreational activities are organised for employees, such as outings, to enrich their work lives. Further, festival luncheons are organised by the Company as to provide more opportunities for interaction between the Company's management and staff in order to create a harmony and communicative working environment. The Group encourages staff of all levels to serve the community and care for those in need. We have participated in the "Dress Casual Day" which is the annual charity event organised by the Community Chest. In addition, we have participated a volunteer activity organized by Christian Family Service Centre. The Group has been awarded the Caring Company Logo by the Hong Kong Council of Social Service (HKCSS) in 2019 in recognition of our commitment in caring for our community, employees and environment over the past year.

The Group believes that people are the valuable assets of an enterprise and commits to attracting and retaining talent with diverse backgrounds for achieving sustainable growth. As at 31 December 2019, approximately 40% of the staff have been working for the Group for more than five years. Service awards were presented as tribute to staff members and senior management who have contributed to the Group for 5, 10, 20 and 30 years.

The Group provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as opportunities for career advancement based on employees' merits and performance. It is the policy of the Group to encourage employees to attend appropriate courses to keep them abreast of the latest developments in the market and industry. They are encouraged to enrol in external job-related seminars and training programmes to improve their knowledge and maximise their potentials.

The Group considers employee health and safety as a priority at all times across its business operations. The Group follows the Guidelines from the Occupational Safety and Health Council and Labour Department which outline relevant measures and tips covering use of equipment, hygiene, first aid and fire precaution. During the year under review, the Group organized a health talk by inviting professional speaker to give eye and health advice and arranged free on-site flu vaccinations for its employees.

In view of the novel coronavirus outbreak in early 2020, the Company has immediately implemented some precautionary measures to enhance employees' hygiene awareness and to minimize their exposure to virus in the community as much as possible. In this February, the Company introduced special working arrangements including flexible office and lunch hours to avoid crowds during peak hours and also allowed staff to work from home if necessary. Staff who are feeling unwell, especially having signs of a fever, should seek medical advice at once, stay home and notify their supervisors and human resources department. Health tips, face masks and hand sanitizers are also provided to the employees to help them stay healthy and infection-free. Office cleaning schedule has been increased to provide a safe workplace to the staff. The Group continues to closely monitor the development and will take initiatives in response to the current situations where appropriate.

DIRECTORS' REPORT

Segmental Analysis of Operations

An analysis of the Group's performance for the year by reportable segments is set out in note 6 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on pages 65 and 66 and the consolidated statement of profit or loss and other comprehensive income on page 67.

The state of affairs of the Group as at 31 December 2019 is set out in the consolidated statement of financial position on pages 68 and 69.

Dividends

An interim dividend of HK2 cents per share (2018: HK2 cents) amounting to HK\$13.2 million (2018: HK\$13.2 million) was paid to the Shareholders during the year.

The Board has resolved to recommend for Shareholders' approval at the forthcoming 2020 AGM the payment of a final dividend of HK3 cents (2018: HK3 cents) per share for the year under review, amounting to HK\$19.9 million (2018: HK\$19.9 million) to the Shareholders whose names appear on the register of members at the close of business on Wednesday, 3 June 2020. The relevant dividend warrants are expected to be despatched on or before Monday, 15 June 2020.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements. During the year 2019, certain shares were issued on exercise of share options granted.

Reserves

Details of the movements in the reserves of the Group during the year 2019 are set out in the consolidated statement of changes in equity on page 70. The Company's reserves available for distribution to the Shareholders as at 31 December 2019 were as follows:

	2019 HK\$'000	2018 HK\$'000
Contributed surplus	190,081	190,081
Retained profits	4,938,184	4,961,577
	5,128,265	5,151,658

DIRECTORS' REPORT

Under the Companies Act 1981 of Bermuda (as amended), the amount of the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if after the payment:

- (i) it is or would be unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than its liabilities.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

Investment Properties

All the investment properties of the Group were revalued at 31 December 2019. The net increase in fair value of investment properties amounting to HK\$50.4 million (2018: net increase HK\$10.9 million) has been credited directly to the consolidated statement of profit or loss.

Details of the movements in the investment properties of the Group during the year are set out in note 19 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 21 to the consolidated financial statements.

Properties

Details of the properties of the Group held for investment and sale purposes at 31 December 2019 are set out in the section headed "Property Portfolio" on pages 9 to 15.

Permitted Indemnity Provision

Pursuant to the Company's Bye-law 148, every Director for the time being acting in relation to any of the affairs of the Company, and their respective executors or administrators, shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, liabilities, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own wilful neglect or default respectively. During the year under review, the Company had arranged directors' and officers' liability insurance for the Directors.

DIRECTORS' REPORT

Directors

The Directors who served during the year and up to the date of this Annual Report were:

Executive Directors

Mr. Lu Wing Chi, Jesse (*Chairman*)
Mr. Lambert Lu (*Chief Executive*)

Non-executive Directors

Mr. Lam Sing Tai
Mr. Lincoln Lu

Independent Non-executive Directors

Mr. Walujo Santoso, Wally
Mr. Leung Hok Lim
Mr. Chung Pui Lam
Mr. Chan Kwok Wai (*appointed on 1 June 2019*)

In accordance with Bye-laws 88(A), 88(B) and 89 of the Company's Bye-laws and in compliance with code provision A.4.2 of the CG Code set out in Appendix 14 to the Listing Rules, Messrs Lambert Lu, Lincoln Lu and Chung Pui Lam will retire as Directors by rotation and, being eligible, have offered themselves for re-election at the 2020 AGM.

Pursuant to Bye-law 95 of the Company's Bye-laws and in compliance with code provision A.4.2 of the CG Code set out in Appendix 14 to the Listing Rules, any Director appointed by the Board shall hold office only until the next general meeting of the Company. Mr. Chan Kwok Wai who was appointed as Director by the Board on 1 June 2019 will retire and being eligible, has offered himself for re-election at the 2020 AGM.

All other Directors shall continue in office.

Directors' Biographical Particulars

Biographical particulars of the present Directors are set out on pages 18 to 22 of this Annual Report.

Further particulars of the Directors to be re-elected at the 2020 AGM are set out in the circular to the Shareholders sent in April 2020.

DIRECTORS' REPORT

Update of Directors' Information

Save as disclosed below, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- The annual directors' fees for the year ended 31 December 2019 were adjusted as below:

Directors	Adjusted annual directors' fees for the year 2019 (HK\$)
Executive Directors	\$40,000
Non-executive Directors	\$40,000
Independent Non-executive Directors	\$400,000
Additional fee for acting as the chairman of the Audit Committee or Remuneration Committee	\$100,000

- Mr. Chan Kwok Wai was appointed as INED on 1 June 2019.
- Mr. Chan served as an independent non-executive director of IntelliCentrics Global Holdings Ltd. (a company listed in Hong Kong) for the period from March 2019 to January 2020.

Directors' Service Contracts

None of the Directors proposed for re-election at the 2020 AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

Particulars of the emoluments of Directors on a named basis for the year are set out in note 15 to the consolidated financial statements.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

There were no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Arrangements for Directors to Acquire Shares and Debentures

At no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

Directors' Interests in Competing Businesses

Pursuant to Rule 8.10 of the Listing Rules, the following Directors and their associates (as defined in the Listing Rules) are considered by the Company to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where such Directors have been appointed to represent the interests of the Company and/or other members of the Group:

- (i) Mr. Lu Wing Chi, Jesse (the Chairman and Executive Director) has shareholdings (for himself and on behalf of his associates) and holds directorships in a number of private companies controlled by, or owned in conjunction with, his close relatives and associates. From time to time, such companies are involved in real estate development and investment. In this regard, Mr. Lu is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.
- (ii) Mr. Lambert Lu (the Chief Executive and Executive Director) and Mr. Lincoln Lu (the Non-executive Director) are the sons of Mr. Lu Wing Chi, Jesse. In this regard, Messrs Lambert Lu and Lincoln Lu are considered to have interests in the competing businesses in which Mr. Lu Wing Chi, Jesse is deemed interested. Messrs Lambert Lu and Lincoln Lu also have shareholdings (for themselves and on behalf of their associates) and hold directorships in certain private companies controlled by, or owned in conjunction with, their close relatives and associates. From time to time, such companies are involved in real estate development and investment. In this regard, Messrs Lambert Lu and Lincoln Lu are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Currently, half of the Board members are INED whose views carry significant weight in the Board's decisions. Fundamentally, it is independent of the above individuals and the respective boards of directors of the above companies in which the relevant directors have personal interests. Further, all the Directors are fully aware of, and have been discharging, their fiduciary duty to the Company and have 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 said competing businesses.

Management Contracts

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its holding companies or subsidiaries were entered into with third parties or subsisted during the year.

DIRECTORS' REPORT

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2019, the interests and short positions of the Directors 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) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

1. Long positions in shares of the Company

Name of Directors	Number of ordinary shares held			Total interests	Approximate % of interest in the issued share capital
	Personal interests (held as beneficial owner)	Corporate interests (held by controlled corporations)	Family interests (interests of spouse)		
Lu Wing Chi, Jesse	—	446,392,255 ⁽ⁱ⁾	—	446,392,255	67.40
Lambert Lu	1,000,000	338,779,740 ⁽ⁱⁱ⁾	—	339,779,740	51.30
Lam Sing Tai	4,493,030	—	7,558	4,500,588	0.68
Lincoln Lu	24,438,162	—	—	24,438,162	3.69
Walujo Santoso, Wally	1,680,400	—	—	1,680,400	0.25
Leung Hok Lim	2,545,574	—	—	2,545,574	0.38
Chung Pui Lam	894,800	—	—	894,800	0.14
Chan Kwok Wai	—	—	—	—	—

Notes:

- (i) Among these 446,392,255 shares, 107,612,515 shares were held by Port Lucky and 338,779,740 shares were held by NLI. Port Lucky is 100% owned by SEA Fortune, which in turn is 100% owned by NYH. NYH is 100% owned by Mr. Lu Wing Chi, Jesse. NLI is owned by Mr. Lu Wing Chi, Jesse and Mr. Lambert Lu as to 60% and 40% respectively (as disclosed in the section of "Long positions in shares of associated corporation" on page 54). By virtue of Mr. Lu Wing Chi, Jesse's interests in NLI and Port Lucky, he is deemed to be interested in these shares.
- (ii) As disclosed in Note (i) above, these 338,779,740 shares were held by NLI which is owned by Mr. Lu Wing Chi, Jesse and Mr. Lambert Lu as to 60% and 40% respectively. By virtue of Mr. Lambert Lu's interests in NLI, he is also deemed to be interested in these shares.
- (iii) The total number of issued shares of the Company as at 31 December 2019 was 662,288,726 shares.

DIRECTORS' REPORT

2. Long positions in shares of associated corporation

Name of associated corporation	Name of Directors	Number of ordinary shares held			Total interests	Approximate % of interest in the issued share capital
		Personal interests (held as beneficial owner)	Corporate interests (held by controlled corporation)	Family interests (interests of spouse)		
NLI	Lu Wing Chi, Jesse	93,876	—	—	93,876	60.00
	Lambert Lu	62,584	—	—	62,584	40.00

Saved as disclosed herein, as at 31 December 2019, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2019, so far as is known to the Directors, the following substantial Shareholders and other persons (other than Directors) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name of Shareholders	Number of ordinary shares			Total interests	Approximate % of interest in the issued share capital
	Held as beneficial owner	Held by controlled corporations			
NLI	338,779,740	—		338,779,740	51.15
NYH	—	107,612,515 ⁽ⁱ⁾		107,612,515	16.25
SEA Fortune	—	107,612,515 ⁽ⁱ⁾		107,612,515	16.25
Port Lucky	107,612,515	—		107,612,515	16.25

DIRECTORS' REPORT

Notes:

- (i) NYH holds 100% of the issued share capital of SEA Fortune, which in turn holds 100% of the issued share capital of Port Lucky. The above 107,612,515 shares held by Port Lucky are also deemed to be interest of SEA Fortune and NYH and such shares are, therefore, duplicated between these shareholders for the purpose of the SFO.
- (ii) Messrs Lu Wing Chi, Jesse and Lambert Lu, both being Directors, are also directors of NLI.
- (iii) Messrs Lu Wing Chi, Jesse, Lambert Lu and Lincoln Lu, all being Directors, are also directors of NYH, SEA Fortune and Port Lucky.
- (iv) The total number of issued shares of the Company as at 31 December 2019 was 662,288,726 shares.

Saved as disclosed herein, as at 31 December 2019, none of the substantial Shareholders and other persons (other than Directors) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Share Option Scheme

The Company adopted the 2015 Share Option Scheme on 29 May 2015. A summary of the principal terms of the 2015 Share Option Scheme is set out below:

1. Purpose: To provide a flexible means to recognise and acknowledge the performance and/or contribution of the eligible participants (as defined under the 2015 Share Option Scheme).
2. Participants: Eligible participants include any (i) director or employee of the Company or any of its affiliate; (ii) representative, manager, agent, contractor, advisor, consultant, distributor or supplier engaged by the Company or any of its affiliate; (iii) customer, promoter, business ally or joint-venture partner of the Company or any of its affiliate; or (iv) trustee of any trust established for the benefit of employees of the Company or any of its affiliate.
3. Total number of shares available for issue under the 2015 Share Option Scheme and percentage of the issued share capital that it represents as at the date of this Annual Report: The maximum number of shares which could be issued upon exercise of all options granted or to be granted under the 2015 Share Option Scheme was 69,186,772 shares (the "Scheme Mandate Limit"), representing approximately 10% of the shares of the Company in issue as at 29 May 2015, the date on which an ordinary resolution was passed by the shareholders of the Company to approve the 2015 Share Option Scheme.

As at 31 March 2020, a total of 54,736,772 shares (excluding the underlying shares comprised in share options that have been granted but not yet lapsed, cancelled or exercised) were available for issue under the 2015 Share Option Scheme, which represented approximately 8.26% of the issued share capital of the Company on that date.

DIRECTORS' REPORT

4. Maximum entitlement of each participant: Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the share options already granted or to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company then in issue.
- In addition, for any grant of share options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates would result in the shares issued and to be issued upon exercise of all options already granted or to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period exceed 0.1% of the shares of the Company then in issue and with an aggregate value in excess of HK\$5 million, then the proposed grant is also subject to the approval of shareholders of the Company in general meeting.
5. Period within which the shares must be taken up under an option: The period during which an option may be exercised is determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.
6. Minimum period for which an option must be held before it can vest: As determined by the Board.
7. Amount payable on acceptance of an option and the period within which payments shall be made: HK\$10 is payable to the Company upon acceptance of the option which must be taken up within 28 days from the date of offer.
8. Basis of determining the exercise price: The exercise price is determined by the Board which must be at least the highest of (i) the closing price of the share of the Company on the Stock Exchange on the date of grant of the option; (ii) the average of the closing price of the share of the Company on the Stock Exchange for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the share of the Company.
9. Remaining life of the 2015 Share Option Scheme: Valid and effective for a term of ten years from the date of adoption until 28 May 2025.

DIRECTORS' REPORT

The following table shows the movements in share options under the 2015 Share Option Scheme during the year ended 31 December 2019 and the options outstanding at the beginning and end of the year:

Name	Date of grant	Exercise price per share (HK\$)	Exercise period	Number of underlying shares comprised in share options			
				As at 01.01.2019	Exercised during the year	Lapsed during the year	As at 31.12.2019
Eligible employees	02.07.2015	6.302	01.07.2018 to 30.06.2020	500,000	(230,000)	—	270,000
in aggregate	22.01.2018	12.800	01.01.2019 to 31.12.2020	325,000	—	(50,000)	275,000
			01.07.2019 to 30.06.2021	400,000	—	(125,000)	275,000
			01.01.2020 to 31.12.2021	500,000	—	—	500,000
			01.07.2020 to 30.06.2022	225,000	—	—	225,000
			01.01.2021 to 31.12.2022	1,600,000	—	(300,000)	1,300,000
			01.07.2021 to 30.06.2023	1,550,000	—	(325,000)	1,225,000
Total				5,100,000	(230,000)	(800,000)	4,070,000

Notes:

- (i) The vesting period of the share options granted is from the date of grant until the commencement of the exercisable period.
- (ii) The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised by the eligible employees was HK\$9.673 per share.
- (iii) No share options had been granted or cancelled under the 2015 Share Option Scheme for the year ended 31 December 2019.

Share Award Scheme

The Share Award Scheme was approved by the Shareholders at the SGM held on 27 May 2010. The Share Award Scheme commenced on 15 June 2010 and will continue in force until the day immediately before the fifteenth anniversary of such date.

The purpose of the Share Award Scheme is to provide a flexible means to recognise and acknowledge the performance and/or contribution of the eligible participants. Under the Share Award Scheme, the Board (or any committee delegated by the Board) may at its absolute discretion grant awards, which may comprise (a) new shares of the Company; (b) existing shares of the Company in issue and are listed on the Stock Exchange; (c) cash in lieu of the shares of the Company; or (d) a combination of (a), (b) and (c), to any eligible participants as it thinks fit and appropriate and subject to the terms and conditions of the Share Award Scheme. No award may be granted under the Share Award Scheme if the aggregate number of shares which may be issued and/or transferred upon vesting of all outstanding awards granted under the Share Award Scheme and any other share award scheme of the Company and which may be issued upon exercise of all outstanding options granted and yet to be exercised under any share option scheme of the Company exceed 30% of the shares of the Company in issue from time to time.

No award was granted by the Company under the Share Award Scheme during the year ended 31 December 2019.

DIRECTORS' REPORT

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Major Suppliers and Major Customers

During the year, the aggregate amount of purchases and sales attributable to the five largest suppliers and customers of the Group accounted for less than 30% of the Group's total purchases and sales respectively.

Related Party Transactions

Details of the significant related party transactions undertaken in the usual course of business are set out in note 42 to the Financial Statements. All such related party transactions are fully exempt connected transactions under Chapter 14A of the Listing Rules.

Corporate Governance

The Company is committed to maintain high corporate governance standards so as to ensure better transparency and protection of Shareholders' interests. Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" on pages 30 to 44.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the issued shares in the Company was held by the public (i.e. the prescribed public float applicable to the Company under the Listing Rules) during the year and up to the date of this Annual Report.

Charitable Donations

During the year, the Group made charitable donations amounting to about HK\$167,000 (2018: HK\$252,000).

Five-Year Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the section headed "Financial Highlights" on page 6.

Review by Audit Committee

The Audit Committee comprises four members, namely Messrs Leung Hok Lim, Walujo Santoso, Wally, Chung Pui Lam and Chan Kwok Wai, all being INED. The Audit Committee has reviewed with the management the audited consolidated financial statements of the Company for the year ended 31 December 2019.

DIRECTORS' REPORT

Independent Auditor

The consolidated financial statements of the Company for the year under review have been audited by Deloitte, who will retire and, being eligible, have offered themselves for re-appointment. Approved by the Board upon the Audit Committee's recommendation, a resolution to re-appoint Deloitte as independent auditor of the Company for the ensuing year will be put to the 2020 AGM for the Shareholders' approval.

On behalf of the Board

Lu Wing Chi, Jesse

Chairman

Hong Kong, 31 March 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

To the Shareholders of S E A Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of S E A Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 65 to 154, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 December 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 Hong Kong Companies Ordinance.

Basis for Opinion

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

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements 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.

Key audit matter

How our audit addressed the key audit matter

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter as the valuation is subject to management estimate and has a significant impact on the financial result and financial position of the Group.

As disclosed in note 19 to the consolidated financial statements, the carrying value of the investment properties amounted to approximately HK\$7,314 million as at 31 December 2019 and the increase in fair value of the investment properties recorded in the profit for the year was approximately HK\$50 million. In estimating the fair value of investment properties, it is the Group's policy to engage independent qualified professional valuers (the "Valuers") to perform the valuation.

The Valuers have determined the fair values of the Group's investment properties by the use of different valuation methodologies, and key inputs as below: (i) capitalisation rate under income capitalisation approach; (ii) discount rate under discounted cash flow analysis; and (iii) adjusting factors such as location, size, age and maintenance under direct comparison approach.

Our procedures in relation to the valuation of investment properties included:

- Evaluating the competence, capabilities and objectivity of the Valuers;
- Obtaining an understanding of the valuation process and significant assumptions and critical judgements to assess if the methodologies meet relevant accounting requirements and industry norms; and
- Obtaining the valuation reports and interviewing with the Valuers to (i) assess the reasonableness of the significant unobservable inputs and the accuracy of the source data used by the Valuers; and (ii) compare the capitalisation rate, monthly unit rent and residential units comparable price per square feet to rental income, tenancy agreements, publicly available prices per square feet information and land registry records to evaluate the appropriateness and reasonableness of these inputs.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

How our audit addressed the key audit matter

Valuation of financial assets at fair value through profit or loss — unlisted investment in the preferred shares

We identified the valuation of unlisted investment in the preferred shares classified as financial assets at fair value through profit or loss as a key audit matter as the valuation is subject to management estimate and judgement in selecting appropriate valuation technique, assumptions and estimates used.

As disclosed in notes 24 and 35(c) to the consolidated financial statements, the unlisted investments were subject to fair value valuation at each reporting period. The carrying value of the unlisted investments consist of HK\$273 million of unlisted investment in the preferred shares as at 31 December 2019. In estimating the fair value, the management based on the combination of Market Approach and Black-Scholes Option Pricing Model with the key inputs of the price to earnings ratio, discount for lack of marketability by reference to the risk-free rate and expected volatility of the listed entities with similar characteristics.

Our procedures in relation to the valuation of investment of the preferred shares of the unlisted entity included:

- Obtaining an understanding of the entity's valuation process in selecting valuation model, adopting assumptions and estimates;
- Engaging our internal valuation expert to evaluate the appropriateness of the valuation model adopted;
- Engaging our internal valuation expert to evaluate the appropriateness of the key inputs in the Black-Scholes Option Pricing Model, including risk-free rate and expected volatility; and evaluate the potential impact in relation to the reasonably possible change in the above key inputs; and
- Engaging our internal valuation expert to evaluate the appropriateness of the key inputs in the Market Approach, including price to earnings ratio and discount rate for lack of marketability; and also evaluate the potential impact in relation to the reasonably possible change in the above key inputs.

Other Information

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

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

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

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 the independent auditor's report is Tan Tsung Yuan, Nicholas.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	NOTES	2019 HK\$'000	2018 HK\$'000 (restated)
Revenue	7		
— Renting of investment properties		200,055	209,228
— Hotel operation		192,318	249,994
— Return from financial investment			
— Interest income		424,056	319,573
Total revenue		816,429	778,795
Other income	8	7,023	3,309
Costs:			
Property and related costs	9	(4,036)	(13,762)
Staff costs		(115,816)	(153,337)
Depreciation and amortisation		(39,337)	(29,136)
Other expenses	10	(96,010)	(118,800)
		(255,199)	(315,035)
Profit before fair value changes on investment properties, impairment loss and other gains and losses		568,253	467,069
Fair value changes on investment properties		50,408	10,856
Profit after fair value changes on investment properties		618,661	477,925
Other gains and losses	11	8,978	23,294
Impairment loss recognised on a listed debt instrument at fair value through other comprehensive income	20	(10,033)	—
Share of result of a joint venture		(53)	(40)
Finance costs	12	(420,047)	(360,875)
Profit before taxation	13	197,506	140,304
Income tax expense	14	(24,388)	(19,004)
Profit for the year		173,118	121,300

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	NOTE	2019 HK\$'000	2018 HK\$'000
Attributable to:			
Company's shareholders		173,118	121,026
Non-controlling interests		—	274
Profit for the year		173,118	121,300
Earnings per share for profit attributable to the Company's shareholders		HK cents	HK cents
— Basic		26.1	18.2
— Diluted		26.1	18.2
Earnings per share excluding fair value changes on investment properties net of deferred tax			
— Basic	18	20.3	16.6
— Diluted		20.3	16.5

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTE	2019 HK\$'000	2018 HK\$'000 (restated)
Profit for the year		173,118	121,300
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain (loss) on debt instruments at fair value through other comprehensive income		43,769	(27,341)
Exchange differences arising on translation of foreign operations		43,009	(14,552)
Impairment loss recognised on a listed debt instrument at fair value through other comprehensive income	20	10,033	—
Other comprehensive income (expense) for the year		96,811	(41,893)
Total comprehensive income for the year		269,929	79,407
Total comprehensive income for the year attributable to:			
Company's shareholders		269,929	79,133
Non-controlling interests		—	274
Total comprehensive income for the year		269,929	79,407

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investment properties	19	7,313,892	6,036,230
Property, plant and equipment	21	650,003	650,904
Investment in a joint venture	22	1,114,627	1,050,460
Debt instruments at fair value through other comprehensive income	23	3,153,121	2,950,698
Financial assets at fair value through profit or loss	24	280,325	250,573
Pledged bank deposits	26	16,512	26,333
Other assets	25	6,899	6,779
		12,535,379	10,971,977
Current assets			
Inventories		1,020	915
Debt instruments at fair value through other comprehensive income	23	2,447,346	1,448,979
Financial assets at fair value through profit or loss	24	—	81,747
Trade and other receivables, deposits and prepayments	27	44,468	37,621
Tax recoverable		1	1
Amounts due from non-controlling interests	28	—	4
Pledged bank deposits	26	482,525	1,574,819
Bank balances and cash	26	5,027,037	5,870,023
		8,002,397	9,014,109
Current liabilities			
Payables, rental deposits and accrued charges	29	226,980	204,973
Tax liabilities		23,860	22,293
Lease liabilities	32	10,323	—
Guaranteed notes	31	1,557,139	—
Bank borrowings — due within one year	30	5,765,168	6,215,708
		7,583,470	6,442,974
Net current assets		418,927	2,571,135
Total assets less current liabilities		12,954,306	13,543,112

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
Capital and reserves			
Share capital	33	66,229	66,206
Reserves		6,184,158	5,945,348
Equity attributable to the Company's shareholders		6,250,387	6,011,554
Non-controlling interests		—	4
Total equity		6,250,387	6,011,558
Non-current liabilities			
Lease liabilities	32	197,580	—
Bank borrowings — due after one year	30	5,294,791	4,763,702
Guaranteed notes	31	1,161,220	2,726,740
Deferred taxation	34	50,328	41,112
		6,703,919	7,531,554
Total equity and non-current liabilities		12,954,306	13,543,112

The consolidated financial statements on pages 65 to 154 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

LU WING CHI, JESSE
CHAIRMAN
AND EXECUTIVE DIRECTOR

LAMBERT LU
CHIEF EXECUTIVE
AND EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the Company's shareholders													
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 (note i)	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	Shares on trust for awardees under Share Award Scheme HK\$'000	Share award reserve HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000 (restated)	Other reserves HK\$'000 (note ii)	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000 (restated)
At 1 January 2018	67,376	96,184	277,707	6,665	4,451	—	—	6,147	(27,917)	20,159	5,691,812	6,142,584	1,498	6,144,082
Profit for the year	—	—	—	—	—	—	—	—	—	—	121,026	121,026	274	121,300
Exchange differences arising on translation of foreign operations	—	—	—	(14,552)	—	—	—	—	—	—	—	(14,552)	—	(14,552)
Fair value loss on debt instruments at fair value through other comprehensive income	—	—	—	—	—	—	—	—	(27,341)	—	—	(27,341)	—	(27,341)
Other comprehensive expense for the year	—	—	—	(14,552)	—	—	—	—	(27,341)	—	—	(41,893)	—	(41,893)
Total comprehensive (expense) income for the year	—	—	—	(14,552)	—	—	—	—	(27,341)	—	121,026	79,133	274	79,407
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	1,739	—	—	—	1,739	—	1,739
— share options	—	—	—	—	—	—	—	—	—	—	—	—	—	—
— share award	—	—	—	—	—	—	37,120	—	—	—	—	37,120	—	37,120
Shares issued upon exercise of share options	523	37,901	—	—	—	—	—	(5,496)	—	—	—	32,928	—	32,928
Purchase of shares under Share Award Scheme	—	—	—	—	—	(37,385)	—	—	—	—	—	(37,385)	—	(37,385)
Shares transferred to participants under Share Award Scheme	—	—	—	—	—	37,385	(37,120)	—	—	—	(265)	—	—	—
Share repurchased and cancelled	(1,693)	(209,850)	—	—	—	—	—	—	—	—	—	(211,543)	—	(211,543)
Dividends paid (note 17)	—	—	—	—	—	—	—	—	—	—	(33,022)	(33,022)	—	(33,022)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(1,768)	(1,768)
Transfer of excess share premium to retained profits	—	94,833	—	—	—	—	—	—	—	—	(94,833)	—	—	—
At 31 December 2018	66,206	19,068	277,707	(7,887)	4,451	—	—	2,390	(55,258)	20,159	5,684,718	6,011,554	4	6,011,558
Profit for the year	—	—	—	—	—	—	—	—	—	—	173,118	173,118	—	173,118
Exchange differences arising on translation of foreign operations	—	—	—	43,009	—	—	—	—	—	—	—	43,009	—	43,009
Fair value gain on debt instruments at fair value through other comprehensive income	—	—	—	—	—	—	—	—	43,769	—	—	43,769	—	43,769
Impairment loss recognised on a listed debt instrument at fair value through other comprehensive income	—	—	—	—	—	—	—	—	10,033	—	—	10,033	—	10,033
Other comprehensive income for the year	—	—	—	43,009	—	—	—	—	53,802	—	—	96,811	—	96,811
Total comprehensive income for the year	—	—	—	43,009	—	—	—	—	53,802	—	173,118	269,929	—	269,929
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	565	—	—	—	565	—	565
— share options	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Shares issued upon exercise of share options	23	1,677	—	—	—	—	—	(251)	—	—	—	1,449	—	1,449
Dissolution of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	(4)	(4)
Dividends paid (note 17)	—	—	—	—	—	—	—	—	—	—	(33,110)	(33,110)	—	(33,110)
At 31 December 2019	66,229	20,745	277,707	35,122	4,451	—	—	2,704	(1,456)	20,159	5,824,726	6,250,387	—	6,250,387

Notes:

- (i) Contributed surplus represents the excess of the nominal value of the shares of the acquired subsidiaries over the nominal value of the Company's shares issued for the acquisition pursuant to the Group reorganisation in previous years.
- (ii) Other reserves represent the excess of the consideration paid for acquisition of additional interest in subsidiaries from non-controlling interests over the carrying amount of non-controlling interests.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Operating activities		
Profit before taxation	197,506	140,304
Adjustments for:		
Interest expenses	420,047	360,875
Depreciation and amortisation	39,337	29,136
Fair value changes on investment properties	(50,408)	(10,856)
Fair value gain on financial assets at fair value through profit or loss	(31,334)	—
Loss on early redemption of debt instruments at fair value through other comprehensive income	2,335	49
Impairment loss recognised on a listed debt instrument at fair value through other comprehensive income	10,033	—
Gain on disposal of an investment property	(6,375)	—
Share of result of a joint venture	53	40
Interest income	(424,391)	(319,798)
Loss (gain) on disposal of property, plant and equipment	20	(130)
Equity-settled share-based payment expenses	565	38,859
Net exchange losses (gain)	26,396	(23,343)
Operating cash flows before movements in working capital	183,784	215,136
(Increase) decrease in inventories	(105)	147
(Increase) decrease in trade and other receivables, deposits and prepayments	(12,038)	42,663
Increase in payables, rental deposits and accrued charges	20,635	4,157
Cash generated from operations	192,276	262,103
Interest received from financial investment	453,048	366,333
Tax paid	(14,139)	(7,762)
Tax refunded	1	3
Net cash from operating activities	631,186	620,677
Investing activities		
Repayment of loan receivables	—	1,887
Interest received from bank deposits	335	225
Placement of pledged bank deposits	(2,250)	(81,750)
Release of pledged bank deposits	1,102,267	17,449
Redemption of debt instruments at fair value through other comprehensive income	1,625,956	3,286,280
Redemption of financial assets at fair value through profit or loss	84,775	39,245
Purchase of property, plant and equipment	(3,173)	(10,769)
Purchase of club membership	(180)	—
Additions to investment properties	(979,680)	(80,144)
Proceeds on disposals of an investment property	71,626	—
Proceeds on disposals of property, plant and equipment	20	1,844
Purchase of debt instruments at fair value through other comprehensive income	(2,839,945)	(3,263,745)
Purchase of financial assets at fair value through profit or loss	—	(322,954)
Repayment from non-controlling interests	—	36
(Advances to) repayment from a joint venture in form of loan	(64,220)	678,300
Net cash (used in) from investing activities	(1,004,469)	265,904

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Financing activities		
Draw down of bank borrowings	3,262,024	3,882,266
Repayments of bank borrowings	(3,265,364)	(3,715,810)
Repayment of lease liabilities	(11,864)	—
Payment of guaranteed notes issue costs	—	(11,202)
Payment of front-end fee	(18,113)	(3,600)
Issue of guaranteed notes	—	1,172,940
Issue of new ordinary shares	1,449	32,928
Repurchase of ordinary shares	—	(211,543)
Payment for shares under Share Award Scheme	—	(37,385)
Interest paid	(398,904)	(327,455)
Dividends paid	(33,102)	(33,015)
Dividends paid to non-controlling interests	—	(1,768)
Net cash (used in) from financing activities	(463,874)	746,356
Net (decrease) increase in cash and cash equivalents	(837,157)	1,632,937
Cash and cash equivalents at beginning of the year	5,870,023	4,235,738
Effect of foreign exchange rate changes	(5,829)	1,348
Cash and cash equivalents at end of the year represented by bank balances and cash	5,027,037	5,870,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

S E A Holdings Limited (the “Company”) is an exempted company incorporated in Bermuda with limited liability and its shares are listed on Stock Exchange. Nan Luen International Limited, an exempted company incorporated in Bermuda with limited liability, is the immediate and ultimate holding company of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the directory of the annual report.

The Company acts as an investment holding company. The principal activities of its subsidiaries and a joint venture are set out in notes 44 and 22 respectively.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

2.1 HKFRS 16 Leases *(continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis by using hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied implicit interest rates, if readily determinable, and incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate and implicit interest rate applied by the relevant group entities are ranging from 2.4% to 4.2%.

	HK\$’000
Operating lease commitments disclosure as at 31 December 2018	671,225
Lease liabilities discounted at relevant implicit interest rate and incremental borrowing rate (Note)	184,427
Add: Extension option reasonably certain to be exercised	29,925
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	214,352
Analysed for reporting purpose as:	
Current	12,121
Non-current	202,231
	214,352

Note: Includes certain leases of up to 133 years of duration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 Leases (continued)

As a lessee (continued)

The carrying amount of right-of-use assets for own use (included in property, plant and equipment) and those under sublease (included in investment properties) as at 1 January 2019 comprises the following:

	Land and buildings (included in property plant and equipment) HK\$'000	Leasehold land under sublease (included in investment properties) HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	35,243	179,109

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for subleases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but accounts for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of HKFRS 16, the Group accounts for the head lease and the sublease as two separate contracts. The sublease is classified as an operating lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.
- (b) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted for as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective on 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (c) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets, the Directors consider that the impact for discounting such refundable rental deposits received of HK\$5,095,000 as at 31 December 2018 is not material, and therefore, no discounting adjustment has been made.

The application of HKFRS 16 has had no material impact for the Group as a lessor on the consolidated financial statements as at 1 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 Leases (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current assets			
Investment properties	6,036,230	179,109	6,215,339
Property, plant and equipment	650,904	35,243	686,147
Current liabilities			
Lease liabilities	—	12,121	12,121
Non-current liabilities			
Lease liabilities	—	202,231	202,231

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

The application of HKFRS 16 has no material impact on the retained profits as at 1 January 2019.

2.2 Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies HKFRS 9 *Financial Instruments* (“HKFRS 9”), including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying HKFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

As at 31 December 2019, loan to a joint venture of HK\$1,114,719,000 (2018: HK\$1,050,499,000) is considered as long-term interests that, in substance forms part of the Group’s net investment in the joint venture. However, the application is not expected to have impact as the Group’s existing accounting policies are consistent with the requirements clarified by the amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except as described below, the Directors anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

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

In order to prepare the consolidated financial statements on a basis consistent with that of the preceding periods, the Directors are of the opinion that the Group has reclassified net exchange gain of HK\$23,343,000 from “other income” to “other gains and losses” in order to conform to current year’s classification.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in a joint venture

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

The results and assets and liabilities of the joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

Hotel room revenue is recognised over time by using output method; while revenue from food and beverage sales and ancillary services are recognised at point in time.

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

Output method

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

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group’s performance completed to date (i.e. hotel room revenue in which the Group bills a fixed amount for each day of the room provided), the Group recognises revenue in the amount to which the Group has the right to invoice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

Effective from 1 January 2019, investment properties also include head leases which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Effective from 1 January 2019, a leasehold land under head lease which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment are tangible assets that held for use in the supply of services, or for administrative purpose. Property, plant and equipment other than crockery, utensils and linen are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “right-of-use assets” (upon application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Ownership interests in leasehold land and building *(continued)*

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

Intangible asset - club membership

Intangible asset - club membership acquired separately

The club membership with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets - club membership with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains and losses arising from derecognition of a club membership measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Inventories

Inventories comprising food and beverage are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment on property, plant and equipment and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on property, plant and equipment and intangible assets *(continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets *(continued)*

(i) Amortised cost and interest income

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

(ii) Debt instruments classified as FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets and financial guarantee contract

The Group performs impairment assessment under expected credit loss model (“ECL”) on financial assets (including trade receivables, other receivables, pledged bank deposits, bank balances, debt instruments at FVTOCI) and financial guarantee contract which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets and financial guarantee contract *(continued)*

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets and financial guarantee contract *(continued)*

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

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk which has either investment grades or issued by a large institution.

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets and financial guarantee contract *(continued)*

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contract for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

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

Except for investments in debt instruments that are measured at FVTOCI and the financial guarantee contract, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the investment revaluation reserve in relation to accumulated loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. For the share purchased for the Shares Award Scheme, the cost of the subsidiary for the Company's shares purchased through a trustee is recognised as a deduction from the reserve of shares held for Share Award Scheme. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bank borrowings, and guaranteed notes are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

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

Offsetting a financial asset and a financial liability

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

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability; and
- any lease payments made at or before the commencement date, less any lease incentives received.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)
(continued)

Right-of-use assets *(continued)*

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment”, the same line item within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property are presented within “investment properties”.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by changes in interest and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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

Operating leases payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value method. Variable lease payments for operating leases that depend on an index or a rate are based on the market or rate at commencement date of the lease and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Rental income which is derived from the Group's ordinary course of business is presented as revenue.

The Group as lessor (upon application of HKFRS 16 in accordance with transition in note 2)

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Share-based payments

Equity-settled share-based payment transactions

Share awards/share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve/share award reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve/share award reserve.

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

For the purpose of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Critical judgements in applying accounting policies

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

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the Directors have determined that the Group's investment properties situated in Hong Kong and in the United Kingdom (the "UK") are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, whereas those situated in Australia are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the presumption that the carrying amounts of investment properties are recovered entirely through sale is not rebutted for properties situated in Hong Kong and in the UK. For the Group's investment properties situated in Hong Kong, the Group has not recognised any deferred taxes on changes in fair value of these investment properties as the Group is not subject to any income taxes on disposal of these investment properties. For the Group's investment properties situated in the UK, the Group has recognised deferred tax on changes in fair value of these investment properties due to changes of tax regulation in April 2019. The presumption that the carrying amounts of the Group's investment properties situated in Australia are recovered entirely through sale has been rebutted and the deferred tax on the changes in fair value of those investment properties is recognised according to the relevant tax rules.

Key sources of estimation uncertainty

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

Deferred tax asset

As at 31 December 2019, a deferred tax asset of HK\$21,427,000 (2018: HK\$17,078,000) in relation to unused tax losses of HK\$124,737,000 (2018: HK\$98,332,000) has been recognised to offset with the deferred tax liabilities arisen from same entities. No deferred tax asset has been recognised on the remaining tax losses of HK\$239,229,000 (2018: HK\$151,370,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such as reversal or further recognition takes place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Key sources of estimation uncertainty *(continued)*

Fair value of investment properties

Investment properties with a carrying amount of HK\$7,313,892,000 in aggregate (2018: HK\$6,036,230,000) are stated at fair value based on the valuation performed by independent qualified professional valuers. In determining the fair values, the valuers have used different methods of valuation which involve certain assumptions of market conditions. In relying on the valuation report, the Directors have exercised their judgment and are satisfied that the methods of valuation are reflective of the current market conditions. Changes in assumption relating to these factors could affect the reported fair values of the investment properties. See note 19 for further disclosures.

Fair value measurement of financial assets at FVTPL

The Group's financial assets at FVTPL as disclosed in note 24 are measured at fair values with fair values being determined based on significant unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair values of these instruments. See note 35(c) for further disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank borrowings and lease liabilities net of pledged bank deposits, and bank balances and cash, investments in debt securities, and equity attributable to the Shareholders, comprising issued share capital, retained profits and reserves.

The Directors review the capital structure periodically, monitor the level of bank borrowings and manage the leverage yield of returns while target to maintain a low gearing. The Group's percentage of net debt to the carrying value of properties (comprising investment properties, properties included in property, plant and equipment and investment in a joint venture) at the end of the reporting period is shown below:

	2019 HK\$'000	2018 HK\$'000
Bank balances and cash	5,027,037	5,870,023
Pledged bank deposits	499,037	1,601,152
Debt instruments at FVTOCI	5,600,467	4,399,677
Financial assets at FVTPL	280,325	332,320
Guaranteed notes	(2,718,359)	(2,726,740)
Bank borrowings	(11,059,959)	(10,979,410)
Lease liabilities	(207,903)	—
Net debt	(2,579,355)	(1,502,978)
Total carrying value of properties	7,949,029	6,667,440
Investment in a joint venture	1,114,627	1,050,460
	9,063,656	7,717,900
Percentage of net debt to carrying value of properties and investment in a joint venture which is engaged in property development segment	28.5%	19.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision makers (“CODM”), for the purposes of resource allocation and assessment of segment performance is mainly focused on the property development, property investment, hotel operation and financial investment.

The property investment segment includes a number of various property locations, each location is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment as property investment provides the same nature of income with the same recognition criteria.

The financial investment segment includes interest revenue from time deposits and interest income from listed and unlisted securities.

It is the Group’s strategy to make financial investment, particularly fixed income debt securities, from time to time in order to generate stable financial investment income for the Group.

Segment revenues and results

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

For the year ended 31 December 2019

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Financial investment HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE					
External revenue	—	200,055	192,318	424,056	816,429
SEGMENT RESULTS					
Segment profit	—	243,119	39,414	441,850	724,383
Unallocated interest income					335
Corporate expenses					(107,112)
Share of result of a joint venture					(53)
Finance costs					(420,047)
Profit before taxation					197,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2018

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Financial investment HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE					
External revenue	—	209,228	249,994	319,573	778,795
SEGMENT RESULTS					
Segment (loss) profit	(327)	200,311	82,891	311,715	594,590
Unallocated interest income					225
Corporate expenses					(93,596)
Share of result of a joint venture					(40)
Finance costs					(360,875)
Profit before taxation					140,304

Segment profit of the property investment division for the year ended 31 December 2019 included an increase in fair value of investment properties of HK\$50,408,000 (2018: HK\$10,856,000).

The accounting policies adopted in preparing the operating and reportable segment information are the same as the Group's accounting policies described in note 3.

The Group does not allocate interest income generated from bank deposits and second mortgage loans, corporate expenses, share of result of a joint venture and finance costs to individual reportable segment profit or loss for the purposes of resource allocation and performance assessment by the CODM.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(continued)*

Other segment profit or loss information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2019

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Financial investment HK\$'000	Consolidated HK\$'000
Amortisation and depreciation					
— Other assets	—	60	—	—	60
— Property, plant and equipment	—	13,600	25,677	—	39,277
Fair value changes on investment properties	—	(50,408)	—	—	(50,408)
(Gain) loss on disposal of property, plant and equipment	—	(20)	40	—	20

For the year ended 31 December 2018

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Financial investment HK\$'000	Consolidated HK\$'000
Amortisation and depreciation					
— Other assets	—	60	—	—	60
— Property, plant and equipment	—	3,208	25,868	—	29,076
Fair value changes on investment properties	—	(10,856)	—	—	(10,856)
(Gain) loss on disposal of property, plant and equipment	—	(244)	114	—	(130)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(continued)*

Geographical information

The Group's operations are located in Hong Kong (country of domicile), Australia and the UK.

Information about the Group's revenue from external customers by the geographical location of its properties or the principal place of business of the Company is detailed below.

	2019 HK\$'000	2018 HK\$'000
Hong Kong	620,367	570,440
Australia	15,364	16,787
UK	180,698	191,568
	816,429	778,795

Other than the tenant of 33 Old Broad Street and 20 Moorgate from whom the rental income represents 13% (2018: 14%) and 9% (2018: 10%) of the total revenue of the Group respectively, there is no other single customer who contributes over 10% of the total revenue of the Group.

Information about the Group's non-current assets, excluding financial assets at FVTPL, debt instruments at FVTOCI, investment in a joint venture and pledged bank deposits, by geographical location are detailed below.

	2019 HK\$'000	2018 HK\$'000
Hong Kong	3,272,302	2,293,083
Australia	156,147	157,738
UK	4,542,345	4,243,092
	7,970,794	6,693,913

The total assets of the Group by geographical location which is determined by reference to the location of the asset or the principal place of the business of the Group are detailed below.

	2019 HK\$'000	2018 HK\$'000
Hong Kong	15,752,957	15,481,420
Australia	162,694	198,391
UK	4,622,125	4,306,275
	20,537,776	19,986,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. REVENUE

	2019 HK\$'000	2018 HK\$'000
Renting of investment properties (note i)	200,055	209,228
Hotel operation (note ii)	192,318	249,994
Return from financial investment — interest income (note iii)	424,056	319,573
	816,429	778,795

Notes:

- i. Included in revenue generated from renting of investment properties, amounting of HK\$199,531,000 is income from leasing of investment properties under operating lease that the lease payments are fixed or depend on an index or a rate.
- ii. For the year ended 31 December 2019, revenue from hotel operation, which arises from contracts with customers comprises of (i) HK\$140,954,000 (2018: HK\$197,969,000) for hotel room revenue recognised over time and based on output method; (ii) HK\$39,620,000 (2018: HK\$39,987,000) for revenue from food and beverage sales and HK\$11,744,000 (2018: HK\$12,038,000) for revenue from ancillary service are recognised at point in time.
- iii. Return from financial investment — interest income represents interest revenue derived from listed and unlisted securities and time deposits.

8. OTHER INCOME

	2019 HK\$'000	2018 HK\$'000 (restated)
Interest earned on bank deposits	335	182
Interest income from second mortgage loans	—	43
Others	6,688	3,084
	7,023	3,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. PROPERTY AND RELATED COSTS

	2019 HK\$'000	2018 HK\$'000
Selling and marketing expenses	1,056	828
Direct operating expenses of investment properties	2,980	12,934
	4,036	13,762

10. OTHER EXPENSES

	2019 HK\$'000	2018 HK\$'000
Included in other expenses are:		
Hotel operating expenses	48,721	58,893
Legal and professional fees	21,244	20,689

11. OTHER GAINS AND LOSSES

	2019 HK\$'000	2018 HK\$'000 (restated)
Net exchange (losses) gain	(26,396)	23,343
Fair value gain on financial assets at FVTPL	31,334	—
Gain on disposal of an investment property	6,375	—
Loss on early redemption of debt instruments at FVTOCI	(2,335)	(49)
	8,978	23,294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Bank borrowings		
Interest on bank borrowings	255,561	215,034
Amortisation of bank borrowings front-end fee	14,608	8,593
	270,169	223,627
Guaranteed notes		
Interest on guaranteed notes	127,786	125,042
Amortisation of guaranteed notes issued costs	6,842	6,737
	134,628	131,779
Lease liabilities		
Interest on lease liabilities	7,966	—
Other charges	7,284	5,469
	420,047	360,875

13. PROFIT BEFORE TAXATION

	2019 HK\$'000	2018 HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	1,942	1,600
Equity-settled share-based payment expenses		
— Share options	565	1,739
— Share award	—	37,120
Loss (gain) on disposal of property, plant and equipment	20	(130)
Gross rental income from investment properties	(200,055)	(209,228)
Less: Direct operating expenses	2,980	12,934
Net rental income	(197,075)	(196,294)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. INCOME TAX EXPENSE

	2019 HK\$'000	2018 HK\$'000
Current tax		
Hong Kong Profits tax	5,742	4,313
Australia	3,514	3,515
The UK	10,220	16,463
	19,476	24,291
Under (over) provision in prior years		
Hong Kong Profits tax	1,228	(606)
The UK	(5,414)	(1,413)
	(4,186)	(2,019)
Deferred tax (note 34)		
Current year	9,098	(3,268)
	24,388	19,004

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

The United Kingdom Income Tax is calculated at 20% of the estimated rental profit for both years.

Effective from 6 April 2019, the Group is subject to the United Kingdom Corporate Tax which is calculated at 19% of the assessable chargeable capital gain on disposals.

Income tax arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdictions.

Details of deferred taxation are set out in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. INCOME TAX EXPENSE *(continued)*

Income tax expense for the year can be reconciled to profit before taxation per the consolidated statement of profit or loss as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before taxation	197,506	140,304
Tax at the domestic income tax rate of 16.5%	(32,588)	(23,150)
Tax effect of expenses not deductible for tax purposes	(47,679)	(44,303)
Tax effect of income not taxable for tax purposes	70,220	59,197
Tax effect of tax losses not recognised	(15,322)	(8,739)
Utilisation of tax losses previously not recognised	431	418
Income tax at concessionary rate	165	165
Effect of different tax rates of subsidiaries operating overseas	(3,841)	(4,714)
Overprovision in prior years	4,186	2,019
Others	40	103
Income tax expense for the year	(24,388)	(19,004)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the Directors for the year are as follows:

	Mr. Lu Wing Chi, Jesse HK\$'000	Mr. Lambert Lu HK\$'000	Mr. Lam Sing Tai HK\$'000	Mr. Lincoln Lu HK\$'000	Mr. Walujo Santoso, Wally HK\$'000	Mr. Leung Hok Lim HK\$'000	Mr. Chung Pui Lam HK\$'000	Mr. Chan Kwok Wai (appointed on 1 June 2019) HK\$'000	Total HK\$'000
2019									
Fees	40	40	40	40	400	500	500	233	1,793
Other emoluments									
Salaries and other benefits	4,800	6,000	2,400	—	—	—	—	—	13,200
Discretionary and performance -based bonus (note below)	3,950	3,950	200	—	—	—	—	—	8,100
Retirement benefits scheme contributions	720	788	360	—	—	—	—	—	1,868
Total emoluments	9,510	10,778	3,000	40	400	500	500	233	24,961
2018									
Fees	20	20	20	20	200	250	250	—	780
Other emoluments									
Salaries and other benefits	4,800	6,000	2,400	—	—	—	—	—	13,200
Discretionary and performance -based bonus (note below)	2,801	2,801	200	—	—	—	—	—	5,802
Retirement benefits scheme contributions	720	750	360	—	—	—	—	—	1,830
Share-based payment expenses - share awards (note 40)	12,800	12,800	6,400	1,280	1,280	1,280	1,280	—	37,120
Total emoluments	21,141	22,371	9,380	1,300	1,480	1,530	1,530	—	58,732

Note: The directors' fee shown above were mainly for their services as directors of the Company and the Company's subsidiaries.

The other emoluments shown above were mainly for their services in connection with management of the affairs of the Company and the Group.

The discretionary and performance-based bonus to Messrs. Lu Wing Chi, Jesse and Lambert Lu are based on their contribution to the Group and calculated on the basis of profit before taxation attributable to the Shareholders. The discretionary and performance-based bonus to Mr. Lam Sing Tai is based on the Group's and his performance.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three Directors (2018: three Directors), details of whose remuneration are set out in note 15 above. Details of the remuneration for the year of the remaining two (2018: two) highest paid employees who are neither a Director nor Chief Executive are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries and other benefits	2,821	2,700
Retirement benefits scheme contributions	246	236
Discretionary and performance-based bonus	470	440
Equity-settled share-based payment	114	107
	3,651	3,483

The number of the highest paid employees who are not the Directors whose remuneration fell within the following band is as follows:

	2019 No. of employee	2018 No. of employee
HK\$1,500,001 to HK\$2,000,000	2	2

Details of the share option scheme are set out in note 40 to the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Dividends recognised as distributions during the year:		
2019 interim dividend — HK2 cents (2018: 2018 interim dividend — HK2 cents) per share	13,244	13,242
2018 final dividend — HK3 cents (2018: 2017 final dividend — HK3 cents) per share	19,866	19,780
	33,110	33,022
2019 final dividend proposed: HK3 cents (2018: HK3 cents) per share	19,869	19,862

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK3 cents (2018: final dividend in respect of the year ended 31 December 2018 of HK3 cents) per ordinary share, in an aggregate amount of HK\$19,869,000 (2018: HK\$19,862,000), has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming general meeting.

18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the Company's shareholders is based on the following data:

	2019 HK\$'000	2018 HK\$'000
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the year attributable to the Company's shareholders	173,118	121,026
	Number of shares	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	662,184,370	665,171,833
Effect of dilutive potential ordinary share options	119,750	1,579,016
Weighted average number of ordinary shares for the purpose of diluted earnings per share	662,304,120	666,750,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. EARNINGS PER SHARE *(continued)*

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for share option scheme as set out in note 40.

For the purpose of assessing the performance of the Group, the Directors are of the view that the profit for the year should be adjusted for the fair value changes on investment properties recognised in profit or loss and the related deferred taxation in arriving at the “adjusted profit attributable to the Company’s shareholders”. A reconciliation of the adjusted earnings is as follows:

	2019 HK\$'000	2018 HK\$'000
Profit for the year attributable to the Company’s shareholders as shown in the consolidated statement of profit or loss	173,118	121,026
Fair value changes on investment properties	(50,408)	(10,856)
Deferred tax thereon	11,921	—
Adjusted profit attributable to the Company’s shareholders	134,631	110,170

	2019 HK cents	2018 HK cents
Earnings per share excluding fair value changes on investment properties net of deferred tax		
— Basic	20.3	16.6
— Diluted	20.3	16.5

The denominators used in the calculation of basic and diluted adjusted earnings per share for the years ended 31 December 2019 and 31 December 2018 are the same as those detailed in the calculation of basic and dilutive adjusted earnings per share above.

19. INVESTMENT PROPERTIES

The Group leases out various offices and retail stores under operating leases with rentals receivables monthly. The leases typically run for an initial period of 1 to 35 years. Some of the lease contracts contain market review clauses. The leases of resort contain minimum annual lease payment that depends on index or a rate and variable lease payment that is based on a percentage of sales over minimum annual lease payment.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee’s option to purchase the property at the end of lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENT PROPERTIES *(continued)*

For the year ended 31 December 2019, the total cash outflow for leases is HK\$9,293,000 paid for leased properties under subleases.

	Hong Kong HK\$'000	UK HK\$'000	Australia HK\$'000	Total HK\$'000
At 1 January 2018	1,544,400	4,495,234	174,615	6,214,249
Additions	80,144	—	—	80,144
Fair value changes	10,856	—	—	10,856
Exchange adjustments	—	(252,142)	(16,877)	(269,019)
At 31 December 2018	1,635,400	4,243,092	157,738	6,036,230
Adjustment upon application of HKFRS 16 (note 2)	—	179,109	—	179,109
At 1 January 2019 (restated)	1,635,400	4,422,201	157,738	6,215,339
Additions	979,680	—	—	979,680
Disposal	—	(65,251)	—	(65,251)
Fair value changes	320	50,088	—	50,408
Exchange adjustments	—	135,307	(1,591)	133,716
At 31 December 2019	2,615,400	4,542,345	156,147	7,313,892

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

During the year ended 31 December 2019, the Group acquired an investment property in Hong Kong at a consideration of HK\$780,000,000. The amount has been settled in full.

During the year ended 31 December 2019, the Group disposed of an investment property in the UK with a carrying amount of HK\$65,251,000 for a cash proceed of HK\$71,626,000, resulting in a gain on disposal of HK\$6,375,000 recognised in other gains and losses.

In addition, lease liabilities of HK\$182,759,000 are recognised with related right-of-use assets of HK\$184,565,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The fair value of the Group's investment properties as at 31 December 2019 and 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by the independent qualified professional valuers not connected to the Group as disclosed in below table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENT PROPERTIES *(continued)*

Details of the valuation methodology are as follows:

Valuer	Class of properties	Fair value as at 31 December		Valuation methodology	Fair value hierarchy	Key inputs to the valuation	Sensitivity analysis
		2019 HK\$'000	2018 HK\$'000				
Colliers International (Hong Kong) Limited* (2018: CBRE Limited*)	Residential and office units in Hong Kong	2,615,400	1,635,400	Direct comparison approach and made reference to comparable sales evidence as available in the market adjusted by location, size, age and maintenance, etc.	Level 3	Hong Kong residential units adjusting factors for nature, location and conditions of the property ranging from 76.1% to 108.4% (2018: 85.7% to 116.4%) Hong Kong commercial units adjusting factors for nature, location and conditions of the property ranging from 70.9% to 114.3%	A significant increase in the adjusting factors for nature, location and conditions of the property used would result in a significant increase in fair value, and vice versa.
Colliers International Valuation UK LLP [®]	Office portion in the UK	4,542,345	4,243,092	The valuers have used the income capitalisation approach in which the valuers have reflected the current lease terms and capitalised the appropriate income stream, having regard to market comparable evidence.	Level 3	UK office capitalisation rates ranging from 3.7% to 4.3% (2018: 3.85% to 7.10%) per annum	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.
CBRE Valuations Pty Limited [^]	Resort portion in Australia	156,147	157,738	The primary valuation methodologies generally used are the Income Capitalisation Approach and/or Discounted Cash Flow Analysis with a check by the Direct Comparison Approach. These approaches are based upon estimation of future trading results which are based on historic trading analysis and future trading expectations having regard to any forecast capital expenditure, supply and demand factors, and estimated changes in economic and local market conditions, and/or management/lease terms.	Level 3	Under Income Capitalisation Approach, Australia resort capitalisation rates of 9.5% (2018: 9.1%) per annum Under Discounted Cash Flow Analysis, the discount rate of 10.5% (2018: 10.5% to 10.6%)	A slight increase in the capitalisation rate and discount rate used would result in a significant decrease in fair value, and vice versa.

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For the year ended 31 December 2019

19. INVESTMENT PROPERTIES *(continued)*

- * CBRE Limited is an independent professional valuer not connected to the Group and is a firm of Registered Valuers recognised by The Hong Kong Institute of Surveyors.
- # Colliers International (Hong Kong) Limited is an independent professional valuer not connected to the Group and is a firm of Registered Valuers recognised by The Hong Kong Institute of Surveyors.
- @ Colliers International Valuation UK LLP is an independent professional valuer not connected to the Group and is regulated by the Royal Institution of Chartered Surveyors (“RICS”).
- ^ CBRE Valuations Pty Limited is an independent professional valuer not connected to the Group and is a firm of Registered Valuers recognised by the Australian Property Institute.

In estimating the fair value of investment properties, the Group uses market-observable data to the extent it is available. In respect of the valuation of investment properties carried out by independent qualified professional valuers at the end of each reporting period, the valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The management works closely with the independent qualified professional valuers to establish the appropriate valuation techniques and inputs to the model.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value of certain investment properties have been adjusted to exclude prepaid or accrued operating lease income to avoid double counting.

There were no transfers into or out of Level 3 for both years.

20. IMPAIRMENT ASSESSMENT OF FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	2019 HK\$'000	2018 HK\$'000
Impairment loss recognised on a listed debt instrument at FVTOCI	10,033	—

For the year ended 31 December 2019, the Group provided HK\$10,033,000 (2018: nil) impairment allowance for an individual listed debt security due to the deterioration of credit quality of respective security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. PROPERTY, PLANT AND EQUIPMENT

	Hotel property in Hong Kong HK\$'000	Leased properties HK\$'000	Owne d properties in Hong Kong HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Crockery, utensils and linen HK\$'000	Total HK\$'000
COST									
At 1 January 2018	789,504	—	24,670	37,180	45,531	7,712	71,535	4,889	981,021
Additions	—	—	1,893	—	2,768	6,108	—	—	10,769
Disposals	(78)	—	—	(3)	(1,703)	(7,019)	(169)	(37)	(9,009)
At 31 December 2018	789,426	—	26,563	37,177	46,596	6,801	71,366	4,852	982,781
Adjustment upon application of HKFRS 16 (note 2)	—	35,243	—	—	—	—	—	—	35,243
At 1 January 2019 (restated)	789,426	35,243	26,563	37,177	46,596	6,801	71,366	4,852	1,018,024
Additions	—	—	83	—	1,846	—	1,244	—	3,173
Disposals	(9)	—	—	(25)	(809)	—	(697)	(26)	(1,566)
At 31 December 2019	789,417	35,243	26,646	37,152	47,633	6,801	71,913	4,826	1,019,631
DEPRECIATION									
At 1 January 2018	163,278	—	344	30,365	38,989	6,696	70,424	—	310,096
Provided for the year	19,997	—	1,178	3,718	2,647	1,161	375	—	29,076
Eliminated on disposals	(18)	—	—	(2)	(1,687)	(5,419)	(169)	—	(7,295)
At 31 December 2018	183,257	—	1,522	34,081	39,949	2,438	70,630	—	331,877
Provided for the year	19,994	10,066	1,332	3,097	2,874	1,409	505	—	39,277
Eliminated on disposals	(2)	—	—	(26)	(801)	—	(697)	—	(1,526)
At 31 December 2019	203,249	10,066	2,854	37,152	42,022	3,847	70,438	—	369,628
CARRYING VALUES									
At 31 December 2019	586,168	25,177	23,792	—	5,611	2,954	1,475	4,826	650,003
At 31 December 2018	606,169	—	25,041	3,096	6,647	4,363	736	4,852	650,904

The above items of property, plant and equipment, except for crockery, utensils and linen, are depreciated on a straight-line basis at the following rates per annum:

Hotel property in Hong Kong	40 years
Leased properties	Over the term of the lease
Owne d properties in Hong Kong	4%
Plant and machinery	10%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Leasehold improvements	25%

All properties as at 31 December 2018 and 31 December 2019 were situated in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group as lessee

Right-of-use assets (included in the property, plant and equipment)

	Leased properties HK\$'000
As at 1 January 2019	
Carrying amount	35,243
For the year ended 31 December 2019	
Depreciation charge	(10,066)
As at 31 December 2019	
Carrying amount	25,177

For the year ended 31 December 2019, the total cash outflow for leases is HK\$10,537,000.

For both years, the Group leases office premises for its operations. Lease contracts are entered into for fixed term of 3 years, but have extension options. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The potential exposures to these future undiscounted lease payments for extension options in which the Group is not reasonably certain to exercise of the lease liabilities as at 31 December 2019 are HK\$32,478,000 of which such amount has not been recognised in consolidated financial statements.

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

The Group has extension options for lease of office premises. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operation. The majority of extension options held are exercisable only by the Group and not by the respective lessors.

In addition, lease liabilities of HK\$25,144,000 are recognised with related right-of-use assets of HK\$25,177,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. INVESTMENT IN A JOINT VENTURE

	2019 HK\$'000	2018 HK\$'000
Investment cost	1	1
Loan to a joint venture	1,114,719	1,050,499
Less: share of post-acquisition losses	(93)	(40)
	1,114,627	1,050,460

The loan to joint venture is unsecured, interest bearing at floating rate ranging from approximately 1.8% to 2.5% (2018: 1.2% to 2.3%), have no fixed terms of repayment and are not expected to be recovered within one year from the end of the reporting period. In the opinion of the Directors, the loan is considered as part of the Group's net investment in the joint venture.

The Group holds 10% of the ownership interest of Asia Bright Development Limited ("Asia Bright"). However, Asia Bright is accounted for as a joint venture as at 31 December 2019 and 31 December 2018 as major financial and operating decision require the unanimous consent of all joint venture partners in accordance with the Memorandum of Agreement entered into by the Group with other third party investors for establishment of Asia Bright in 2017.

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of entity	Country of incorporation	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2019	2018	2019	2018	
Asia Bright	Hong Kong	Hong Kong	10%	10%	10%	10%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. INVESTMENT IN A JOINT VENTURE *(continued)*

Summarised financial information of the joint venture

Summarised financial information in respect of the Group's 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.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	2019 HK\$'000	2018 HK\$'000
Current assets	18,659,174	17,712,276
Current liabilities	(82,893)	(15,581)
Non-current liabilities	(18,577,204)	(17,697,086)
	2019 HK\$'000	2018 HK\$'000
Revenue	—	—
Loss for the year	(531)	(401)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2019 HK\$'000	2018 HK\$'000
Net liabilities of Asia Bright	(923)	(391)
Proportion of the Group's ownership interest in Asia Bright	10%	10%
Capital contribution in form of loan to a joint venture	(92) 1,114,719	(39) 1,050,499
Carrying amount of the Group's investment in Asia Bright	1,114,627	1,050,460

As at 31 December 2019, the Group has executed corporate financial guarantees in proportion of its equity interest in joint venture for the banking facilities granted to the joint venture. The total amount of such facilities attributable to the Group was HK\$955,000,000 (2018: HK\$955,000,000), of which HK\$691,620,000 (2018: HK\$691,620,000) was utilised and HK\$263,380,000 (2018: HK\$263,380,000) was unutilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. INVESTMENT IN A JOINT VENTURE *(continued)*

At the end of the reporting period, the Group did not recognise any liabilities in respect of such corporate financial guarantees as the Directors consider that the fair values of these financial guarantee contracts at their initial recognition and at the end of the reporting period are insignificant.

23. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK\$'000	2018 HK\$'000
Unlisted investments at fair value		
— Debt securities (note i)	709,000	709,900
Listed investments at fair value		
— Debt securities maturing between the period from January 2020 to July 2026 (2018: January 2019 to June 2023) with a fixed interest ranging from 1.9% to 12.0% (2018: from 1.6% to 8.3%) per annum (note ii)	4,891,467	3,689,777
Total	5,600,467	4,399,677
Analysed for reporting purposes as:		
Current assets	2,447,346	1,448,979
Non-current assets	3,153,121	2,950,698
	5,600,467	4,399,677

Notes:

- (i) As at 31 December 2019, the Group held two notes issued by China Strategic Holdings Limited, an independent company listed on the Stock Exchange with principal activities of investment in securities, trading, money lending as well as securities brokerage, at principal amounts of HK\$500 million and HK\$200 million with maturity dates in December 2020 and August 2020 respectively.

As at 31 December 2019, both notes are measured at fair value (2018: fair value) determined based on the valuation conducted by an independent qualified professional valuer (2018: an independent qualified professional valuer).

During the year ended 31 December 2019, the interest income generated from these unlisted debt securities was HK\$68,232,000 (2018: HK\$45,656,000) and the fair value loss was HK\$2,632,000 (2018: fair value gain of HK\$1,244,000), which were recognised in interest income from financial investment under revenue in profit or loss and other comprehensive income under investment revaluation reserve respectively.

The Directors consider the prospects of the investment is positive with no significant credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

Notes: (continued)

- (ii) As at 31 December 2019, the Group's investments in listed debt securities with principal amount ranging from US\$0.3 million to US\$66.0 million (2018: US\$0.2 million to US\$20.0 million) will be matured between January 2020 to July 2026 with fixed interests ranging from 1.9% to 12.0% per annum (2018: January 2019 to June 2023 with fixed interests ranging from 1.6% to 8.3% per annum), which have been pledged as security for the bank borrowings (2018: pledged).

Included in the segment revenue of the financial investment division was the interest income of the listed debt securities of HK\$202,006,000 (2018: HK\$126,099,000) for the year ended 31 December 2019.

Included in listed debt securities were listed debt securities with aggregate principal amount of US\$110 million (2018: US\$62 million) issued by China Evergrande Group ("China Evergrande"). China Evergrande and its subsidiaries are principally engaged in property development, property investment, property management, new energy vehicle business, hotel operations, finance business, internet business and health industry in the PRC.

During the year ended 31 December 2019, the interest income generated from these listed debt securities issued by China Evergrande was HK\$71,179,000 (2018: HK\$23,070,000) and fair value loss was HK\$21,308,000 (2018: fair value loss of HK\$2,307,000), which were recognised in interest income from financial investment under revenue in profit or loss and other comprehensive income under investment revaluation reserve respectively.

The Directors consider the prospects of the investment is positive with no significant credit risk.

The Group's listed investments are measured at fair value for financial reporting purposes.

- (iii) Details of impairment assessment and fair value measurement are disclosed at note 35(b) and (c).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2019 HK\$'000	2018 HK\$'000
Unlisted investments		
— preferred shares (note i)	272,538	234,912
— unit fund	7,787	7,830
	280,325	242,742
Unlisted debt instruments		
— convertible loans (note ii)	—	89,578
	280,325	332,320
Analysed for reporting purposes as:		
Current assets	—	81,747
Non-current assets	280,325	250,573
	280,325	332,320

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For the year ended 31 December 2019

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Notes:

- (i) As at 31 December 2019, included in the unlisted investments in the preferred shares, the Group held US\$34 million (approximate to HK\$264,751,000) (2018: US\$30 million (approximate to HK\$234,912,000)) preferred shares (the "Preferred Shares") issued by an unlisted entity incorporated in the Cayman Islands, which represents 2.12% (2018: 2.17%) of issued share of the entity (including ordinary shares and preferred shares). The issuer is principally engaged in the provision of online credit assessment platform to individuals and institutions through the use of big data. The Group is entitled to dividend on the same basis as the ordinary shareholders of the entity. Subject to the consent of more than fifty percent of Preferred Shares holders, the Group is entitled to redeem all or part of the Preferred Shares, at any time after the earlier of 31 December 2020 or occurrence of certain events as set out in the Memorandum of Articles of this entity. In addition, the Group is entitled to 107% on the Preferred Shares investment amount upon liquidation of the entity.

The Preferred Shares do not qualify as equity instrument, in addition, it does not represent solely payment for principal and interest of the principal amount outstanding, and it is therefore, measured at fair value through profit or loss. As at 31 December 2019, fair value of HK\$264,751,000 (2018: HK\$234,912,000) has been determined by the valuation assessment performed by the Directors with reference to the valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (2018: CBRE Limited), an independent professional valuer not connected to the Group.

- (ii) As at 31 December 2018, included in convertible loans is US\$10 million (approximately HK\$81,747,000) convertible loan issued by the same unlisted entity as mentioned in note (i) above, at a 5% coupon rate and with a maturity date of February 2020. During the year ended 31 December 2019, the convertible loan was fully redeemed in December 2019. This convertible loan allows the Group to convert the outstanding loan balance and unpaid interest into the fixed number of the Preferred Shares based on the initial issue price of the Preferred Shares upon the earlier of the maturity date or the occurrence of the conversion deadline triggering event as pursuant to the relevant agreement.

During the year ended 31 December 2019, the interest income of the convertible loan was HK\$2,994,000 (2018: HK\$3,447,000) which was recognised in interest income from financial investment under revenue in profit or loss.

The convertible loans do not represent solely payment for principal and interest of the principal amount outstanding, and it is therefore, measured at fair value through profit or loss. As at 31 December 2018, the fair value of this convertible note amounting to HK\$81,747,000 has been determined by the valuation assessment performed by the Directors with reference to the valuation performed by the above mentioned independent professional valuer. During the year ended 31 December 2019, the convertible loan has been fully repaid.

- (iii) Details of fair value measurement are disclosed in note 35(c).

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For the year ended 31 December 2019

25. OTHER ASSETS

Other assets represent club memberships with finite useful lives and amortised on a straight-line basis over the membership period of 24 years up to 31 December 2039 as the Directors are of the opinion that the Group will derive benefits from the use of these club memberships over their lives.

Club memberships with indefinite useful lives are stated at cost. All club memberships will be tested for impairment annually or whenever there is an indication of impairment.

During the year ended 31 December 2019, amortisation of HK\$60,000 (2018: HK\$60,000) was recognised in profit or loss.

26. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.1% to 3.7% (2018: 0.1% to 3.6%) per annum. The pledged bank deposits amounting to HK\$482,525,000 (2018: HK\$1,574,819,000) carry fixed interest rates ranged from 1.3% to 2.4% (2018: ranged from 1.4% to 2.5%) per annum represent deposits pledged to banks to secure bank borrowings due within one year, and therefore they are classified as current assets. The pledged bank deposits amounted to HK\$16,512,000 (2018: HK\$26,333,000) carry fixed interest rates of 2.1% (2018: 2.2% to 2.3%) represent deposits pledged to banks to secured bank borrowings due after one year, and therefore they are classified as non-current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Details of impairment assessment of pledged bank deposits are set out in note 35(b).

27. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 HK\$'000	2018 HK\$'000
Trade receivables		
— hotel operation (note)	1,660	5,455
Accrued income	2,086	2,164
Deposits, prepayments and other receivables	40,722	30,002
	44,468	37,621

Note: Trade receivables represent corporate customers and travel agents for the use of hotel facilities.

As at 1 January 2018, trade receivables from contracts with customers amounted to HK\$5,794,000.

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For the year ended 31 December 2019

27. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(continued)

The following is an aged analysis of trade receivables presented based on the invoice date:

	2019 HK\$'000	2018 HK\$'000
0 to 30 days	1,654	4,633
31 to 60 days	6	691
61 to 90 days	—	131
	1,660	5,455

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$6,000 (2018: HK\$822,000) which are past due as at the reporting date. The outstanding balances have been subsequently settled. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in note 35(b).

28. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS

The amounts due from non-controlling interests are unsecured, interest-free and repayable on demand. The balances were settled in full during the current year.

Details of impairment assessment are set out in note 35(b).

29. PAYABLES, RENTAL DEPOSITS AND ACCRUED CHARGES

The following is an aged analysis of trade payable presented based on the invoice date:

	2019 HK\$'000	2018 HK\$'000
0 to 60 days	1,411	1,710
Trade payables	1,411	1,710
Rental deposits	11,053	5,095
Rental received in advance	43,932	44,332
Other payables, other deposits and accrued charges	103,266	85,971
Interest payables	67,318	67,865
	226,980	204,973

The average credit period on purchase of goods is 60 days.

Rental deposits to be refunded after twelve months from the end of the reporting period based on the respective lease terms amounted to HK\$7,589,000 (2018: HK\$4,087,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. BANK BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Secured	8,934,857	8,729,395
Unsecured	2,159,000	2,280,000
	11,093,857	11,009,395
Less: Front-end fee	(33,898)	(29,985)
	11,059,959	10,979,410
Less: Amounts due within one year shown under current liabilities	(5,765,168)	(6,215,708)
Amounts shown under non-current liabilities	5,294,791	4,763,702
The carrying amounts of bank borrowings are repayable based on repayment schedule:		
Within one year	5,769,990	6,217,936
Within a period of more than one year, but not exceeding two years	1,382,709	52,946
Within a period of more than two years, but not exceeding five years	3,941,158	4,738,513
	11,093,857	11,009,395

As at 31 December 2019, HK\$5,697,421,000 (2018: HK\$5,795,290,000) bank borrowings with repayment on demand clause are shown under current liabilities.

Except for the bank borrowing of HK\$3,383,986,000 (2018: HK\$2,655,552,000) denominated in HK\$ being the foreign currency of the relevant group entities with functional currency in United States Dollars ("USD"), the remaining bank borrowings are denominated in the functional currencies of the relevant group entities, the principal amount of which are analysed below:

Denominated in	2019 HK\$'000	2018 HK\$'000
Hong Kong dollars	4,464,800	4,100,800
Australian dollars	24,569	71,699
Great Britain Pounds	3,220,502	4,181,344
	7,709,871	8,353,843

The effective interest rates of these variable rate borrowings ranged from 1.2% to 5.8% (2018: 1.2% to 4.7%) per annum.

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For the year ended 31 December 2019

31. GUARANTEED NOTES

On 19 January 2017, the Group issued US\$200,000,000 (approximately equivalent to HK\$1,555,480,000) 4.5% guaranteed notes with a maturity of three years due on 19 January 2020 guaranteed by the Company (the “Guaranteed Notes 2017”). At maturity date, the Guaranteed Notes 2017 were fully paid at their principal amount.

The Guaranteed Notes 2017 bore interest at 4.50% per annum, payable semi-annually in arrears on 19 January and 19 July in each year.

On 19 January 2018, the Group further issued US\$150,000,000 (approximately equivalent to HK\$1,172,940,000) 4.875% guaranteed notes with a maturity of five years due on 19 January 2023 guaranteed by the Company (the “Guaranteed Notes 2018”). At maturity date, the Guaranteed Notes 2018 are payable at their principal amount.

The Guaranteed Notes 2018 bore interest at 4.875% per annum, payable semi-annually in arrears on 19 January and 19 July in each year.

32. LEASE LIABILITIES

	2019 HK\$'000
Lease liabilities payable:	
Within one year	10,323
Within a period of more than one year but not exceeding two years	10,608
Within a period of more than two years but not exceeding five years	4,356
Within a period of more than five years	182,616
	207,903
Less: Amounts due within one year shown under current liabilities	(10,323)
	197,580

Lease obligations are denominated in currencies of the functional currencies of the relevant group entities.

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33. SHARE CAPITAL

	Number of ordinary shares of HK\$0.1 each		Nominal value	
	2019	2018	2019 HK\$'000	2018 HK\$'000
Authorised	1,000,000,000	1,000,000,000	100,000	100,000
Issued and fully paid:				
At beginning of year	662,058,726	673,759,726	66,206	67,376
Shares issued upon exercise of share options	230,000	5,225,000	23	523
Share repurchased and cancelled	—	(16,926,000)	—	(1,693)
At end of year	662,288,726	662,058,726	66,229	66,206

During the year, 230,000 (2018: 5,225,000) ordinary shares of HK\$0.1 (2018: HK\$0.1) each in the Company were issued at the subscription price of HK\$6.302 (2018: HK\$6.302) per share, upon exercise of the share options.

During the year ended 31 December 2018, the Company repurchased 16,926,000 of its own ordinary shares at prices ranging from HK\$8.00 to HK\$13.00 for an aggregate consideration of HK\$211,543,000 through the Stock Exchange. The shares were cancelled upon repurchase.

Neither the Company nor the Company's subsidiaries purchased or sold any of the Company's shares during the year.

34. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior year:

	Accelerated tax depreciation HK\$'000	Fair value of investment properties HK\$'000	Tax losses HK\$'000	Lease liabilities HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2018	26,550	36,122	(14,740)	—	(18)	47,914
(Credit) charge to profit or loss	(782)	—	(2,541)	—	55	(3,268)
Exchange adjustments	(244)	(3,497)	203	—	4	(3,534)
At 31 December 2018	25,524	32,625	(17,078)	—	41	41,112
Charge (credit) to profit or loss	1,938	11,921	(4,367)	(353)	(41)	9,098
Exchange adjustments	156	(48)	18	(8)	—	118
At 31 December 2019	27,618	44,498	(21,427)	(361)	—	50,328

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For the year ended 31 December 2019

34. DEFERRED TAXATION *(continued)*

At the end of the reporting period, the Group has unused tax losses of HK\$363,966,000 (2018: HK\$249,702,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$124,737,000 (2018: HK\$98,332,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$239,229,000 (2018: HK\$151,370,000) due to unpredictability of future profit streams. All tax losses may be carried forward indefinitely.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK\$'000	2018 HK\$'000
Financial assets		
Financial assets at FVTPL	280,325	332,320
Debt instruments at FVTOCI	5,600,467	4,399,677
Financial assets at amortised cost	5,562,337	7,501,522
Financial liabilities		
Financial liabilities at amortised cost	13,925,233	13,833,352

(b) Financial risk management objectives and policies

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls to monitor risks and adherence to market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a constructive control environment in which all employees understand their roles and obligations. The Directors monitor and manage the financial risks relating to the operations of the Group to ensure appropriate measures are implemented on a timely and effective manner. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

Market risk

(i) Currency risk

Certain subsidiaries of the Company have foreign currency denominated monetary assets (liabilities) which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors the foreign currency exposure and will consider hedging significant foreign exchange exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) **Currency risk** *(continued)*

The carrying amounts of the Group's foreign currency, except US\$, denominated net monetary assets (liabilities) at the end of the reporting period in the respective group entities are as follows:

	2019 HK\$'000	2018 HK\$'000
Renminbi	1,236	1,301
Australian dollars	949	3,945
Great Britain Pounds	2,879	15,843

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in the functional currencies of the relevant subsidiaries (i.e. Renminbi, Australian dollars and Great Britain Pounds) against the relevant foreign currencies of the relevant subsidiaries (i.e. Renminbi, Australian dollars and Great Britain Pounds). 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive number below indicates a decrease in profit for the year where the relevant functional currencies of the subsidiaries strengthen 5% (2018: 5%) against relevant foreign currencies. There would be an equal and opposite impact where functional currencies of the relevant subsidiaries weaken by 5% (2018: 5%) against the relevant foreign currencies.

	(Increase) decrease in profit for the year	
	2019 HK\$'000	2018 HK\$'000
Renminbi	62	65
Australian dollars	47	197
Great Britain Pounds	144	792

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the relevant years.

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35. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 30 for details of these borrowings), lease liabilities, guaranteed notes and pledged bank deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings and bank balances. The Directors consider that the interest rate risk on bank balances are insignificant as they are subject to minimal interest rate fluctuation, accordingly, no sensitivity analysis is presented. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate ("HIBOR"), the British Pound Sterling London Interbank Offered Rate ("GBP LIBOR") and Australian Bank Bill Swap Bid Rate on the bank borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Total interest income in revenue and other income from financial assets that are measured at amortised cost or at FVTOCI is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue		
Financial assets		
— at amortised cost	150,824	141,448
— at FVTOCI	270,238	171,755
	421,062	313,203
Other income		
Financial assets		
— at amortised cost	335	225
Total interest income	421,397	313,428

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For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk *(continued)*

Interest expense on financial liabilities not measured at FVTPL:

	2019 HK\$'000	2018 HK\$'000
Financial liabilities at amortised cost	404,797	355,406

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease in variable-rate bank borrowings are used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would have decreased/increased by HK\$55,469,000 (2018: HK\$55,047,000); the Group's other equity reserve would decrease/increase by HK\$28,002,000 (2018: HK\$21,998,000) mainly as a result of the changes in the fair value of fixed rate instruments classified as debt instruments at FVTOCI.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, other receivables, pledged bank deposits, bank balances, debt instruments at FVTOCI and contingent liability in relation to the financial guarantee contract to its joint venture (see note 22). The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contract.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before granting credit to any corporate customers and travel agents, the Group uses an internal credit assessment policy to assess the potential customer's credit quality and defines credit limit by corporate customer and travel agents. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the Directors consider that the Group's credit risk is mitigated. In addition, the Group performs impairment assessment under ECL model on trade balances individually. The Group assessed the ECL for trade receivables were insignificant and thus, no impairment is recognised for the years ended 31 December 2019 and 31 December 2018. Details of the quantitative disclosures are set out below in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk and impairment assessment *(continued)*

Other receivables

For other receivables, Directors make periodic individual assessment on the ECL of other receivables/based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information including the economic development that the counterparties are operated in, such as forecast unemployment rate, and forecast gross domestic product ratio, etc. The Directors believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2019 and 2018, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognised.

Pledged bank deposits and bank balances

Credit risk on pledged bank deposits and bank balances is limited because the counterparties are reputable banks with high credit rating assigned by international credit agencies. The Group assessed 12m ECL for pledged bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on pledged bank deposits and bank balances is considered to be insignificant.

Debt instruments at FVTOCI

The Group only invests in debt securities with low credit risk. The Group's debt instruments at FVTOCI comprise listed and unlisted securities that are either (i) in investment grades or (ii) issued by large PRC state-owned institutions or (iii) issued by large listed companies with secured financial capability and no default occurred in the past years and therefore are considered to be low credit risk investments.

The Group has established an expected credit losses calculation methodology that is based on the probability of default assigned to each issuer according to their external credit ratings, financial performance and financial positions and the related historical credit losses experience, adjusted for forward-looking information, including the economic development that the issuers are operated in, such as forecast property market development, forecast changes in default rate of the respective credit rating published by the external credit rating agencies, etc.

As mentioned in note 20, there is an indication that there is significant increase in credit risk of one of the debt instruments at FVTOCI, and therefore, lifetime ECL has been adopted for assessing the impairment loss on that debt security and the Group provided HK\$10,033,000 impairment loss allowance for the year ended 31 December 2019. Other than that, the Directors believe that there are no significant increase in credit risk since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2019 and 2018, the Group assessed the ECL as insignificant and thus no further loss allowance was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk and impairment assessment *(continued)*

Financial guarantee contract

For financial guarantee contracts provided to the banking facilities granted to a joint venture, the maximum amount that the Group has guaranteed under the respective contracts was HK\$691,620,000 as at 31 December 2019 (2018: HK\$691,620,000). At the end of the reporting period, the Directors have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts as the guarantee is secured by the properties of the joint venture for both years, in addition, the Directors make periodic assessment on the ECL based on financial position and financial performance of the joint venture, and also quantitative and qualitative information that is reasonable and supportive forward-looking information, including the economic development that the counterparties are operated in, such as forecast unemployment rate and property market development, etc. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL. The Group assessed the ECL for financial guarantee contracts were insignificant as at 31 December 2019 in accordance with HKFRS 9. Details of the financial guarantee contracts are set out in note 22.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

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

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settles after due date	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk and impairment assessment (continued)

The table below details the credit risk exposures of the Group's financial assets and financial guarantee contract which are subject to ECL assessment:

For the year ended 31 December 2019

	External credit rating	Internal credit rating	12m ECL or lifetime ECL	Gross carrying amount	
				2019 HK\$'000	2018 HK\$'000
Debt instruments at FVTOCI					
Investments in listed securities	Aa to B	N/A	12m ECL	4,891,467	3,689,777
Investments in unlisted securities	N/A	Low risk (note i)	12m ECL	709,000	709,900
Financial assets at amortised costs					
Amounts due from non-controlling interests	N/A	Low risk (note i)	12m ECL	—	4
Pledged bank deposits	AA	N/A	12m ECL	499,037	1,601,152
Bank balances	AA	N/A	12m ECL	5,027,037	5,870,023
Other receivables	N/A	Low risk (note i)	12m ECL	34,603	24,888
Trade receivables — hotel operations	N/A	Low risk (note ii)	Lifetime ECL (not credit-impaired)	1,660	5,455
Other item					
Financial guarantee contract	N/A	(note iii)	12m ECL	691,620	691,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk and impairment assessment (continued)

Notes:

- i. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

For investment in unlisted securities, the issuer either has investment grades or is a large institution, and therefore, no significant increase in credit risk is noted.

All other receivables are repayable on demand with no fixed term of repayment. The balances are settled within 30 days after debit notes are issued, and thus, no significant increase in credit risk is noted for the year ended 31 December 2019.

- ii. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items individually. The balances are settled within 30 days after the credit period granted, and thus, no significant increase in credit risk is noted for the year ended 31 December 2019.

- iii. For financial guarantee contract, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contract.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities, and by continuously monitoring forecast and actual cash flows. As at 31 December 2019, the Group has bank balances and cash of HK\$5,526,074,000 (2018: HK\$7,471,175,000) and available unutilised bank borrowings facilities of approximately HK\$2,412,407,000 (2018: HK\$1,707,837,000).

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity for other financial liabilities are based on the agreed repayment dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table includes both interest and principal cash flows, estimated based on interest rate at the end of the reporting period.

	Weighted average effective interest rate %	Within 3 months HK\$'000	3 months to 6 months HK\$'000	6 months to 9 months HK\$'000	9 months to 12 months HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2019								
Payables and deposits received	—	136,431	853	534	1,500	7,589	146,907	146,907
Bank borrowings (note i)	4.00	5,787,758	59,836	59,668	59,500	5,741,958	11,708,720	11,059,959
Guaranteed notes	4.66	1,620,871	—	28,470	—	1,310,372	2,959,713	2,718,359
Lease liabilities	3.99	4,639	4,639	4,639	4,639	1,033,490	1,052,046	207,903
		7,549,699	65,328	93,311	65,639	8,093,409	15,867,386	14,133,128
Financial guarantee (note ii)		691,620	—	—	—	—	691,620	—
At 31 December 2018								
Payables and deposits received	—	127,198	1,008	—	—	4,087	132,293	132,293
Bank borrowings (note i)	3.07	6,151,068	50,803	51,151	122,700	5,302,629	11,678,351	10,979,410
Guaranteed notes	4.66	63,867	—	63,867	—	2,861,766	2,989,500	2,726,740
		6,342,133	51,811	115,018	122,700	8,168,482	14,800,144	13,838,443
Financial guarantee (note ii)		691,620	—	—	—	—	691,620	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

Notes:

- i. The amounts included above for variable rate bank borrowings are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank borrowings with a repayment on demand clause are included in the “within 3 months” time band in the above maturity analysis. As at 31 December 2019, the aggregate carrying amounts of these bank borrowings amounted to HK\$5,697,421,000 (2018: HK\$5,795,290,000). Those bank borrowings are revolving loan in nature, and with repayment period of less than three months. Taking into account the Group’s financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

- ii. The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(c) Fair value measurement of financial instruments

Some of the Group’s financial instruments are measured at fair value for financial reporting purposes. The management determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent qualified professional valuers to perform the valuation if the investment is material. The management works closely with the independent qualified professional valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the Board regularly to explain the cause of fluctuations in the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value measurement of financial instruments *(continued)*

(i) Fair value of the Group's financial assets that are measured at fair values on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2019 HK\$'000	31 December 2018 HK\$'000		
Listed debt securities classified as debt instruments at FVTOCI (note 23)	4,891,467	3,689,777	Level 1	The fair value is quoted price in an active market.
Unlisted debt securities classified as debt instruments at FVTOCI (note 23)	709,000	709,900	Level 2	The fair value of the note is determined by the discounted cash flow model. It is estimated by computing the sum of the present values of all expected future cash flows for an appropriate period, each discounted by their prevailing market rates of interest for a similar instrument with a similar credit profile. This discount rate should consider the time value of money and the risks inherent in the ownership of the asset being valued. The discount rate is determined with reference to a credit spread derived from comparable bonds with similar credit profile and maturity.
Unlisted investment classified as financial assets at FVTPL — Unit fund (note 24)	7,787	7,830	Level 2	The fund is non-redeemable. The fair value is measured based on the sharing percentages of net asset value, net of fund management fee and expenses in issue as stipulated in the relevant agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value measurement of financial instruments *(continued)*

(i) Fair value of the Group's financial assets that are measured at fair values on a recurring basis *(continued)*

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2019 HK\$'000	31 December 2018 HK\$'000		
Unlisted debt instruments classified as financial assets at FVTPL — Convertible loans (note 24)	—	89,578	Level 3	<p>The fair value of the convertible loans is determined by use of the combination of Market Approach and Black-Scholes Option Pricing Model.</p> <p>Market Approach determines the value of the subject asset by reference to the price to earnings ratio of similar assets in the listed market and adjusted by the discount for lack of marketability. (note i)</p> <p>The Black-Scholes Option Pricing Model determines the value of option value based on such parameters as risk-free rate, prevailing price of the underlying stock, exercise price, expected volatility of the underlying share prices, and term to maturity. (note ii)</p>
Unlisted investment classified as financial assets at FVTPL — preferred shares (note 24)	272,538	234,912	Level 3	<p>The fair value of the preferred shares is determined by use of the combination of Market Approach and Black-Scholes Option Pricing Model.</p> <p>Market Approach determines the value of the subject asset with reference to price to earnings ratio of similar assets in listed market and adjusted by the discount for lack of marketability. (note i)</p> <p>The Black-Scholes Option Pricing Model determines the value of option value based on such parameters as risk-free rate, prevailing price of the underlying stock, exercise price, expected volatility of the underlying share prices, and term to maturity. (note ii)</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value measurement of financial instruments *(continued)*

(i) Fair value of the Group's financial assets that are measured at fair values on a recurring basis *(continued)*

Notes:

- i. The significant unobservable input is the discount for lack of marketability of 30% (2018: 35%). Changing this unobservable input based on reasonable alternative assumptions would not significantly change the valuations of the preferred shares and convertible loans.
- ii. The significant unobservable input is the expected volatility of the underlying share prices of 70% (2018: 40.81%). Changing this unobservable input based on reasonable alternative assumptions would not significantly change the valuations of the preferred shares and convertible loans.

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL HK\$'000
At 1 January 2018	—
Purchases	321,387
Interest income	3,447
Exchange adjustments	(344)
At 31 December 2018	324,490
Redemption	(84,775)
Interest income	2,994
Exchange adjustments	(1,505)
Fair value gain	31,334
At 31 December 2019	272,538

Fair value gains or losses on financial assets at FVTPL are included in 'other gains and losses'.

There were no transfer in or out of level 1, 2 and 3 during the year.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair values on a recurring basis *(but fair value disclosures are required)*

The fair value of financial assets and financial liabilities carrying at amortised cost, are determined in accordance with generally accepted pricing models which is based on discounted cash flows analysis using the relevant prevailing market rates as input.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. OPERATING LEASE

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2018 are HK\$10,094,000.

As at the year ended 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK\$'000
Within one year	5,318

In addition to the above, the Group has entered into a non-cancellable leasing commitment for a piece of land in the UK till the year 2152. The lease payment is equal to the higher of £500,000 per annum and 10% of the rental income received from the building on that land. There is no renewal or purchase options and escalation clauses as at 31 December 2018. The minimum lease payment over the remaining lease term will be approximately £67 million. A lease payment of HK\$8,841,000 was recognised for the year ended 31 December 2018.

The Group as lessor

The lease terms of the remaining leased properties range from 1 to 20 years (2018: 1 to 21 years).

The majority of the Group's investment properties were leased out under operating leases.

Minimum lease payments receivable on leases are as follows:

	2019 HK\$'000
Within one year	224,549
In the second year	219,547
In the third year	212,646
In the fourth year	199,832
In the fifth year	210,003
After five years	2,297,001
	3,363,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. OPERATING LEASE *(continued)*

The Group as lessor *(continued)*

As at 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	2018 HK\$'000
Within one year	205,391
In the second to fifth year inclusive	818,699
Over five years	2,455,205
	3,479,295

37. CAPITAL COMMITMENTS

	2019 HK\$'000	2018 HK\$'000
Capital expenditure in respect of the acquisition of investment properties contracted for but not provided in the consolidated financial statements	55,612	104,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities HK\$'000 (note 32)	Bank borrowings HK\$'000 (note 30)	Guaranteed notes HK\$'000 (note 31)	Interest payable (included in other payables) HK\$'000 (note 29)	Dividends payable (included in other payables) HK\$'000 (note 29)	Total HK\$'000
At 1 January 2019	—	10,979,410	2,726,740	67,865	2,795	13,776,810
Adjustment for initial recognition	214,352	—	—	—	—	214,352
Financing cash flows	(19,830)	(21,453)	—	(390,938)	(33,102)	(465,323)
Foreign exchange translation	5,415	87,394	(15,223)	(240)	—	77,346
Amortisation of bank borrowings front-end fee	—	14,608	—	—	—	14,608
Amortisation of guaranteed notes issued costs	—	—	6,842	—	—	6,842
Interest expense	7,966	—	—	390,631	—	398,597
Dividends declared	—	—	—	—	33,110	33,110
At 31 December 2019	207,903	11,059,959	2,718,359	67,318	2,803	14,056,342

	Bank borrowings HK\$'000 (note 30)	Guaranteed notes HK\$'000 (note 31)	Interest payable (included in other payables) HK\$'000 (note 29)	Dividends payable (included in other payables) HK\$'000 (note 29)	Total HK\$'000
At 1 January 2018	11,067,306	1,553,287	49,945	2,788	12,673,326
Financing cash flows	162,856	1,161,738	(327,455)	(34,783)	962,356
Foreign exchange translation	(259,345)	4,978	(170)	—	(254,537)
Amortisation of bank borrowings front-end fee	8,593	—	—	—	8,593
Amortisation of guaranteed notes issued costs	—	6,737	—	—	6,737
Interest expense	—	—	345,545	—	345,545
Dividends declared	—	—	—	34,790	34,790
At 31 December 2018	10,979,410	2,726,740	67,865	2,795	13,776,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged the following assets to secure banking facilities granted to the Group:

- (a) Fixed charges on investment properties with an aggregate carrying value of HK\$6,442,492,000 (2018: HK\$6,019,830,000) together with a floating charge over all the assets of the properties owning subsidiaries and benefits accrued to the relevant properties.
- (b) Fixed charges on hotel properties with aggregate carrying values of HK\$586,168,000 (2018: HK\$606,169,000) together with a floating charge over all the assets of the properties owning subsidiaries and benefits accrued to the hotel properties.
- (c) Pledged bank deposits of HK\$499,037,000 (2018: HK\$1,601,152,000).
- (d) Debt instruments at FVTOCI of HK\$4,891,467,000 (2018: HK\$3,689,777,000).

40. SHARE-BASED PAYMENTS TRANSACTIONS

Share Option Scheme of the Company

The Company adopted a share option scheme on 29 May 2015 (the “2015 SEA Share Option Scheme”). Unless terminated earlier by the Board, the 2015 SEA Share Option Scheme shall be valid and effective for a term of 10 years until 28 May 2025. Under the 2015 SEA Share Option Scheme, the Board may offer to eligible participants options to subscribe for shares of the Company at a price at least the highest of (i) the nominal value of the share of the Company; (ii) the average of the closing price of the share of the Company on the Stock Exchange for the five business days immediately preceding the date of grant of the option; and (iii) the closing price of the share of the Company on the Stock Exchange on the date of grant of the option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Share Option Scheme of the Company *(continued)*

Details of the share options granted under the 2015 SEA Share Option Scheme during the years ended 31 December 2019 and 2018 are as follows:

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options							At 31 December 2019
			At 1 January 2018	Granted	Exercised	Lapsed	At 31 December 2018	Exercised	Lapsed	
Granted to the employees										
02.07.2015	01.07.2017 to 30.06.2019	6.302	225,000	—	(225,000)	—	—	—	—	—
02.07.2015	01.01.2018 to 31.12.2019	6.302	2,050,000	—	(2,050,000)	—	—	—	—	—
02.07.2015	01.07.2018 to 30.06.2020	6.302	4,250,000	—	(2,950,000)	(800,000)	500,000	(230,000)	—	270,000
22.01.2018	01.01.2019 to 31.12.2020	12.800	—	325,000	—	—	325,000	—	(50,000)	275,000
22.01.2018	01.07.2019 to 30.06.2021	12.800	—	400,000	—	—	400,000	—	(125,000)	275,000
22.01.2018	01.01.2020 to 31.12.2021	12.800	—	500,000	—	—	500,000	—	—	500,000
22.01.2018	01.07.2020 to 30.06.2022	12.800	—	525,000	—	(300,000)	225,000	—	—	225,000
22.01.2018	01.01.2021 to 31.12.2022	12.800	—	1,950,000	—	(350,000)	1,600,000	—	(300,000)	1,300,000
22.01.2018	01.07.2021 to 30.06.2023	12.800	—	2,075,000	—	(525,000)	1,550,000	—	(325,000)	1,225,000
			<u>6,525,000</u>	<u>5,775,000</u>	<u>(5,225,000)</u>	<u>(1,975,000)</u>	<u>5,100,000</u>	<u>(230,000)</u>	<u>(800,000)</u>	<u>4,070,000</u>
Weighted average exercise price (HK\$)			6.302	12.8	6.302	10.17	12.16	6.302	12.8	12.37
Exercisable at year end			<u>225,000</u>				<u>500,000</u>			<u>820,000</u>
Weighted average exercise price of options exercisable at year end (HK\$)			6.302				6.302			10.66

Under the 2015 Share Option Scheme, no share options had been granted or cancelled during the year ended 31 December 2019.

Total consideration received by the Group for exercising the share options during the year amounted to HK\$1,449,000 (2018: HK\$32,928,000) and the weighted average share price at the dates of exercise was HK\$9.65 (2018: HK\$11.86).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Share Option Scheme of the Company *(continued)*

On 2 July 2015, 21,650,000 share options under the 2015 SEA Option Scheme were granted to the employees of the Company and the closing price of the Company's shares immediately preceding the date of grant was HK\$6.23. The estimated fair value of the share options granted to employees of the Company on that date was HK\$21,499,000. The Directors determined the fair values of share options with reference to the calculation of the fair value of the share options granted made by an independent professional valuer.

On 22 January 2018, 5,775,000 share options under the 2015 SEA Option Scheme were granted to the employees of the Company and the closing price of the Company's shares immediately preceding the date of grant was HK\$12.64. The estimated fair value of the share options granted to employees of the Company on that date was HK\$4,339,000. The Directors determined the fair values of share options with reference to the calculation of the fair value of the share options granted made by an independent professional valuer.

The fair values were calculated using The Binominal Option Pricing model. The inputs into the model were as follows:

	Share Option Granted on	
	2 July 2015	22 January 2018
Share price as at grant date:	HK\$6.200	HK\$12.80
Exercise price:	HK\$6.302	HK\$12.80
Expected volatility:	21.58% – 24.24%	25.31% – 34.27%
Expected dividend yield:	1.75%	0.62%
Risk-free rate:	0.385% – 1.188%	1.53% – 1.82%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The variables and assumptions used in computing the fair value of the share options were based on Director's best estimate. The value of an option varied with different variables of certain subjective assumptions.

The Group recognised the total expense of HK\$565,000 for the year ended 31 December 2019 (2018: HK\$1,739,000) in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

Share Award Scheme of the Company

The Share Award Scheme was approved by the Shareholders on 27 May 2010 and came into effect on 15 June 2010. Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years until 14 June 2025.

The purpose of the Share Award Scheme is to provide a flexible means to recognise and acknowledge the performance and/or contribution of the eligible participants (as defined in the SEA Share Award Scheme). Under the Share Award Scheme, the Board (or any committee delegated by the Board) may at its absolute discretion grant awards, which may comprise (a) new shares of the Company; (b) existing shares of the Company in issue and is listed on the Stock Exchange from time to time; (c) cash in lieu of the shares of the Company; or (d) a combination of (a), (b) and (c), to any eligible participants as it thinks fit and appropriate and subject to the terms and conditions of the Share Award Scheme. No award may be granted under the Share Award Scheme if the aggregate number of shares which may be issued and/or transferred upon vesting of all outstanding awards granted under the Share Award Scheme and any other share award scheme of the Company and which may be issued upon exercise of all outstanding options granted and yet to be exercised under any share option scheme of the Company exceed 30% of the shares of the Company in issue from time to time.

The Company has appointed trustee to acquire the Company's shares from the open market with funds provided by the Company and to hold the shares before they are vested and transferred to the selected participants.

During the year ended 31 December 2018, a total of 2,900,000 ordinary shares of the Company were awarded to the Directors without vesting period. The awarded shares were acquired by the trustee of the Share Award Scheme at prices ranging from HK\$12.83 to HK\$12.86 for an aggregate consideration of HK\$37,385,000 was recognised in profit or loss in the open market after the date of grant and the awarded shares were transferred to the relevant Directors in May 2018 at nil consideration.

Details of the shares of the Company awarded during the year ended 31 December 2018 are as follows:

Name	Date of grant	Number of awarded shares		
		Granted during 2018	Vested during 2018	As at 31 December 2018
Directors				
Lu Wing Chi, Jesse	22.01.2018	1,000,000	(1,000,000)	—
Lambert Lu	22.01.2018	1,000,000	(1,000,000)	—
Lam Sing Tai	22.01.2018	500,000	(500,000)	—
Lincoln Lu	22.01.2018	100,000	(100,000)	—
Walujo Santoso, Wally	22.01.2018	100,000	(100,000)	—
Leung Hok Lim	22.01.2018	100,000	(100,000)	—
Chung Pui Lam	22.01.2018	100,000	(100,000)	—
Total		2,900,000	(2,900,000)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. RETIREMENT BENEFIT PLANS

The Group participates in both a defined contribution schemes which is registered under the Occupational Retirement Schemes Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% to 15% of relevant payroll costs to the scheme for members of the MPF Scheme, depending on grading and the length of service with the Group.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 15% of the employee’s basic salary, depending on grading and the length of service with the Group.

The Group terminated the ORSO Scheme in February 2019 and all members of the ORSO Scheme transferred their accrued benefits and contributions under the ORSO Scheme to the MPF Scheme.

The total expense recognised in profit or loss of HK\$5,983,000 (2018: HK\$5,487,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. No forfeited contributions have been used to reduce the level of contributions in either year.

42. RELATED PARTY TRANSACTIONS

The remuneration of Directors who are the Group’s key management personnel is set out in note 15.

The remuneration of Directors and key executives of the Company is determined/recommended to the Board for approval by the remuneration committee of the Company having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Interests in subsidiaries	6,275,287	6,664,437
Pledged bank deposits	16,512	26,333
	6,291,799	6,690,770
Current assets		
Receivables and deposits	800	1,555
Pledged bank deposits	16,512	52,667
Bank balances	1,075,105	836,867
	1,092,417	891,089
Current liabilities		
Payables and accrued charges	5,122	4,007
Amounts due to subsidiaries	—	57,579
Bank borrowings — due within one year	1,857,800	1,978,800
	1,862,922	2,040,386
Net current liabilities	(770,505)	(1,149,297)
Net assets	5,521,294	5,541,473
Capital and reserves		
Share capital	66,229	66,206
Reserves	5,156,165	5,177,567
Total equity	5,222,394	5,243,773
Non-current liability		
Bank borrowings — due after one year	298,900	297,700
Total equity and non-current liability	5,521,294	5,541,473

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in the Company's capital and reserves

	Attributable to the Shareholders								
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Shares on trust for awardees under Share Award Scheme HK\$'000	Share award reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2018	67,376	96,184	190,081	4,451	—	—	6,147	8,585,293	8,949,532
Loss and total comprehensive expense for the year	—	—	—	—	—	—	—	(3,495,861)	(3,495,861)
Recognition of equity-settled share-based payments									
— share options	—	—	—	—	—	—	1,739	—	1,739
— share award	—	—	—	—	—	37,120	—	—	37,120
Shares issued upon exercise of share options	523	37,901	—	—	—	—	(5,496)	—	32,928
Purchase of shares under Share Award Scheme	—	—	—	—	(37,385)	—	—	—	(37,385)
Shares transferred to participants under Share Award Scheme	—	—	—	—	37,385	(37,120)	—	—	265
Repurchase of ordinary shares	(1,693)	(209,850)	—	—	—	—	—	—	(211,543)
Dividends paid	—	—	—	—	—	—	—	(33,022)	(33,022)
Transfer of excess share premium to retained profits	—	94,833	—	—	—	—	—	(94,833)	—
At 31 December 2018	66,206	19,068	190,081	4,451	—	—	2,390	4,961,577	5,243,773
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	9,717	9,717
Recognition of equity-settled share-based payments									
— share options	—	—	—	—	—	—	565	—	565
Shares issued upon exercise of share options	23	1,677	—	—	—	—	(251)	—	1,449
Dividends paid	—	—	—	—	—	—	—	(33,110)	(33,110)
At 31 December 2019	66,229	20,745	190,081	4,451	—	—	2,704	4,938,184	5,222,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

44. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Name of subsidiary	Place/country of incorporation/operation	Issued and paid up share capital/registered capital	Effective % of issued share capital/registered capital held by the Company		Principal activities
			2019	2018	
<i>Direct subsidiaries</i>					
New Rose Investments Limited	British Virgin Islands ("B.V.I.")/ Hong Kong	US\$1	100	100	Bond issuance
Rosy Delta Investments Limited	B.V.I./Hong Kong	US\$1	100	100	Bond issuance
South-East Asia Investment And Agency Company, Limited	Hong Kong	HK\$10,000,000	100	100	Provision of corporate and property management services
<i>Indirect subsidiaries</i>					
Concord Way Limited	Hong Kong	HK\$100	100	100	Hotel operation
Easy Mega Investment Limited	Hong Kong	HK\$1	100	100	Property investment
Giant Well Enterprises Limited	B.V.I./Hong Kong	US\$1	100	100	Investment holding
Grace Art Development Limited	Hong Kong	HK\$1	100	100	Treasury services
Harbour Blossom Limited	B.V.I./Hong Kong	US\$1	100	100	Financial investment
High Team International Limited	Hong Kong	HK\$1	100	100	Property investment
Honest Smart Properties Limited	Hong Kong	HK\$1	100	100	Property investment
King Victory Global Limited	B.V.I./Hong Kong	US\$1	100	100	Financial investment
Leighton Road Hotel Management Services Limited	Hong Kong	HK\$1	100	100	Hotel operation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

44. PRINCIPAL SUBSIDIARIES *(continued)*

(a) General information of subsidiaries *(continued)*

Name of subsidiary	Place/country of incorporation/operation	Issued and paid up share capital/registered capital	Effective % of issued share capital/registered capital held by the Company		Principal activities
			2019	2018	
<i>Indirect subsidiaries (continued)</i>					
Luck Marker Limited	B.V.I./Hong Kong	US\$1	100	100	Financial investment
Max Grand Properties Limited	Hong Kong	HK\$1	100	100	Property investment
Nice Source Investment Limited	Hong Kong	HK\$1	100	100	Property investment
One Valley View Limited	Hong Kong	HK\$1	100	100	Property investment
Pearl Hope Limited	B.V.I.	US\$1	100	100	Investment holding
Rainbow Mark Investments Limited	B.V.I./Hong Kong	US\$1	100	100	Financial investment
SEA Island Holdings Pty. Limited	Australia	A\$320,000 paid up share capital	100	100	Property investment
SEA Profit Holdings Limited	B.V.I./Hong Kong	US\$1	100	100	Property investment
SEA Vanguard Holdings Limited	B.V.I./Hong Kong	US\$1	100	100	Financial investment
Seven Valley View Limited	Hong Kong	HK\$1	100	100	Property investment
Silver Rank Development Limited	Hong Kong	HK\$2	100	100	Property investment
Sound Grace Limited	Hong Kong	HK\$1	100	100	Property investment
Sunni City Limited	Hong Kong	HK\$2	100	100	Property investment
Ten Valley View Limited	Hong Kong	HK\$1	100	100	Property investment
Top Paragon Investments Limited	B.V.I.	US\$1	100	100	Property investment
Treasure Indicator Limited	B.V.I./Hong Kong	US\$1	100	100	Financial investment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

44. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place/country of incorporation/operation	Issued and paid up share capital/registered capital	Effective % of issued share capital/registered capital held by the Company		Principal activities
			2019	2018	
<i>Indirect subsidiaries (continued)</i>					
Twenty Valley View Limited	Hong Kong	HK\$1	100	100	Property investment
Twenty-One Valley View Limited	Hong Kong	HK\$1	100	100	Property investment
Two Valley View Limited	Hong Kong	HK\$1	100	100	Property investment
Tycoon Honour Limited	B.V.I./Hong Kong	US\$1	100	100	Investment holding of The Moorgate Unit Trust
Worthy Merit Limited	B.V.I./Hong Kong	US\$1	100	100	Investment holding of The Moorgate Unit Trust

The Directors are of the opinion that a complete list of the particulars of all subsidiaries of the Company will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affect the results or assets of the Group.

None of the subsidiaries has issued any debt securities except for New Rose Investments Limited and Rosy Delta Investments Limited which have issued guaranteed notes as set out in note 31 at the end of the year.

45. EVENT AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus since January 2020 has led to substantial travel bans and lockdowns in countries around the world and adversely affected certain industries as well as the overall economy. Given the dynamic situation, the overall financial impact of the pandemic cannot be reliably estimated at this stage and will be reflected in the Group's 2020 financial statements. The Group will closely monitor to the development and evaluate its impact on financial position and operating results of the Group.

GLOSSARY

In this annual report, unless the context otherwise requires, the following expression shall have the following meanings:

“AGM(s)”	the annual general meeting(s) of the Company;
“Audit Committee”	the audit committee of the Company;
“Board”	the board of Directors;
“CG Code”	the Corporate Governance Code;
“Chairman”	the chairman of the Board;
“Chief Executive”	the chief executive of the Company;
“Company” or “SEA”	S E A Holdings Limited is an exempted company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 251);
“Deloitte”	Deloitte Touche Tohmatsu, Certified Public Accountants;
“Director(s)”	the director(s) of the Company;
“Executive Committee”	the executive committee of the Company;
“Executive Director(s)”	the executive Director(s);
“Group or SEA Group”	the Company and its subsidiaries;
“Government”	the government of Hong Kong;
“HK\$”	the lawful currency of Hong Kong for the time being;
“HKAS”	Hong Kong Accounting Standards;
“HKEX”	Hong Kong Exchanges and Clearing Limited;
“HKFRS”	Hong Kong Financial Reporting Standards;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Non-executive Director(s)” or “INED”	the independent non-executive Director(s);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;

GLOSSARY

“NLI”	Nan Luen International Limited, an exempted company incorporated in Bermuda with limited liability;
“Nomination Committee”	the nomination committee of the Company;
“Non-executive Director(s)”	the non-executive Director(s);
“NYH”	NYH Limited, an exempted company incorporated in Bermuda with limited liability;
“Port Lucky”	Port Lucky Limited, a company incorporated in the British Virgin Islands with limited liability;
“PRC” or “Mainland China”	The People’s Republic of China;
“Remuneration Committee”	the remuneration committee of the Company;
“SEA Fortune”	SEA Fortune Ventures Limited, a company incorporated in the British Virgin Islands with limited liability;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM(s)”	the special general meeting(s) of the Company;
“Shareholders”	the shareholders of the Company;
“Share Award Scheme”	the share award scheme of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“US\$”	United States dollars, the lawful currency of the United States of America;
“%”	per cent; and
“2015 Share Option Scheme”	the share option scheme adopted by the Company on 29 May 2015.

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爪哇控股有限公司
S E A Holdings Limited

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

