2019 Annual Report
年報

POLYTEC ASSET HOLDINGS LIMITED
保利達資產控股有限公司

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 208)
(於開曼群島註冊成立之有限公司) (股份代號: 208)

GUANGDONG – HONG KONG – MACAU GREATER BAY AREA
粵港澳大灣區

● where the Group has property development projects
集團持有之物業發展項目所在地

POLYTEC ASSET HOLDINGS LIMITED

Polytec Asset Holdings Limited (Stock Code: 208) made a strategically important move by acquiring a property development project in Zhongshan in 2018, shifting its main development focus from Macau, a small city with the population of around 630,000, to the cities in the Guangdong-Hong Kong-Macau Greater Bay Area with the total population of approximately 70 million. The acquisition marks a good start for the Group in the Greater Bay Area. It will continue to actively explore good investment opportunities in the Greater Bay Area as well as other regions, aiming to build a solid foundation for sustainable growth for the Group for many years to come. The Group currently is also engaged in the ice and cold storage business in Hong Kong, the oil business in Kazakhstan and financial investment activities in Hong Kong and other recognised financial markets.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

Executive Directors

Mr. Or Wai Sheun *(Chairman)*
Mr. Yeung Kwok Kwong
Ms. Wong Yuk Ching
Ms. Chio Koc Ieng

Non-executive Directors

Mr. Lai Ka Fai
Ms. Or Pui Ying, Peranza

Independent Non-executive Directors

Mr. Liu Kwong Sang
Dr. Tsui Wai Ling, Carlye
Prof. Dr. Teo Geok Tien Maurice

Committees

Executive Committee

Mr. Yeung Kwok Kwong *(Chairman)*
Ms. Wong Yuk Ching
Mr. Lai Ka Fai

Audit Committee

Mr. Liu Kwong Sang *(Chairman)*
Dr. Tsui Wai Ling, Carlye
Mr. Lai Ka Fai

Remuneration Committee

Dr. Tsui Wai Ling, Carlye *(Chairman)*
Mr. Liu Kwong Sang
Mr. Yeung Kwok Kwong

Nomination Committee

Mr. Or Wai Sheun *(Chairman)*
Mr. Liu Kwong Sang
Dr. Tsui Wai Ling, Carlye

CORPORATE AND SHAREHOLDERS' INFORMATION

Company Secretary

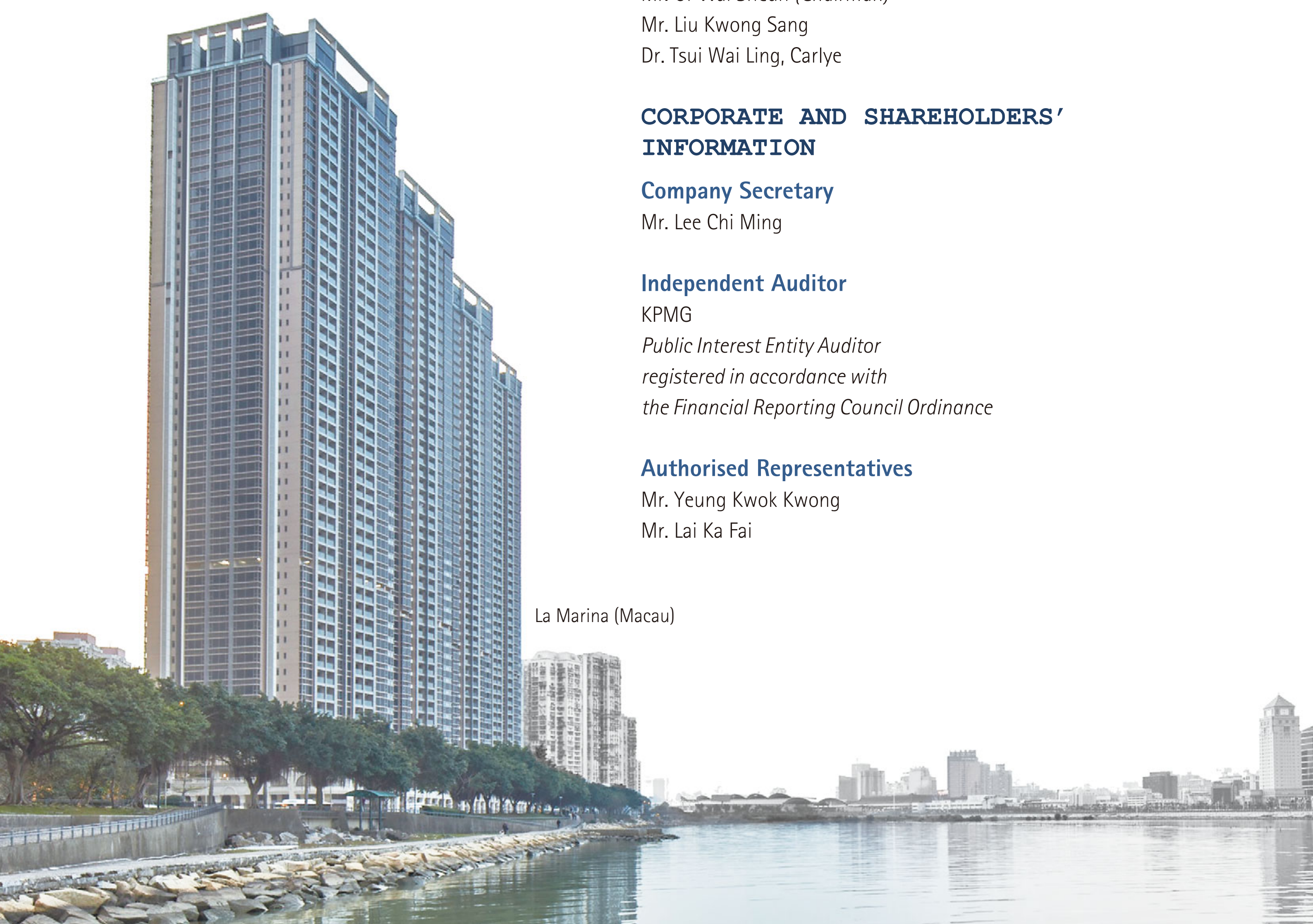
Mr. Lee Chi Ming

Independent Auditor

KPMG
Public Interest Entity Auditor
registered in accordance with
the Financial Reporting Council Ordinance

Authorised Representatives

Mr. Yeung Kwok Kwong
Mr. Lai Ka Fai



La Marina (Macau)

CORPORATE INFORMATION

CORPORATE AND SHAREHOLDERS' INFORMATION *(continued)*

Principal Share Registrar and Transfer Office
The R&H Trust Co. Ltd.
Windward 1
Regatta Office Park
P.O. Box 897
Grand Cayman KY1-1103
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Website
www.polytecasset.com

Stock Code
The Stock Exchange of Hong Kong Limited: 208

Principal Bankers
Hang Seng Bank
Bank of China

Financial Calendar

Interim results announcement	21 August 2019
Interim dividend paid	11 December 2019
Annual results announcement	25 March 2020
2020 Annual General Meeting	10 June 2020
Closure of Register of Members	
– 2020 Annual General Meeting	5 June to 10 June 2020 (both dates inclusive)
– Final dividend	17 June to 18 June 2020 (both dates inclusive)
Ex-dividend date for final dividend	15 June 2020
Final dividend payable	29 June 2020

GROUP'S BUSINESS STRUCTURE

POLYTEC ASSET HOLDINGS LIMITED

(A member of the Polytec Group)
Stock Code: 208

PROPERTY

Property Development

Major development project in Mainland China:

- Zhongshan project

Development Landbank:
294,000 sq. m.

Property Investment

Major investment property in Macau:

- The Macau Square

Investment Landbank:
18,000 sq. m.

ENERGY BUSINESS

Oil

Oil production and exploration in Kazakhstan

OTHERS

Ice & Cold Storage

The Hong Kong Ice & Cold Storage Company Limited is one of the largest ice making distributors in Hong Kong

Financial Investments

Fixed-income and equity investments in Hong Kong and other recognised financial markets

FIVE-YEAR FINANCIAL SUMMARY

KEY CONSOLIDATED INCOME STATEMENT DATA

HK$'000	2019	2018	2017	2016	2015
Revenue	**906,877**	1,592,854	693,884	211,293	357,517
Profit/(Loss) from Operations	**740,432**	1,564,052	268,811	(4,747)	(142,301)
Profit Attributable to Equity Shareholders of the Company	**707,329**	1,618,545	269,521	59,201	51,673
Earnings per Share *(HK cents)*	**15.93**	36.46	6.07	1.33	1.16
Underlying Profit/(Loss) Attributable to Equity Shareholders of the Company *(Note 2)*	**446,871**	1,402,670	233,441	21,801	(122,567)
Underlying Earnings/(Loss) per Share *(HK cents) (Note 2)*	**10.07**	31.60	5.26	0.49	(2.76)
Dividends	**324,045**	421,702	97,657	31,073	31,073
Dividends per Share *(HK cents)*	**7.30**	9.50	2.20	0.70	0.70

KEY CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

HK$'000	2019	2018	2017	2016	2015
Non-current Assets	**13,874,354**	14,160,419	12,573,167	14,322,286	13,081,533
Current Assets	**2,885,909**	2,873,240	2,164,527	296,715	706,430
Total Assets	**16,760,263**	17,033,659	14,737,694	14,619,001	13,787,963
Current Liabilities	**(194,786)**	(208,890)	(1,483,711)	(206,034)	(508,755)
Non-current Liabilities	**(2,555,684)**	(3,073,486)	(979,105)	(1,966,351)	(2,101,473)
Net Assets	**14,009,793**	13,751,283	12,274,878	12,446,616	11,177,735
Share Capital	**443,897**	443,897	443,897	443,897	443,897
Reserves	**13,552,237**	13,294,806	11,818,308	11,989,713	10,720,253
Equity Attributable to Equity Shareholders of the Company	**13,996,134**	13,738,703	12,262,205	12,433,610	11,164,150
Non-controlling Interests	**13,659**	12,580	12,673	13,006	13,585
Total Equity	**14,009,793**	13,751,283	12,274,878	12,446,616	11,177,735
Net Asset Value per Share *(HK$)*	**3.16**	3.10	2.77	2.80	2.52
Gearing Ratio *(%) (Note 3)*	**11.98**	11.65	12.46	14.70	16.67

Notes:

1. The financial information in this summary is extracted from the published financial statements for the last five years.
2. For 2018 and 2019, underlying profit excludes revaluation gain of the joint venture's investment properties and fair value changes on interests in property development. From 2015 to 2017, underlying profit/loss excludes revaluation gain of the joint venture's investment properties.
3. Gearing ratio represents bank borrowings (if any) and amounts due to holding companies/a related company (if any) less amount due from a related company/a fellow subsidiary (if any) and cash and bank balances over total equity attributable to equity shareholders of the Company.

CHAIRMAN'S STATEMENT

HIGHLIGHTS

- The Group's net profit attributable to equity shareholders of the Company for the year ended 31 December 2019 fell to HK$707 million from HK$1,619 million in 2018, a decrease of 56%.
- Excluding revaluation gains from the joint venture's investment properties net of tax and fair value changes on its interests in the property development projects, the Group's underlying net profit attributable to equity shareholders of the Company for 2019 fell to HK$447 million from HK$1,403 million in 2018, a decrease of 68%. The underlying net earnings per share for 2019 was 10.07 HK cents compared to the underlying net earnings per share of 31.60 HK cents in 2018.
- Full year dividend per share for 2019 amounts to 7.30 HK cents (2018: 9.50 HK cents), with a final dividend per share of 6.00 HK cents (2018: 8.30 HK cents).

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2019, the net profit attributable to equity shareholders of the Company and its subsidiaries (collectively the "Group") fell to HK$707 million from HK$1,619 million in 2018, a decrease of 56%. The earnings per share for 2019 amounted to 15.93 HK cents compared to 36.46 HK cents in 2018.

Excluding revaluation gains from the joint venture's investment properties net of tax and fair value changes on its interests in the property development projects, the Group's underlying net profit attributable to equity shareholders of the Company for 2019 fell to HK$447 million from HK$1,403 million in 2018, a decrease of 68%. The underlying net earnings per share for 2019 was 10.07 HK cents compared to the underlying net earnings per share of 31.60 HK cents in 2018.

The Board of Directors has recommended the payment of a final dividend per share for 2019 of 6.00 HK cents (2018: 8.30 HK cents). Together with the interim dividend of 1.30 HK cents per share (2018: 1.20 HK cents), the full year dividend for 2019 amounted to 7.30 HK cents per share (2018: 9.50 HK cents). The final dividend will be payable on Monday, 29 June 2020 to shareholders whose names appear on the Register of Members of the Company on Thursday, 18 June 2020, subject to the approval of shareholders at the 2020 Annual General Meeting.

BUSINESS REVIEW

Excluding revaluation gains from the joint venture's investment properties net of tax and fair value changes on its interests in the property development projects, the Group's underlying net profit attributable to equity shareholders of the Company for 2019 fell to HK$447 million from HK$1,403 million in 2018. The decline in the Group's underlying net profit for the year under review was mainly due to the decrease in the net income distributions from its interests in the La Marina development project and an impairment loss made for the Group's oil production and exploitation assets in Kazakhstan.

Property Development

Macau

In respect of the La Marina development project, the Group received net income distributions of HK$720 million for its interest in this development project for the year ended 31 December 2019.

Mainland China

In regards to the Zhongshan property development project, site clearance work was completed and drainage work is in progress. The overall planning and design for the project by a professional design house is well underway.

As announced on 6 January 2020, the acquisition of the Zhuhai property development project was terminated as one of the conditions precedent to its sale and purchase agreement was not satisfied.

Property Investment

For the year ended 31 December 2019, the Group's share of gross rental income generated from the joint venture's investment properties rose to approximately HK$84 million, an increase of 2.4% over 2018. The rental income was mainly generated from The Macau Square, the Group's 50%-owned investment property, with its share of total rental income of the property rising by HK$1 million to approximately HK$77 million in 2019.

Oil

The oil segment recorded a loss after tax of HK$285 million for the year ended 31 December 2019 compared to a loss of HK$15.9 million in 2018. The increase in the loss was mainly due to an impairment loss of HK$270 million made for the Group's oil production and exploitation assets in Kazakhstan (with the change in its related tax being included) for the year under review. Management is of the view that the above impairment is based on the assessment of the prevailing oil market and its development plan.

Ice Manufacturing and Cold Storage

Total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$25.2 million in 2019, a decrease of 1% over 2018 due to weakening demand.

Financial Investments

The Group commenced its engagement in financial investment activities in August 2019, with total net income of HK$7.6 million from its fixed-income (bonds) and equity (blue-chip stocks) investments being recorded for the year ended 31 December 2019.

PROSPECTS

Looking ahead to the rest of 2020, the on-going coronavirus outbreak across the globe as a pandemic has caused extraordinarily high volatility in the world financial markets and the adverse impacts of the outbreak on the global economy are yet to be assessed. The Brent crude oil price has recently plummeted having reached a level below US$25 per barrel. If the Brent oil price does not rebound significantly, the Group will have to fully write off its oil assets in Kazakhstan in 2020 and will consider closing down the business. The current net book value of Group's oil assets is approximately HK$66.7 million, representing only less than 0.5% of the Group's net asset value and hence the impact of the write-off on the Group will be limited. The Group's rental income from the investment properties in Macau and its ice manufacturing and cold storage business in Hong Kong are also expected to be adversely affected by the coronavirus pandemic.

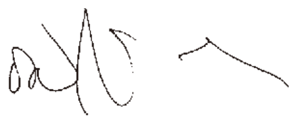
The basic infrastructure works for the Zhongshan property development project have commenced. While the Group has terminated the acquisition of the Zhuhai property development project, we will still assess the related company's other potential property development projects in the Greater Bay Area and will not rule out re-starting the negotiation process when the relevant condition precedent for the acquisition of the Zhuhai project is satisfied, for strengthening the Group's property business.

While the activity in the property market in Macau slowed in 2019, the Group's La Marina development project was still well received by the market and the sales of its residential units for the year under review remained satisfactory due to its excellent quality and design. The income to be received from the Group's interest in this development project is expected to make an important contribution to the Group's results in the coming one to two years.

The Group commenced its engagement in financial investment activities in August 2019. This would allow more flexibility in utilising the Group's existing resources and by taking a prudent approach, we would mainly focus on fixed income investment (bonds), aiming to generate stable income for the Group.

As of 31 December 2019, the Group's gearing ratio remained at a healthy and low level of only 12%, which would provide a favourable condition for the Group to accelerate its development going forward. The Group will closely monitor the coronavirus pandemic situation and will adjust the business strategy accordingly. We will also actively explore investment opportunities aiming to build a solid foundation gradually for future sustainable development and growth.

I would like to take this opportunity to express my thankfulness to my fellow directors for their supports and contributions and all staff for their commitment and hard work.



Or Wai Sheun
Chairman

Hong Kong, 25 March 2020

PROPERTY DEVELOPMENT

As at 31 December 2019, the Group's landbank for development amounted to approximately 294,000 sq m of attributable gross floor area. The Group's major property project under planning and development is set out as follows:

ZHONGSHAN PROJECT

The site is located in the South District, Zhongshan. This residential and commercial development project is expected to develop into 38 blocks of high-rise residential building, 4 blocks of high-rise apartment and 150 blocks of villa with a total gross floor area of approximately 587,000 sq m.

Location
Nantongwei and Shawei, Beitai Village, South District, Zhongshan City, Guangdong Province, China

Usage
Residential and Commercial

Group's Interest
50%

Approx. Total Site Area
234,802 sq m

Approx. Total Gross Floor Area
587,000 sq m

Status
Site clearance completed; application works for building plan and relevant construction approvals in progress

Expected Date of Completion
2021-2025

FINANCIAL REVIEW

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to maintain a sound financial liquidity position during the year. As at 31 December 2019, the Group maintained a balance of cash and bank of HK$424.2 million (2018: HK$292.6 million), which was mainly denominated in Hong Kong dollars and Renminbi. The Group maintained a robust current ratio of 14.8 times (2018: 13.8 times).

As at 31 December 2019, the Group had bank borrowings of HK$1,496.5 million (2018: HK$1,470.0 million), with HK$78.5 million being repayable within one year, HK$1,328.0 million being repayable after one year but within two years and HK$90.0 million being repayable after two years but within five years. As at 31 December 2019, the amount due to a related company and immediate holding company were HK$1,104.4 million (2018: HK$ Nil) and HK$ Nil (2018: HK$1,643.5 million) respectively. Both amounts were unsecured, denominated in Hong Kong dollars, interest bearing at prevailing market rates and repayable after more than one year.

The Group had banking facilities of HK$1,896.5 million (2018: HK$1,470.0 million), of which 79% were utilised as at 31 December 2019 (2018: fully utilised). The banking facilities were secured by the Group's leasehold land and buildings and the joint venture's investment properties, denominated in Hong Kong dollars and interest bearing at prevailing market rates, which are subject to review from time to time.

As at 31 December 2019, total equity attributable to equity shareholders of the Company amounted to HK$13,996.1 million (2018: HK$13,738.7 million). The Group's gearing ratio, expressed as a percentage of total borrowings (including bank borrowings and amounts due to a related company/immediate holding company) less amount due from a related company and cash and bank balances over the total equity attributable to equity shareholders of the Company, increased from 11.7% as at 31 December 2018 to 12.0% as at 31 December 2019.

TREASURY POLICIES

Apart from the Group's oil business, the majority of the Group's sales and purchases are denominated in Hong Kong dollars and Macau Patacas. Due to the fact that the Macau Pataca is pegged to the Hong Kong dollar, the Group's exposure to this foreign exchange risk is relatively low. In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 31 December 2019, the Group did not have any outstanding financial instruments entered into for hedging purposes. Nevertheless, the Group is closely monitoring its overall foreign exchange exposure and interest rate exposure and will adopt a proactive but prudent approach to minimise the relevant exposures when necessary.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments contracted but not provided for in the amount of HK$1.6 million (2018: HK$1.2 million).

CHARGES ON ASSETS

As at 31 December 2019, certain assets of the Group and the joint venture, with aggregate net book values of approximately HK$99.7 million (2018: HK$103.4 million) and HK$1,711 million (2018: HK$1,778 million) respectively, were pledged to secure the banking facilities of the Group.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

PROFILE OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Or Wai Sheun, aged 68, joined the Company in April 2006 as the Chairman of the Board and Executive Director. Mr. Or has over 35 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and the Mainland China. Mr. Or is responsible for the development of corporate strategies, corporate planning and general management of the Group. Mr. Or is also the Chairman of the Board of Kowloon Development Company Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, and a Director of Intellinsight Holdings Limited, New Explorer Developments Limited and Marble King International Limited, all four companies being substantial shareholders of the Company. He is the father of Ms. Or Pui Ying, Peranza.

Mr. Yeung Kwok Kwong, aged 61, joined the Company in September 2000 as the Chairman of the Board and Managing Director. With effect from 1 April 2006, Mr. Yeung ceased to act as the Chairman of the Board but remained to act as the Managing Director. Prior to joining the Company, he worked for a large international accountancy firm and also held managerial and director positions in a number of large companies. He has over 35 years of experience in finance, accounting, financial and operational management, and corporate planning. He is currently responsible for the development of corporate strategies, corporate planning and the day-to-day management of the Group. Mr. Yeung is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Yeung is also a Non-executive Director of Kowloon Development Company Limited and a Director of Marble King International Limited, both companies being substantial shareholders of the Company.

Ms. Wong Yuk Ching, aged 63, joined the Company in January 2002 as an Executive Director. Prior to joining the Company, she held managerial and director positions in a number of large garment trading and manufacturing companies. She has over 20 years of experience in the garments industry. Ms. Wong is currently responsible for the development of corporate strategies, corporate planning and the day-to-day management of the Group.

Ms. Chio Koc Ieng, aged 53, joined the Group in December 2004 and was appointed as an Executive Director in April 2006. She has attained over 25 years of working experience in various prominent and well-established property development companies in Macau. Ms. Chio is responsible for development of corporate strategies, corporate planning and general management of the Group.

NON-EXECUTIVE DIRECTORS

Mr. Lai Ka Fai, aged 55, joined the Company in September 2000 as an Executive Director, and was re-designated as a Non-executive Director in January 2002. Prior to joining the Company, he worked for a large international accountancy firm and also held managerial and director positions in a number of large companies. He has over 30 years of experience in finance, accounting, financial and operational management, and corporate planning. Mr. Lai graduated from the University of East Anglia in the United Kingdom with a bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Lai is also an Executive Director of Kowloon Development Company Limited and a Director of Marble King International Limited and Intellinsight Holdings Limited, all three companies being substantial shareholders of the Company.

Ms. Or Pui Ying, Peranza, aged 39, joined the Group in September 2009 and was appointed as a Non-executive Director in July 2011. She has attained solid working experience in various companies engaged in property development, financial investment and finance public relations. She is the Director of the Marketing and Sales Department of Kowloon Development Company Limited. Ms. Or graduated from the Imperial College London with a bachelor degree of Mathematics and Management and also attained a master's degree of International Management for China from the School of Oriental and African Studies (SOAS), the University of London. She is the daughter of Mr. Or Wai Sheun.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Kwong Sang, aged 58, joined the Company in July 2000 as an Independent Non-executive Director. He has been practising as a certified public accountant in Hong Kong with more than 25 years' experience. Mr. Liu graduated with honours from the Hong Kong Polytechnic University with a bachelor degree in accountancy and obtained the Master in Business Administration degree from the University of Lincoln, the United Kingdom. He is a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Institute of Financial Accountants, the United Kingdom and a fellow member of the Institute of Public Accountants, Australia. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Society of Registered Financial Planners, a fellow member of the Taxation Institute of Hong Kong and a Certified Tax Adviser. Mr. Liu is an Independent Non-executive Director of China National Culture Group Limited and Pine Care Group Limited, both companies are listed on the Main Board of the Stock Exchange. He is also an Independent Non-executive Director of abc Multiactive Limited, a company listed on the GEM Board of the Stock Exchange. Mr. Liu has been appointed as an Independent Non-executive Director of ATIF Holdings Limited, a company listed on the Nasdaq Stock Market of the United States since 3 May 2019, with effect from 29 April 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Dr. Tsui Wai Ling, Carlye, BBS, MBE, JP, DProf, FHKIoD, aged 72, joined the Company in December 2012 as an Independent Non-executive Director. She is the Chief Executive Officer of The Hong Kong Institute of Directors. Dr. Tsui graduated from the University of Hong Kong with a Bachelor of Arts degree (Economics) and Middlesex University, UK, with a Doctorate degree in Professional Studies. Dr. Tsui is Fellow of The Hong Kong Institute of Directors, Hong Kong Management Association, Hong Kong Institution of Engineers and British Computer Society; Chartered Information Technology Professional; Hon Fellow of Hong Kong Association for Computer Education; and holder of Professional Diploma in Corporate Governance and Directorship. As a Justice of the Peace, Dr. Tsui is active in public service roles, which include, inter alia, Member of Steering Committee, Asian Financial Forum; Member of Audit Committee, the West Kowloon Cultural District Authority and Executive Committee Member of Global Network of Director Institutes. She was formerly a Councillor of the Urban Council, a Councillor of Wan Chai District Council, Member of Communications Authority and Founding Chairman of Hong Kong Chinese Orchestra Limited. Dr. Tsui was awarded one of the Ten Outstanding Young Persons in Hong Kong 1981, IT Achiever of the Year 1992, Member of the Most Excellent Order of the British Empire 1997, Bronze Bauhinia Star 2003 and the most outstanding professional doctorate of Middlesex University 2007. Dr. Tsui was also an Independent Non-executive Director of RoadShow Holdings Limited (currently known as Bison Finance Group Limited), a company listed on the Main Board of the Stock Exchange but she resigned on 12 December 2017.

Prof. Dr. Teo Geok Tien Maurice, aged 72, joined the Company in December 2012 as an Independent Non-executive Director. He is the Chairman of the Council of the International Institute of Management. He has over 40 years experience in various businesses and industries, including electronics and semiconductors, toys, telecommunications, construction etc.. Prof. Dr. Teo was awarded a PhD (doctor of philosophy) in International Business Administration and a DSc (doctor of science) in Manufacturing. In 2004, he was made Adjunct Professor of Management of Hong Kong Polytechnic University. Later he was invited to become Visiting Professor of Bulaccan State University of Philippines and Tarlac State University. He is currently the Examiner of Overseas Doctorial Candidates in Business Administration for the University.

Senior management of the Group is the Executive Directors of the Company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board acknowledges the importance of good corporate governance practices and believes that maintaining a high standard of corporate governance practices is crucial to the development of the Company.

The Company has complied with all the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year.

The Board will continue to enhance the corporate governance practices and standards of the Company appropriate to the conduct and growth of its business and to review such practices and standards regularly to ensure that they comply with the statutory and professional standards and align with the latest developments. The key corporate governance principles and practices of the Company are summarised as follows:

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseeing the Group's affairs. The Board formulates the overall strategic direction and reviews and approves major transaction of the Group, while the management is delegated with the power to implement policies and strategies as set out by the Board.

The Board has a balanced composition of Executive and Non-executive Directors. Currently, the Board comprises four Executive Directors, being Mr. Or Wai Sheun (Chairman of the Board), Mr. Yeung Kwok Kwong (Managing Director), Ms. Wong Yuk Ching and Ms. Chio Koc Ieng, two Non-executive Directors, being Mr. Lai Ka Fai and Ms. Or Pui Ying, Peranza, and three Independent Non-executive Directors, being Mr. Liu Kwong Sang, Dr. Tsui Wai Ling, Carlye and Prof. Dr. Teo Geok Tien Maurice. One-third of the Board comprises Independent Non-executive Directors. The profile of the Directors, which is set out on pages 12 to 14, demonstrates a balance of skills, experience and diversity perspectives of the Board. Except as disclosed in the profile of Directors, the Directors have no financial, business, family or other material/relevant relationships with the Group.

Pursuant to Rule 3.13 of the Listing Rules, each Independent Non-executive Director has provided a written annual confirmation of his/her as well as their respective immediate family members' (which is defined under Rule 14A.12(1)(a) of the Listing Rules) independence to the Company. The Company continues to consider them to be independent. The Company has also complied with the requirement of the CG Code on considering the independence of an Independent Non-executive Director who has served more than nine years for his/her further appointment. Mr. Liu Kwong Sang has served on the Board for more than nine years. The Board is of the opinion that he remains independent, notwithstanding the length of his service. He has confirmed to meet the independence criteria as set out in Rule 3.13 of the Listing Rules. He continues to demonstrate the attribute of an Independent Non-executive Director and there is no evidence that his tenure has any impact of his independence. The Board believes that his profound knowledge and invaluable experience could benefit to the Company significantly. Besides, Mr. Liu Kwong Sang was re-elected as an Independent Non-executive Director at the 2018 Annual General Meeting ("AGM") by passing a separate resolution.

BOARD OF DIRECTORS *(continued)*

There was no change in the composition of the Board during the year.

The Board recognises and embraces the benefits of having a diverse Board to enhance the quality of the Company's performance as well as to achieve the business objectives and sustainable development. The Board has established a Board Diversity Policy setting out the approach to achieve diversity on the Board with aims of enhancing its capability of decision making and effectiveness in dealing with organisational changes.

The Company has arranged insurance cover in respect of legal action against its Directors. The insurance coverage is reviewed at least annually to ensure that the Directors and officers are adequately protected against potential liabilities.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

BOARD PRACTICES

Schedules for regular Board meetings are normally agreed with the Directors in advance in order to facilitate them to attend. Notice of at least 14 days is given for a regular Board meeting. For other Board meetings, reasonable notice is generally given. Board papers together with appropriate, complete and reliable information are circulated to members of the Board not less than 3 days before the date of the board meetings to enable them to make informed decisions.

All Directors are supplied in a timely manner with all relevant documentation and financial information. Monthly updates of the Group's performance, position and prospects are furnished to the Board to enable all members to discharge their duties.

The Company Secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to Directors for comments within a reasonable time after each meeting and the final version is open for their inspection.

TIME COMMITMENT

During the year, four Board meetings and one AGM were held. The attendance of each Director at the Board meetings and the AGM were as follows:

Directors	Number of meetings attended/ meetings held	
	Board meetings	2019 AGM
Mr. Or Wai Sheun *(Chairman of the Board)*	4/4	1/1
Mr. Yeung Kwok Kwong	4/4	1/1
Ms. Wong Yuk Ching	4/4	1/1
Ms. Chio Koc Ieng	4/4	1/1
Mr. Lai Ka Fai	4/4	1/1
Ms. Or Pui Ying, Peranza	4/4	1/1
Mr. Liu Kwong Sang	4/4	1/1
Dr. Tsui Wai Ling, Carlye	4/4	1/1
Prof. Dr. Teo Geok Tien Maurice	4/4	1/1

Apart from the aforesaid regular Board meetings, the Chairman of the Board also held a meeting with the Independent Non-executive Directors without the presence of other Executive Directors and Non-executive Directors.

The Board was satisfied with the attendance of the Directors as they have committed sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his/her appointment the directorships held in other listed companies or nature of offices held in public companies or organisations and other significant commitments. The Company has also requested Directors to provide any change in such information in a timely manner as well as their time commitment.

CHAIRMAN AND CHIEF EXECUTIVE

The responsibility of the Chairman of the Board, being Mr. Or Wai Sheun, is to lead the Board to provide high-level guidance and oversight to the Group, while the Managing Director, being Mr. Yeung Kwok Kwong, is delegated with the power to implement policies and strategies as set out by the Board.

BOARD COMMITTEES

The Company has established four Board committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Executive Committee, for managing and overseeing the particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference and they should report to the Board their decisions or recommendations made.

AUDIT COMMITTEE

The current members of the Audit Committee are two Independent Non-executive Directors, being Mr. Liu Kwong Sang and Dr. Tsui Wai Ling, Carlye and one Non-executive Director, being Mr. Lai Ka Fai. A majority of the members are Independent Non-executive Directors. The Chairman of the Audit Committee is Mr. Liu Kwong Sang who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The Audit Committee is responsible for assisting the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting, risk management and internal control systems. The roles of the Audit Committee include maintaining a close relationship with the external auditor, reviewing financial information of the Company and overseeing the Company's financial reporting, risk management and internal control systems as well as monitoring the whistleblowing policy and system for employees and independent third parties who dealt with the Company to raise concerns about any suspected impropriety, misconduct or malpractice within the Group.

During the year, the Audit Committee performed the following functions:

(a) reviewed the audited financial statements for 2018 and the interim financial statements for 2019 and met with the external auditor and the management of the Company to discuss issues arising from the audit of the financial statements;

(b) met with the external auditor in the absence of management to discuss matters about their independence to ensure they performed their work objectively and any issues arising from the audit; and

(c) reviewed the effectiveness of the risk management and internal control systems of the Group, the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, and relevant training programmes and budgets.

During the year, the Audit Committee held three meetings, in which two of them were in the presence of the Company's external auditor. The attendance of each member at the Audit Committee meetings was as follows:

Members	Number of meetings attended/meetings held
Mr. Liu Kwong Sang *(Chairman of the Audit Committee)*	3/3
Dr. Tsui Wai Ling, Carlye	3/3
Mr. Lai Ka Fai	3/3

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are two Independent Non-executive Directors, being Dr. Tsui Wai Ling, Carlye and Mr. Liu Kwong Sang and one Executive Director, being Mr. Yeung Kwok Kwong. A majority of the members are Independent Non-executive Directors.

The Remuneration Committee is responsible for formulating remuneration policy for approval by the Board, which shall take into consideration factors such as salaries paid by comparable companies, employment conditions, time commitment and responsibilities, desirability of performance based remuneration, individual performance of the Directors, and implementing the remuneration policy laid down by the Board. The Company has adopted the model for remuneration committee as described in the Code Provision B.1.2(c)(ii) to make recommendations to the Board on the remuneration packages of individual Executive Directors, including salaries, bonuses and benefits in kind.

During the year, the Remuneration Committee reviewed the remuneration policy of the Company, the Directors' fees of the Non-executive Directors and the remuneration packages of the Executive Directors.

During the year, the Remuneration Committee held three meetings. The attendance of each member at the Remuneration Committee meeting was as follows:

Members	Number of meetings attended/meetings held
Dr. Tsui Wai Ling, Carlye *(Chairman of the Remuneration Committee)*	3/3
Mr. Yeung Kwok Kwong	3/3
Mr. Liu Kwong Sang	3/3

Pursuant to Code Provision B.1.5, the annual remuneration of the members of senior management by band for the year ended 31 December 2019 was set out below:

	Number of Employees
Nil to HK$1,000,000	1
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	1
HK$3,000,001 to HK$4,000,000	1
	4

NOMINATION COMMITTEE

The current members of the Nomination Committee are one Executive Director, being Mr. Or Wai Sheun, and two Independent Non-executive Directors, being Mr. Liu Kwong Sang and Dr. Tsui Wai Ling, Carlye. A majority of the members are Independent Non-executive Directors.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the Independent Non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

During the year, the Nomination Committee reviewed the structure, size and composition of the Board, assessed the independence of the Independent Non-executive Directors and considered the re-election of Directors at the 2019 AGM.

Nomination Policy

The Nomination Policy was adopted to describe the process by which the Nomination Committee will select candidates for possible inclusion in the Company's recommended slate of director nominees.

When evaluating an individual for nomination for election to the Board, the assessment parameters considered by the Nomination Committee, may include, but are not limited to:

(a) the composition and diversity of the Board and its committees with due regard to the factors set out in the Board Diversity Policy;

(b) the commitment of devoting sufficient time and attention to the Company's affairs;

(c) the perceived needs and the extent to which the interplay within the Board for particular skill, background and business experience;

(d) the reputation, character and integrity of the nominee;

(e) nominees' background with regard to executive compensation; and

(f) applicable regulatory and listing requirements, including independence requirements for Independent Non-executive Directors and legal considerations.

NOMINATION COMMITTEE *(continued)*

Nomination Policy *(continued)*

The nomination procedures of selecting suitable individuals by the Nomination Committee are set out as follows:

Appointment of New and Replacement Directors

(i) If the Nomination Committee determines that an additional or a replacement director is required, the Committee may take measures that it considers appropriate in connection with its identification and evaluation of a candidate.

(ii) The Nomination Committee may propose such candidate to the Board for consideration based on the assessment parameters set out in this Policy and such other factors it considers appropriate. The Board has the final authority to determine if the candidate is suitable for appointment.

Re-election of Directors and Nomination from Shareholders

(i) Where a retiring Director, being eligible, offer himself/herself for re-election, the Board shall consider, if appropriate, recommend such retiring Director for re-election at a general meeting. A circular containing the requisite information of such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

(ii) The Company's website set out the procedures for shareholders to propose a person for election as a Director. For any person that is nominated by a shareholder, the Nomination Committee shall evaluate such candidate based on the assessment parameters set out in this Policy and make recommendation to the Board if appropriate. Recommendation shall then be made to shareholders in a supplementary circular for the proposed election of such candidate at a general meeting.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy.

Board Diversity Policy

The Board Diversity Policy sets out the approach to achieve diversity on the Board. Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, with reference to the business models and special needs of the Company in determining the optimum composition of the Board. Appointments to the Board will be made based on merit and contribution that the individual is expected to bring to the Board. The Nomination Committee monitors the implementation of the Board Diversity Policy on an ongoing basis.

NOMINATION COMMITTEE *(continued)*

During the year, the Nomination Committee held one meeting. The attendance of each member at the Nomination Committee meeting was as follows:

Members	Number of meeting attended/meeting held
Mr. Or Wai Sheun *(Chairman of the Nomination Committee)*	1/1
Mr. Liu Kwong Sang	1/1
Dr. Tsui Wai Ling, Carlye	1/1

EXECUTIVE COMMITTEE

The current members of the Executive Committee are two Executive Directors, being Mr. Yeung Kwok Kwong and Ms. Wong Yuk Ching and one Non-executive Director, being Mr. Lai Ka Fai. The Board has established the Executive Committee to delegate its daily management and administration functions and has formalised the functions reserved by the Board and those delegated to the management. Clear direction has also been given as to the power of the management.

NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. Non-executive Directors of the Company do not have a specific term of appointment, but are subject to rotation in accordance with article 108(A) of the articles of association of the Company. As Non-executive Directors are subject to rotation in accordance with the articles of association of the Company, the Board considers that Non-executive Directors so appointed with no specific term will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in Code Provision A.4.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The first sentence of Code Provision A.4.2 stipulates that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In accordance with article 112 of the articles of association of the Company, any Director appointed to fill a casual vacancy shall hold office until the next following annual general meeting of the Company.

As the Director appointed to fill a casual vacancy shall be subject to re-election in the next following annual general meeting of the Company in accordance with the articles of association of the Company which complies with paragraph 4(2) of the Appendix 3 to the Listing Rules, the Board considers that the Directors so appointed subject to election by shareholders at the next following annual general meeting of the Company after their appointment will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in Code Provision A.4.

The Company did not have any deviation from the first sentence of Code Provision A.4.2 during the year.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the duties relating to corporate governance functions as set out below:

(a) developing and reviewing the Company's policies and practices on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year, the Board reviewed the effectiveness of the risk management and internal control systems of the Company through the Audit Committee, the code of conduct of the Company and the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 to the Listing Rules) (the "Model Code") as a code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code throughout the year and they have all confirmed that they had fully complied with the required standards set out in the Model Code.

DIRECTORS' TRAINING

During the year, the Directors participated in appropriate continuous professional development activities by ways of reading materials and attending seminars regarding latest developments in corporate governance practices and relevant legal and regulatory developments. Records of training received by each Director in 2019 are as follows:

Directors	**Type of training** *(Notes)*
Mr. Or Wai Sheun *(Chairman of the Board)*	A, B
Mr. Yeung Kwok Kwong	A, B
Ms. Wong Yuk Ching	A, B
Ms. Chio Koc Ieng	A, B
Mr. Lai Ka Fai	A, B
Ms. Or Pui Ying, Peranza	A, B
Mr. Liu Kwong Sang	A, B
Dr. Tsui Wai Ling, Carlye	A, B
Prof. Dr. Teo Geok Tien Maurice	A, B

Notes: A: Reading materials
B: Attending seminars

The Board will also provide each newly appointed Director a comprehensive, formal and tailored induction and information to ensure that he/she has a proper understanding of the Company's business and operations as well as his/her responsibilities under relevant laws, rules and regulations.

COMPANY SECRETARY'S TRAINING

During the year, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training to update his skills and knowledge.

FINANCIAL REPORTING

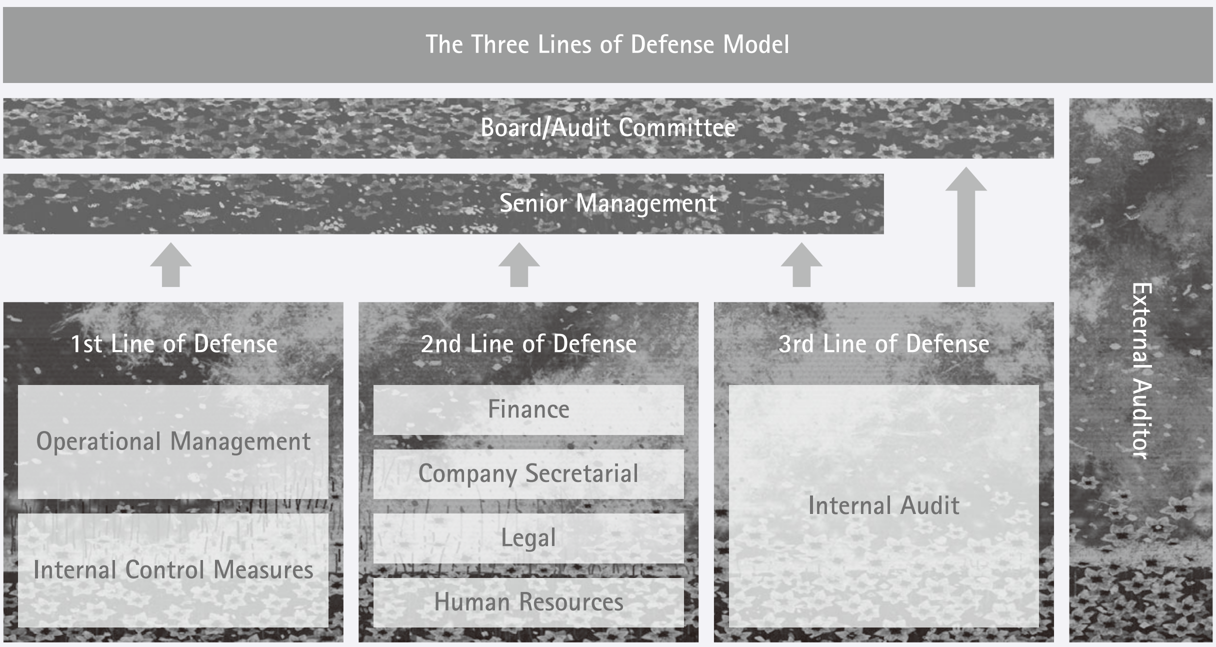
The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019.

The Board is responsible for presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, announcements and other disclosures as required under the Listing Rules and other regulatory requirements. The management has provided sufficient explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to maintain the Group's risk management and internal control systems and review their effectiveness on an ongoing basis. The Board has delegated part of this responsibility to the Audit Committee.

The Group's risk management structure meets with the best practice model known as the "Three Lines of Defense Model" with the first line of defense being operational management and internal control measures, the second line of defense being finance, company secretarial, legal and human resources functions, and the third line of defense being internal audit.



RISK MANAGEMENT AND INTERNAL CONTROL *(continued)*

The Group's risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage rather than completely eliminate the risks of failure in operational systems. The systems play a key role in the management of risks that are significant to the achievement of corporate objectives, ensuring good corporate practice and safeguarding the shareholders' investments and the Group's assets. The systems comprise the Group's policies and procedures, and standards to ensure effective management, including a well-defined organisational structure with specified authority limits and areas of responsibility, basis for review of financial performance, application of financial reporting standards, maintenance of proper accounting records, assurance of reliable financial information, and compliance with relevant laws and regulations.

The Board and management each has a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated. Supported by the Audit Committee, review of the effectiveness of the risk management and internal control systems is conducted at least annually. The review assesses all material controls, including financial, operational and compliance controls. The assessment considers the changes in nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment. It covers the regular reports provided by management on significant issues identified during their daily operation, together with the action plans to resolve material internal control defects, if any. Internal and external auditors also report directly to the Audit Committee regularly on any risks and control issues identified in the course of their audits.

The Board believes that the quality of corporate governance is influenced by the corporate culture. Therefore, the Group is determined to foster and maintain high standards of professional conduct and business ethics. A code of conduct has been provided to all our employees to inform them of the Group's expectations and put them under special obligations in maintaining the highest standard of honesty and trustworthiness in their jobs. The whistleblowing policy, which is posted on the Company's website and the Group's intranet, has established an effective channel allowing employees and other stakeholders of the Group to communicate their concerns and findings to the management. The Group aims to build risk awareness and control responsibility into the corporate culture and regards them as part of the risk management and internal control systems. In addition, the Group has applied relevant controls on the handling of inside information by relevant employees, including controls over the dissemination of such information and their dealings in the Group's shares.

During the year, the Audit Committee has discussed with the senior management and internal audit team of the Group the risk management and internal control systems and made recommendations to the Board to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard the assets of the Group. The internal audit team reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Audit Committee any findings and measures to address the variances and identified risks. Based on the result of the review for the year ended 31 December 2019, the Board considered that the risk management and internal control systems were effective and adequate.

INSIDE INFORMATION

In view of the requirements under Part XIVA of the Securities and Futures Ordinance and the Listing Rules, the Company has developed an Inside Information Policy and guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing instructions which are in place for employees to follow. The Inside Information Policy (for all staff) has been communicated to the staff through the Group's intranet. Senior officers of the Group have been identified and authorised to handle and respond the external enquiries in relation to the published announcement(s). The systems and procedures on publication and handling of inside information are monitored and reviewed on a regular basis.

CONSTITUTIONAL DOCUMENTS

There have been no changes in the constitutional documents of the Company during the year.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2019 is set out in the section headed "Independent Auditor's Report" in the Annual Report.

During the year, the external auditor performed both audit and non-audit services. A breakdown of their remuneration is set out below:

	2019 ***HK$'000***
Audit services	**2,009**
Non-audit services	
Tax services	**28**

The external auditor have confirmed in writing their independence.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board has established a Shareholders Communication Policy and is dedicated to maintain an on-going dialogue with the shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. It aims to ensure the shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company so as to enable the shareholders to exercise their rights in an informed manner and to allow the shareholders and investment community to engage actively with the Company. Information is communicated to them mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings, as well as other disclosure on the websites of the Company (www.polytecasset.com) and the Hong Kong Exchanges and Clearing Limited. The Company has also taken its own initiative to disclose the price-sensitive information in a timely manner and to comply with the latest statutory requirement under Part XIVA of the Securities and Futures Ordinance.

General meetings of the Company provide a forum for effective communication with shareholders. The general meeting held in 2019 was the AGM held at U Banquet, 4th Floor, Pioneer Centre, 750 Nathan Road, Hong Kong on 5 June 2019.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to propose a person for election as a Director

Pursuant to the articles of association of the Company, a shareholder may propose a person for election as a Director, other than a retiring Director unless recommended by the Directors for election at any general meeting. The notice of the intention to propose a Director and notice by that person of his willingness to be elected shall have been lodged at the Company's head office or registration office at least 7 days before the date of the general meeting. The period for lodgement of the notice shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting. Detailed procedures can be found on the Company's website.

Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at shareholders' meetings

Pursuant to the articles of association of the Company, extraordinary general meetings shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to send enquiries to the Board

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

The Company Secretary
Polytec Asset Holdings Limited
23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong
Telephone Number: +852 2380 9682
Fax Number: +852 2380 6310
Email: enquiry@polytec.com.hk

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in page 3 of the Annual Report.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 32 to the financial statements. Further discussion and analysis of the principal activities of the Group during the year as required by Schedule 5 to the Hong Kong Companies Ordinance, including an indication of likely future developments in the Group's businesses, can be found in the "Five-year Financial Summary", "Chairman's Statement", "Financial Review" and "Corporate Governance Report" sections of the Annual Report. This discussion forms part of this Report of the Directors.

Description of the key risks and uncertainties that the Group may be facing can be found below.

KEY RISKS AND UNCERTAINTIES

The Group is exposed to various risks including those related to its specific business nature as well as those that are common to other businesses. The Group's risk management and internal control systems are in place to ensure principal risks as well as significant emerging risks are identified, monitored and managed on a continuous basis. The principal risks and uncertainties set out below may have material impacts on the Group's businesses, operating results, financial position or prospects, but they are by no means exhaustive or comprehensive.

Property development business risk

The Group owns an 80% interest in a property development project in Macau. Property development is faced with the risk of deterioration of property market conditions which is subject to the changes in the overall economic environment, political stability, governmental policies as well as the measures imposed by Macau Government to curb property speculation.

Oil business risk

The Group's oil business in Kazakhstan is exposed to the risk of fluctuation of crude oil prices, which are mainly influenced by global supply and demand, Organisation of the Petroleum Exporting Countries (OPEC) policy and worldwide political events. It is also subject to extensive governmental and environmental approvals and regulations in its operating jurisdiction. In addition, the estimation of oil reserves is complex and subject to uncertainty. Other operating risks for oil business include natural disaster, fire, malfunctions of facilities and shortage of electricity supply.

KEY RISKS AND UNCERTAINTIES *(continued)*

Ice manufacturing and cold storage business risk

Ice manufacturing business is exposed to product quality assurance risk. To minimise potential contamination, our packaged edible ice is produced under high sanitary conditions and a concealed environment. The plant is also equipped with an on-line control laboratory to monitor the critical control parameters continuously. Though safety guidelines and protective equipment are provided to the employees, accidents and injuries may occur. The ice manufacturing and cold storage business may also be affected by malfunctions or obsolescence of production facilities and reefer trucks.

Investment risk

The Group engages in business activity involving financial investment, including but not limited to bonds and stocks, in Hong Kong and other recognised financial markets. The Group's financial investments may be subject to default risk and liquidity risk and their market values may be affected by corporate performance of the issuing institutions, economic factors or changes in government policies and regulations in relevant sectors.

Regulatory risk

The Group operates in highly-regulated markets and industries where changes to legal and regulatory requirements may have a significant impact on our businesses. The Group has to ensure that all the regulatory requirements including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Companies Ordinance as well as legal, tax, environmental and any other statutory requirements for our Group's various businesses in different jurisdictions have been compiled with.

People risk

The Group's future development is materially affected by whether it can recruit, retain, develop and motivate competent and qualified staff at various levels. The shortage or loss of key personnel may affect the Group's existing operations and prospects.

Financial risk

The Group is exposed to interest rate risk, credit risk, liquidity risk, price risk and currency risk which arise in the normal course of the Group's businesses. The analysis of these risks is disclosed in the notes to the financial statements in detail.

Information Security Risk

The Group's computer system and data are exposed to unauthorised access or damage caused by cyber threats, especially nowadays the worldwide cybercrime and malware attack become more frequent. Failure in protecting the computer system and data of the Group may lead to loss or leakage of critical data or even disruptions of normal operations of the business.

DIVIDENDS

An interim dividend of HK$0.013 per share (2018: HK$0.012 per share) was paid on 11 December 2019. The Board of Directors now recommends the payment of a final dividend of HK$0.060 per share (2018: HK$0.083 per share) in respect of the year ended 31 December 2019.

Dividend Policy

The Company is committed to striving for balance between increasing the value of dividends per share and retaining the competitiveness for its future business expansion. The dividend policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its profits as dividends to the shareholders of the Company provided that there are distributable profits and the normal operations of the Group are not affected. The principles and guidelines are set out below:

(a) The Board has the discretion to declare and distribute dividends to the shareholders by way of cash or scrip or by other means that the Board considers appropriate.

(b) When considering the declaration and payment of dividends, the Board shall take into account a number of factors, including but not limited to:

  (i) actual and expected financial performance of the Group;

  (ii) retained earnings and distributable reserves of the Group;

  (iii) expected working capital requirements, capital expenditure requirements, liquidity position and future business strategies of the Group;

  (iv) general economic conditions and other factors that may have an impact on the business or financial performance and position of the Group;

  (v) the shareholders' interests; and

  (vi) any other factors that the Board considers as relevant.

(c) The Company does not have any pre-determined dividend payout ratio.

(d) The declaration and payment of dividends by the Company will be subject to all applicable laws, rules and regulations and the articles of association of the Company.

(e) Any final dividend will also be subject to the shareholders' approval.

The dividend policy is subject to regular review by the Board and will be amended as and when appropriate.

RESERVES

Details of the movements in reserves of the Company and of the Group during the year are set out in note 28(b) to the financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the retained profits of the Company available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands amounted to HK$1,811,739,000. Further, the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at 31 December 2019, the Company's share premium account amounted to HK$5,912,600,000.

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 22 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors
Mr. Or Wai Sheun *(Chairman)*
Mr. Yeung Kwok Kwong
Ms. Wong Yuk Ching
Ms. Chio Koc Ieng

Non-executive Directors
Mr. Lai Ka Fai
Ms. Or Pui Ying, Peranza

Independent Non-executive Directors
Mr. Liu Kwong Sang
Dr. Tsui Wai Ling, Carlye
Prof. Dr. Teo Geok Tien Maurice

In accordance with articles 108(A) and (B) and 112 of the articles of association of the Company, Mr. Yeung Kwok Kwong, Mr. Lai Ka Fai and Dr. Tsui Wai Ling, Carlye will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

Particulars of the Directors' emoluments, disclosed pursuant to the Companies Ordinance and Appendix 16 to the Listing Rules, are set out in note 7 to the financial statements.

Brief biographical particulars of all Directors are given on pages 12 to 14 of the Annual Report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her as well as their respective immediate family members' (which is defined under Rule 14A.12(1)(a) of the Listing Rules) independence pursuant to Rule 3.13 of the Listing Rules and considers them remain independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests or short positions of the Directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

Long positions in the shares of the Company

Directors	Capacity and nature of interests	Number of ordinary shares held	Percentage of the issued ordinary share capital *(Note 1)*
Mr. Or Wai Sheun *(Note 2)*	Corporate	3,225,446,444	72.66%
Mr. Yeung Kwok Kwong	Personal	2,018,000	0.05%
Ms. Wong Yuk Ching	Personal	6,772,000	0.15%
Ms. Chio Koc Ieng	Personal	292,500	0.01%
Mr. Lai Ka Fai	Personal	505,100	0.01%
Ms. Or Pui Ying, Peranza	Personal	7,000,000	0.16%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions in the shares of associated corporations

– Kowloon Development Company Limited ("KDC")

Directors	Capacity and nature of interests	Number of ordinary shares held	Percentage of the issued ordinary share capital *(Note 3)*
Mr. Or Wai Sheun *(Note 2)*	Corporate	831,047,624	70.63%
Mr. Yeung Kwok Kwong	Personal	180,000	0.02%
Ms. Wong Yuk Ching	Personal	1,170,000	0.10%
Ms. Chio Koc Ieng	Personal	225,000	0.02%
Mr. Lai Ka Fai	Personal	751,000	0.06%

Notes:

1. As at 31 December 2019, the total number of issued shares of the Company was 4,438,967,838 ordinary shares.

2. New Explorer Developments Limited (a company wholly-owned by Mr. Or Wai Sheun) held 830,770,124 ordinary shares of KDC and Intellinsight Holdings Limited (a company wholly-owned by New Explorer Developments Limited) held 277,500 ordinary shares of KDC. Mr. Or Wai Sheun was therefore deemed to be interested in 831,047,624 ordinary shares of KDC via New Explorer Developments Limited as at 31 December 2019.

   Mr. Or Wai Sheun was also deemed to be interested in 3,225,446,444 ordinary shares of the Company through his abovementioned interests in shares of KDC. Such interest in 3,225,446,444 ordinary shares in the Company as disclosed by Mr. Or Wai Sheun and as disclosed by New Explorer Developments Limited mentioned in note 2 in the section under the heading of "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" were the same interests in the Company.

3. As at 31 December 2019, the total number of issued shares of KDC was 1,176,631,296 ordinary shares.

Save as disclosed above, as at 31 December 2019, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of the persons, other than the Directors and Chief Executives, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions

Substantial shareholders	Capacity and nature of interests	Number of ordinary shares held	Percentage of the issued ordinary share capital *(Note 1)*
New Explorer Developments Limited *(Note 2)*	Corporate	3,225,446,444	72.66%
Kowloon Development Company Limited *(Note 3)*	Corporate	3,142,341,682	70.79%

Notes:

1. As at 31 December 2019, the total number of issued shares of the Company was 4,438,967,838 ordinary shares.

2. The interests in 3,225,446,444 ordinary shares in the Company as disclosed by New Explorer Developments Limited mentioned in this section and as disclosed by Mr. Or Wai Sheun in note 2 in the section under the heading of "Directors' Interests and Short Positions in Shares and Underlying Shares" were the same interests in the Company.

3. Such interests in shares of the Company were held by Marble King International Limited, a wholly-owned subsidiary of KDC. By virtue of the interests in the shares of the Company as described in note 2 in the section under the heading of "Directors' Interests and Short Positions in Shares and Underlying Shares", Mr. Or Wai Sheun was deemed to be interested in such shares of the Company through Marble King International Limited.

Save as disclosed above, as at 31 December 2019, no person 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.

CONNECTED TRANSACTIONS

On 22 June 2018, the Group entered into a sale and purchase agreement with Polytec Holdings International Limited ("Polytec Holdings"), under which the Group has conditionally agreed to acquire 60% equity interest together with 60% sale loan of the company holding the property development project in Zhuhai, which covers a site area of approximately 43,656 square metres for a consideration of HK$644,378,000 ("Zhuhai Acquisition").

As one of the conditions precedent to the sale and purchase agreement, having obtained the relevant approval of the People's Republic of China Government regarding the change in use of the northern part of the property development project in Zhuhai from industrial use to commercial use, was not satisfied by the long-stop date of 31 December 2019, the Company decided not to proceed with the Zhuhai Acquisition. On 6 January 2020, the Group served a termination notice in writing to Polytec Holdings to terminate the Zhuhai Acquisition. Details of the termination have been set out in the joint announcement of KDC and the Company dated 6 January 2020.

Directors' Material Interests in Transactions, Arrangements or Contracts

The Directors' interests in contracts with the Group during the year are set out in the section notes 12 and 25(a), (b), (c), (d) and (e) to the financial statements as well as the section headed "Connected Transactions" above.

Save as disclosed above, no contract of significance in relation to the Group's business to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of Directors of the Company required to be disclosed are set out below:

Mr. Liu Kwong Sang, an independent non-executive director of the Company, has been appointed as an independent non-executive director of ATIF Holdings Limited, a company listed on the Nasdaq Stock Market of the United States since 3 May 2019, with effect from 29 April 2019.

Save as disclosed above and the Directors' emoluments which set out in note 7(a) to the financial statements, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

RETIREMENT SCHEME

Particulars of the retirement scheme operated by the Group are set out in note 29 to the financial statements.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

SHARE OPTION SCHEME

The Share Option Scheme of the Company expired by effluxion of time on 8 January 2014 and no further new/revised share option scheme has been adopted by the Company since then. The Company did not have any outstanding share options as at 31 December 2019.

HUMAN RESOURCES

As at 31 December 2019, the total number of employees of the Group was about 230 (2018: 260). Staff costs (excluding directors' emoluments) during the year totalled HK$55,422,000 (2018: HK$56,151,000). The Group remunerates its employees by means of salary and bonus based on their performance, working experience, degree of hardship and prevailing market practice. The emolument policy of the Group is reviewed by the members of the Remuneration Committee and approved by the Board.

The emoluments of the Directors of the Company are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics and approved by the Board.

The Group believes that the quality of its human resources is critical for it to maintain a strong competitive edge. The Group has encouraged its employees to take training courses to strengthen their all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

In addition, the Group also held an annual dinner and a Christmas party for employees during the year to promote team spirit and loyalty and to enhance communication between departments.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of the Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in notes 20 and 25 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5 of the Annual Report.

MANAGEMENT CONTRACTS

Save for the directors' service contracts or employment contracts, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's revenue attributable to the largest customer and the five largest customers in aggregate of the Group, which included distributions from interests in property development, were 79% and 86% respectively. Except for the distributions from interests in property development as disclosed in note 12 to the financial statements, none of the Directors, their associates, or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% in the share capital of the Company) has any interest in those customers.

During the year, less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

PROPERTIES

Particulars of the major properties and property interests of the Group are shown on pages 119 to 120 of the Annual Report.

OIL RESERVES

Except for the production during the year under review, there is no material change in the oil reserves of the Group.

DONATIONS

Charitable donations made by the Group during the year amounted to HK$896,000 (2018: HK$1,013,000).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who entitle to attend and vote at the 2020 Annual General Meeting, the Register of Members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020, both dates inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2020 Annual General Meeting, all the transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on Thursday, 4 June 2020.

For the purpose of determining shareholders who qualify for the proposed final dividend, the Register of Members of the Company will be closed from Wednesday, 17 June 2020 to Thursday, 18 June 2020, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all the transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on Tuesday, 16 June 2020.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 15 to 28 of the Annual Report.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditor.

AUDITOR

The Group's consolidated financial statements for the year ended 31 December 2019 have been audited by KPMG, Certified Public Accountants who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

SUSTAINABLE DEVELOPMENT

Environmental policies and performances

The Group is keenly aware of and endeavours to ensure the long term sustainability of the environment and communities in which it operates. As such, the Group has sought ways to optimise resources and limit environmental footprints in day-to-day operations through monitoring of environmental performances, upgrading on-site equipment and reviewing improvement measures. Furthermore, the Group strictly operates under compliance with existing local environmental regulations in its respective operation locations in different jurisdictions.

The Group is committed to conserving the environment and seeking continuous improvement in environmental matters. To enhance environmental protection awareness at the workplace, we encourage our employees to switch off the lights, air conditioning and other unused office equipment when leaving the office, use recycled paper or doublesided for printing and copying. In 2019, the Group has implemented various measures to promote resource optimisation and waste management, such as the replacement of sea water condensers in one of our plants in Hong Kong and upgrade of wastewater management system in the oilfield in Kazakhstan. In addition, the Group became a corporate member of WWF-Hong Kong during the year, supporting the Non-Governmental Organisation's works on conservation and education.

Compliance with laws and regulations

As far as the Company is aware, there was no material breach of or non-compliance with all applicable laws and regulations that would have had a significant impact on the businesses and operations of the Group during the year.

Relationships with stakeholders

The Group has an integrated human capital strategy to recruit, develop and motivate employees, making sure that employees are provided with a competitive remuneration package, appropriate training and development opportunities and their performance goals are aligned with the Group's business objectives.

Occupational health and safety of employees should be given first and foremost consideration at work. All employees are required to attend safety training regularly to improve their level of safety awareness of the workplace hazards and the corresponding preventive measures. In particular, new employees are required to fully understand the safety guidelines for handling ammonia and truck drivers are trained to adopt proper driving techniques for the ice manufacturing and cold storage business. Moreover, regarding the oil business in Kazakhstan, an incident prevention programme has been launched to make sure that our employees are all well trained in safety, first aid and emergency procedures.

SUSTAINABLE DEVELOPMENT *(continued)*

Relationships with stakeholders *(continued)*

The Group is also dedicated to providing high quality deliverables to meet its customers' needs. Product responsibility is paramount to the Group. The packaged edible ice is produced under strict sanitary conditions where the entire process is completed in an enclosed environment to minimise potential contamination. To achieve our commitments to our customers, the Group is striving to maintain good relationship and close communication with our business partners, banks, contractors and suppliers.

Additionally, communication with our stakeholders is particularly critical as the Group sets forth its sustainability framework. Therefore, we conduct stakeholder survey annually to further gauge their perspectives on the Group's environmental and social material issues. Based on the accumulated result of the annual survey, we have constructed a systematic materiality assessment as a bridge to better address various stakeholders' concerns. Aligning with recent trends in the environmental and social aspects, the Group looks forward to regularly reviewing and refining our materiality assessment and matrix, so as to further enhance stakeholder engagement on sustainability.

Apart from the Group's continuous efforts towards improvement in relationship with its stakeholders, the Group is also committed to delivering support to the needs of the community. The Group has been donating and participating in charity activities to various communities and charity organisations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

In accordance with the requirement set out in Appendix 27 to the Listing Rules, a separate Environmental, Social and Governance Report will be published on the Company's website and the website of Hong Kong Exchanges and Clearing Limited to enhance report readability. The report details the environmental and social performances of the Group operations, and reflects on measures the Group has taken to sustain growth while balancing environmental protection, occupational health and safety of employees, and community engagement.

By Order of the Board

Or Wai Sheun
Chairman

Hong Kong, 25 March 2020

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Shareholders of
Polytec Asset Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Polytec Asset Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 48 to 118, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing potential impairment of oil production and exploitation assets

Refer to accounting policies 1(g) and 1(h) and notes 2(c), 10 and 11 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019, the Group held oil production and exploitation assets in Kazakhstan with carrying amounts totalling HK$66.7 million, which were stated at cost less accumulated amortisation and impairment losses. The related gas flaring permits, which are required to continue normal crude oil production, had expired on 31 December 2018. In 2019, the related gas flaring permits were not renewed for certain months and the Group could only maintain a minimum (i.e. below normal) production level during that period. As at 31 December 2019, the Group has obtained the related gas flaring permits which are valid until the end of December 2020. The recoverable amounts of oil production and exploitation assets were assessed by management based on the present value of estimated future cash flows arising from the continued use of the assets. The assessment of the recoverable amounts is inherently subjective as it involves significant management judgement and estimation, particularly in relation to the estimation of future crude oil prices, future oil production quantities, inflation and the discount rate applied. The Group recognised an impairment loss on oil production and exploitation assets during the year ended 31 December 2019 amounting to HK$231.6 million.	Our audit procedures to assess the potential impairment of oil production and exploitation assets included the following: • obtaining and inspecting the impairment assessment prepared by management and comparing the key estimates and assumptions made in prior years with the current year; • with the assistance of our internal valuation specialists, discussing with management their valuation methodology and challenging the key estimates and assumptions adopted in the discounted cash flow forecast, in particular with relation to future crude oil prices, production forecasts, future operating and capital expenditure, discount rate and inflation rate, by comparing these with publicly available market benchmarks, historical results, economic and industry forecasts or approved business plans and by utilising the industry knowledge and experience of our internal valuation specialists; • inspecting the documentation on which management based its assessment of the likelihood of renewal of the related gas flaring permits during the period covered by the discounted cash flow forecast;

The Key Audit Matter	How the matter was addressed in our audit
We identified assessing potential impairment of oil production and exploitation assets as a key audit matter because the assessment of the recoverable amounts involved significant management judgement, particularly in light of the volatility of crude oil prices, the uncertainty of the renewal of the related gas flaring permits and the current Kazakhstan business environment. Variations in these management judgements could have a material impact on the consolidated financial statements.	• performing a retrospective review for oil production and exploitation assets by comparing the forecasted operating results made in the prior year's impairment assessment with the current year's operating results; • re-performing calculations made by management in arriving at the year end assessments of recoverable amounts and comparing the calculated recoverable amounts to the actual carrying amounts and assessing whether any impairment charges or reversals of previously recognised impairment charges were necessary; and • performing sensitivity analyses by making adjustments to future crude oil prices and discount rate to assess the risk of possible management bias in the impairment assessment exercise.

Valuation of interests in property development

Refer to accounting policy 1(k) and notes 2(e) and 12 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019, interests in property development represented the Group's interests in the development of residential and commercial properties located in Macau which were stated at an aggregate fair value of HK$12,273.5 million. The Group recognised a net surplus on revaluation of these assets of HK$252.3 million in the consolidated income statement for the year ended 31 December 2019. The interests in property development in Macau at 31 December 2019 mainly represented the Lote P property development project. The construction work at the Lote P property development project has been suspended since December 2015 due to the expiry of the land lease. Pursuant to the co-investment agreement for the Lote P property development project, Polytec Holdings International Limited ("Polytec Holdings"), a related company of the Group, will indemnify the Group in respect of any loss suffered in respect of the Lote P property development project. The fair values of interests in property development were measured using a discounted cash flow model prepared by management.	Our audit procedures to address the valuation of interests in property development included the following: • obtaining and assessing the discounted cash flow forecast prepared by management and comparing the key estimates and assumptions made in prior years with the current year and current market developments; • with the assistance of our internal valuation specialists, discussing with management their valuation methodology and challenging the key estimates and assumptions adopted, by comparing those relating to expected future selling prices, costs to completion, market rents and yields and the discount rates applied with publicly available market information and by utilising the industry knowledge and experience of our internal valuation specialists;

The Key Audit Matter	How the matter was addressed in our audit
We identified the valuation of interests in property development as a key audit matter because of the significance of interests in property development to the Group's total assets and the significance of the changes in fair value of the interests in property development to the Group's consolidated income statement and because the valuation of interests in property development can be inherently subjective and requires the exercise of significant management judgement and estimation which increases the risk of error or management bias, particularly given the volatility of property prices in Macau.	• inspecting the financial information of Polytec Holdings received by the Group and other documentation referred to by management in its assessment of the financial ability of Polytec Holdings to provide the indemnity for any loss suffered by the Group in respect of the Lote P property development project; and • re-performing calculations of the discounted cash flow model prepared by management in arriving at the year end fair value and comparing the expected profit distribution plans with the latest sales budget plans maintained by management.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ming.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2020

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	3	**906,877**	1,592,854
Cost of sales		**(70,670)**	(62,822)
Gross profit		**836,207**	1,530,032
Other income	4	**17,390**	11,786
Selling and distribution expenses		**(38,948)**	(48,090)
Administrative expenses		**(44,828)**	(48,512)
Other operating expenses		**(50,121)**	(51,365)
Impairment of oil production and exploitation assets	2(c)	**(231,573)**	–
Fair value changes on interests in property development	12	**252,305**	170,201
Profit from operations		**740,432**	1,564,052
Finance costs	5(a)	**(69,065)**	(51,808)
Share of profits less losses of joint ventures		**70,442**	111,619
Profit before taxation	5	**741,809**	1,623,863
Income tax	6(a)	**(31,188)**	(3,198)
Profit for the year		**710,621**	1,620,665
Attributable to:			
Equity shareholders of the Company		**707,329**	1,618,545
Non-controlling interests		**3,292**	2,120
Profit for the year		**710,621**	1,620,665
Earnings per share – basic and diluted	8	**15.93 HK cents**	36.46 HK cents

The notes on pages 54 to 118 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 9.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	HK$'000	*HK$'000*
Profit for the year	**710,621**	1,620,665
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**594**	–
Share of other comprehensive income of joint ventures	**(24,351)**	–
	(23,757)	–
Total comprehensive income for the year	**686,864**	1,620,665
Attributable to:		
Equity shareholders of the Company	**683,572**	1,618,545
Non-controlling interests	**3,292**	2,120
Total comprehensive income for the year	**686,864**	1,620,665

The notes on pages 54 to 118 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	10	**166,182**	404,220
Oil exploitation assets	11	**6,001**	27,516
Interests in property development	12	**10,826,000**	11,149,530
Interest in joint ventures	13	**2,694,327**	2,519,932
Other financial assets	15	**161,050**	–
Deferred tax assets	21	**3,800**	42,227
Goodwill	14	**16,994**	16,994
		13,874,354	14,160,419
Current assets			
Interests in property development	12	**1,447,493**	871,658
Amount due from a related company	25(a)	**500,000**	1,220,000
Amounts due from joint ventures	25(b)	**203,121**	197,075
Other financial assets	15	**15,418**	–
Inventories	16	**82,443**	85,996
Trade and other receivables	17	**213,220**	205,912
Cash and bank balances	18	**424,214**	292,599
		2,885,909	2,873,240
Current liabilities			
Trade and other payables	19	**63,866**	75,411
Bank loans	20	**78,500**	73,500
Current taxation		**52,420**	59,979
		194,786	208,890
Net current assets		**2,691,123**	2,664,350
Total assets less current liabilities		**16,565,477**	16,824,769

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Amount due to immediate holding company	25(c)	**–**	1,643,453
Amount due to a related company	25(c)	**1,104,364**	–
Other payables		**17,688**	17,450
Bank loans	20	**1,418,000**	1,396,500
Deferred tax liabilities	21	**15,632**	16,083
		2,555,684	3,073,486
NET ASSETS		**14,009,793**	13,751,283
CAPITAL AND RESERVES			
Share capital	22	**443,897**	443,897
Reserves		**13,552,237**	13,294,806
Total equity attributable to equity shareholders of the Company		**13,996,134**	13,738,703
Non-controlling interests		**13,659**	12,580
TOTAL EQUITY		**14,009,793**	13,751,283

Approved and authorised for issue by the Board of Directors on 25 March 2020.

Or Wai Sheun
Director

Yeung Kwok Kwong
Director

The notes on pages 54 to 118 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to equity shareholders of the Company						
	Share capital HK$'000	Share premium HK$'000	Exchange reserves HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	443,897	5,912,600	–	5,905,708	12,262,205	12,673	12,274,878
Profit and total comprehensive income for the year	–	–	–	1,618,545	1,618,545	2,120	1,620,665
Dividends paid to equity shareholders of the Company *(note 9)*	–	–	–	(142,047)	(142,047)	–	(142,047)
Dividends paid to non-controlling interests	–	–	–	–	–	(2,213)	(2,213)
At 31 December 2018	443,897	5,912,600	–	7,382,206	13,738,703	12,580	13,751,283
At 1 January 2019	**443,897**	**5,912,600**	**–**	**7,382,206**	**13,738,703**	**12,580**	**13,751,283**
Profit for the year	**–**	**–**	**–**	**707,329**	**707,329**	**3,292**	**710,621**
Other comprehensive income	**–**	**–**	**(23,757)**	**–**	**(23,757)**	**–**	**(23,757)**
Total comprehensive income	**–**	**–**	**(23,757)**	**707,329**	**683,572**	**3,292**	**686,864**
Dividends paid to equity shareholders of the Company *(note 9)*	**–**	**–**	**–**	**(426,141)**	**(426,141)**	**–**	**(426,141)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(2,213)**	**(2,213)**
At 31 December 2019	**443,897**	**5,912,600**	**(23,757)**	**7,663,394**	**13,996,134**	**13,659**	**14,009,793**

The notes on pages 54 to 118 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Net cash (used in)/generated from operating activities	23(a)	**(42,354)**	662,099
Investing activities			
Purchase of equity investments		**(31,057)**	–
Proceed from disposal of equity investments		**16,266**	–
Purchase of debt investments		**(155,923)**	–
Purchases of property, plant and equipment		**(2,711)**	(4,473)
Additions to oil exploitation assets		**(19)**	–
Proceeds from disposal of property, plant and equipment		**338**	1,100
Dividend received from a joint venture		**70,112**	68,684
Net cash (used in)/generated from investing activities		**(102,994)**	65,311
Financing activities			
Amount advanced from a related company	23(b)	**680,106**	–
Repayments of amount due to a related company	23(b)	**(385,317)**	–
Amount advanced from immediate holding company	23(b)	**619,000**	646,437
Repayments of amount due to immediate holding company	23(b)	**(235,854)**	(1,323,297)
Drawdown of bank loans	23(b)	**100,000**	480,000
Repayments of bank loans	23(b)	**(73,500)**	(364,800)
Dividends paid to non-controlling interests		**(2,213)**	(2,213)
Dividends paid to equity shareholders of the Company		**(426,141)**	(142,047)
Net cash generated from/(used in) financing activities		**276,081**	(705,920)
Net increase in cash and cash equivalents		**130,733**	21,490
Cash and cash equivalents at 1 January		**292,599**	271,109
Effect of foreign exchange rate changes		**882**	–
Cash and cash equivalents at 31 December		**424,214**	292,599
Analysis of balance of cash and cash equivalents at 31 December			
Cash and bank balances		**424,214**	292,599

The notes on pages 54 to 118 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in joint ventures. The measurement basis used in the preparation of the financial statements is the historical cost basis, except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*.

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 16 are summarised below.

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases under HKAS 17 based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under HKFRS 16, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17.

The Group decided to apply recognition exemptions to short-term leases that have a lease term of 12 months or less and leases of low-value assets. For leases of other assets, the Group recognised right-of-use assets and lease liabilities.

As a lessor

HKFRS 16 does not substantially change how a lessor accounts for leases under HKAS 17.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(p)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Joint ventures

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment losses relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Joint ventures *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associated company, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Oil exploitation assets

Costs incurred for the acquisition and maintenance of the exploitation rights of the Group's oil exploration and production activities are capitalised as oil exploitation assets. Oil exploitation assets are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). The amortisation is calculated based on unit of production method based upon the estimated proved and probable oil reserves.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see note 1(l)). Future estimated dismantling and restoration costs of property, plant and equipment are discounted at appropriate rates and are capitalised as part of the cost of property, plant and equipment, which is subsequently depreciated. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time, is reflected as an adjustment to the costs.

Except for certain oil production assets as set out below, depreciation is calculated on the straight-line basis to write off the cost of each asset, less any estimated residual value, over its estimated useful life as follows:

Leasehold land	over the unexpired term of lease
Buildings situated on leasehold land	over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of acquisition/completion
Others	2 to 10 years

Oil production assets include all the property, plant and equipment arising from oil exploration and production activities.

Depreciation of certain oil production assets is calculated based on a unit of production method based upon the estimated proved and probable oil reserves to write off the cost of each asset, less any estimated residual value.

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. The gain or loss on derecognition of property, plant and equipment included in profit or loss is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(i) As a lessee *(continued)*

(A) Policy applicable from 1 January 2019 (continued)

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(h) and 1(l)(ii)), except for the following type of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 1(j).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(i) As a lessee *(continued)*

(B) Policy applicable prior to 1 January 2019

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(w)(iii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 1(i)(i), then the Group classifies the sub-lease as an operating lease.

(j) Investment properties

Investment properties are land and/or buildings held under leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property. They are valued semi-annually by independent firm of professional valuers on a market value basis.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair values cannot be reliably measured at that time in which case they are stated at cost less any impairment losses. All changes in fair value of investment properties are recognised directly in the consolidated income statement.

(k) Interests in property development

Interests in property development are classified as investments measured at fair value through profit or loss ("FVPL"). Changes in fair value of the investments (including interest) are recognised in profit or loss. The fair value of interests in property development is determined based on the estimated entitlements to the interests in property development.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and amounts due from a related company and joint ventures, and loan to a joint venture);

– contract assets as defined in HKFRS 15 (see note 1(n)); and

– debt securities measured at fair value through other comprehensive income ("FVOCI") (recycling).

Other financial assets measured at fair value, including equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof; and

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments and contract assets *(continued)*

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments and contract assets *(continued)*

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(w)(vi) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets (other than properties carried at revalued amounts);

– oil exploitation assets;

– intangible assets;

– goodwill; and

– investments in subsidiaries and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Inventories

Inventories, other than consumables, are stated at the lower of cost and net realisable value. Consumables are stated at cost less any provision for obsolescence.

Cost of inventories, other than properties, is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost of properties mainly comprises costs of acquisition, borrowing costs capitalised, aggregate costs of development, materials and supplies, wages and other direct expenses. Net realisable value of the properties held for sale represents the estimated selling price less costs to be incurred in selling the property.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(w)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 1(l)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(o)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(w)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(o)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(w)).

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(n)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(l)).

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and joint ventures, are set out below:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 27(d). These investments are subsequently accounted for as follows, depending on their classification:

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(w)(vi)).

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECLs, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Other investments in debt and equity securities *(continued)*

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(w)(v).

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary difference respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(j), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(s) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

These financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

(w) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods and crude oil

Revenue arising from the sale of goods and crude oil is recognised at a point in time when the customer takes possession of and accepts the goods and crude oil, which is taken to be the point in time when the customer has obtained control of the goods and crude oil sold.

(ii) Income from interests in property development

Income from interests in property development is recognised when the Group is entitled to a distribution in respect of the investment.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Revenue recognition *(continued)*

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iv) Sale of properties

Revenue arising from the sale of properties is recognised in the income statement on the basis that control over the ownership of the property has been passed to the customer, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all the benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(vii) Service income

Service income is recognised when the related services are rendered and the amount receivables can be measured reliably.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's senior management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(y) Borrowings

Borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies (which are described in note 1), management has made the following judgements that have significant effect on the amounts recognised in the financial statements.

(a) Depreciation and amortisation

The Group depreciates plant and equipment, other than certain oil production assets, on a straight-line basis over an estimated useful life of 2 to 10 years, after taking into account the estimated residual value, using the straight-line method, commencing from the date the plant and equipment is placed into productive use. The estimated useful life and dates that the Group places the plant and equipment into productive use reflects the management's estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's plant and equipment. Management reviews the useful lives of plant and equipment annually and, if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for future periods will be adjusted accordingly.

Certain oil production assets and oil exploitation assets are depreciated and amortised based on a unit of production method based upon the estimated proved and probable oil reserves. The estimates of the Group's oil reserves are the best estimates based on the information currently available to the management and represent only approximate amounts because of the subjective judgements involved in developing such information. Oil reserve estimates are subject to revision, either upward or downward, based on new relevant information. Changes in oil reserves will affect unit of production depreciation, amortisation and depletion recorded in the Group's consolidated financial statements for oil production assets and oil exploitation assets related to oil production activities. A reduction in oil reserves will increase depreciation, amortisation and depletion charges.

(b) Estimation of provision for properties held for sale

Management determines the net realisable value of properties held for sale by using the prevailing market data such as the most recent sale transactions and market survey reports available from independent property valuers.

Management's assessment of the net realisable value of properties held for sale requires judgement as to the anticipated sale prices with reference to the recent sale transactions in nearby locations, the rate of new property sales, marketing costs and the expected costs to complete the properties, the legal and regulatory framework and general market conditions.

2. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(c) Estimated impairment of oil production assets and oil exploitation assets

Oil production and exploitation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amounts may exceed the recoverable amounts, which are considered to be the higher of the fair value less costs of disposal and value in use. A discounted cash flow model was adopted consistently as previous years which was prepared by the experienced technical and professional team of the Group and reviewed by the Directors of the Company although no independent valuation report was produced. Discounted cash flow model is a commonly used valuation method for oil companies worldwide to determine the recoverable amount of the oil production and exploitation assets during the oil production stage. Under the discounted cash flow model, the recoverable amount for oil production and exploitation assets is determined based on the present value of estimated future cash flows arising from the continued use of the assets. Cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the assets. Determination as to whether and how much an asset is impaired involves management judgements in estimating future crude oil prices, the discount rate used in discounting the projected cash flows and the production profile, etc. The impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan and that all relevant licences and permits are obtained. However, the business environment including the crude oil price is affected by a wide range of global and domestic factors which are all beyond the control of the Group. Any adverse changes in the key assumptions could increase the impairment provision.

The gas flaring permit allowing flaring of associated gas necessary for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly-owned subsidiary of the Company in Kazakhstan expired on 31 December 2018. During the year, gas flaring permits were not renewed for certain months and the Group could only maintain a minimum (i.e. below normal) production level during that period. By the end of 2019, as construction of the pipes to the gas processing plant for processing the associated gas was completed by Caspi Neft TME, the historic issue regarding the treatment and utilisation of associated gas had been solved permanently. As a result, the gas flaring permit for the year ending 31 December 2020 was obtained and the Group considers that the gas flaring permit will be successfully renewed yearly in future.

As at 31 December 2019, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and whether the carrying values of the oil production and exploitation assets exceeded the estimated recoverable amounts. The recoverable amounts of oil production and exploitation assets were determined based on the value in use calculations applying a discount rate of 12.5% (2018: 12.5%) consistently adopted by the Group, which was within the normal range of the discount rates commonly used in the discounted cash flow models by the oil companies in Kazakhstan. Based on the assessment, the carrying values of the oil production and exploitation assets exceeded their recoverable amounts by HK$231,573,000 as at 31 December 2019 in view of various factors of prevailing market and development conditions such as the declining crude oil price forecast; possible higher capital expenditure to be incurred due to the added complexity and technical specification of future well drilling; and the consequential revision of the development plan adopted by the Group, with more details disclosed below.

The forecast future crude oil prices as at 31 December 2019 obtained from the Oil Price Forecast of Bloomberg, an independent and internationally reliable source, were found to have dropped as compared to those at 31 December 2018 (2019: USD61.79 – USD74.01 per barrel; 2018: USD70.3–USD77.4 per barrel).

2. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(c) Estimated impairment of oil production assets and oil exploitation assets *(continued)*

In respect of the capital expenditure to be incurred for the future well drilling, it was expected to be higher due to the added complexity and technical specification of the wells to be drilled and the limited availability of well drilling service providers having taken into consideration the relatively small orders for such services that will be placed by Caspi Neft TME. The estimated capital expenditure for the future well drilling (including well drilling services, drilling materials and mud logging, etc) as at 31 December 2019 was expected to increase by approximately 65% as compared to that estimated as at 31 December 2018 by reference to the result of the study conducted thereon and the quotation for the well drilling services from an independent service provider.

In the late third quarter of 2019, when the management of Caspi Neft TME had ascertained that the aforesaid pipes would be completed by the end of 2019 and the approval for transporting the associated gas was expected to be obtained shortly after the completion of the pipes, they urged the technical team to wrap up various studies including those on geology, geophysics, well drilling and measures taken to improve production capacity and efficiency, etc. and analysis on the present and future market conditions so as to assess whether the future development plan (including the production plan) should be revised. Having thoroughly and carefully gone through and assessed the results of the studies comprehensively, it was concluded that both the water injection contributing effect and formation pressure recovery had declined. After conducting a further study and negotiating with some well drilling service providers, it was found that higher capital expenditure would be required for well drilling for the reasons as mentioned above. Taking into consideration all the aforesaid factors, the well drilling plan was deferred/postponed to complete a few years later thereby the overall production period would be extended for a few years and the average yearly production output for the future years would be lowered, whilst the level of oil reserves remained unchanged and consequently the future development plan was revised. In this regard, the future oil production volume and hence the future revenue and cash inflow generated therefrom would be deferred/postponed. As a result, the net present value of the estimated future cash flows arising from the oil production and exploitation assets would be lowered which would adversely affect the recoverable amount in the discounted cash flow model accordingly.

Accordingly, impairment losses for oil production assets and oil exploitation assets amounting to HK$210,731,000 and HK$20,842,000 respectively, are provided and recognised as a separate line item in the Group's consolidated income statement. Whereas the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values as at 31 December 2018, therefore, no further impairment loss was considered necessary for the year ended 31 December 2018.

Crude oil price assumptions were based on market expectations. At 31 December 2019, it is estimated that an increase/decrease of 20% (2018: 20%) in the estimated crude oil price used in the assessment, with all other variables held constant would have increased/decreased the carrying amounts of the oil production and exploitation assets by HK$127,200,000/HK$66,706,000 (2018: HK$184,558,000/HK$194,237,000). The discount rate used represents the rate to reflect the time value of money and the risks specific to the assets. It is estimated that an increase/decrease of 200 basis points (2018: 200 basis points) in the discount rate used in the assessment, with all other variables held constant would have decreased/increased the carrying amounts of the oil production and exploitation assets by HK$7,546,000/HK$8,822,000 (2018: HK$39,176,000/HK$43,434,000).

2. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Any adverse change in the key assumptions could increase any impairment provision.

(e) Estimated fair value of interests in property development

Interests in property development are stated at their fair value measured using a discounted cash flow model. In preparing the discounted cash flow model, the Group estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate based on the past performance, current market conditions, development and building plans, sale and marketing plans and management's expectations for the market development and terms provided under the co-investment agreements. Any adverse change in the key assumptions could decrease the fair value.

Interests in property development represent the Group's interests in the development of two properties located at Lote P and Lotes T+T1 of Novos Aterros da Areia Preta, in Macau under the co-investment agreements with two wholly-owned subsidiaries of Polytec Holdings International Limited ("Polytec Holdings"), a related company.

In respect of the development project at Lote P, its land concession was agreed in December 1990 whereby the proposed use of land was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ended on 25 December 2015 (the "Expiry Date"). If the project had been completed on or before the Expiry Date, it would have become a definite land concession which would be renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to the delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but it was declined by the relevant department of the Macau SAR Government.

On 23 May 2018, the Tribunal de Ultima Instancia (the Court of Final Appeal) of the Macau SAR rejected the application of final appeal by Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly-owned subsidiary of Polytec Holdings, for invalidating the decision made by the Chief Executive of the Macau SAR to terminate the land concession of the project.

2. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(e) Estimated fair value of interests in property development *(continued)*

Based on the legal opinion obtained by the Company, management is of the view that PCL has strong legal grounds and arguments to seek compensation from the Macau SAR Government for losses and damages, including but not limited to all actual losses suffered and all loss of profit as expected to be derived upon completion of the project, as a result of the procedural delay in granting the requisite approvals and permits for the development of the project which caused the incompletion of the project before the Expiry Date. On 29 November 2018, PCL had filed a civil claim against the Macau SAR Government to seek compensation for losses and damages on the development project at Lote P.

In addition, pursuant to the co-investment agreement for the development of the project, in the event that PCL fails to complete the project under the co-investment agreement, Polytec Holdings will be required to indemnify the Group in respect of any loss suffered. Therefore, any loss to the Group due to the repossession of the land of the project by the Macau SAR Government will be indemnified by Polytec Holdings. Accordingly, no impairment for the interests in the project was considered necessary at 31 December 2019.

In respect of the development project at Lotes T+T1, the occupation permit had been obtained in July 2017. The pre-sold residential units have been gradually delivered to the purchasers since late December of 2017, and the unsold residential units have been putting on the market for sale in phases.

(f) Estimated impairment of interest in subsidiaries

In considering the impairment losses that may be required for the Company's investments in subsidiaries and amounts due from subsidiaries, the recoverable amount of the assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs of the subsidiaries. The Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs of subsidiaries. Any adverse change in the key assumptions could increase the impairment provision.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are property investment and development, oil exploration and production, manufacturing of ice, provision of cold storage services and financial investments.

Disaggregation of revenue

	2019 HK$'000	2018 HK$'000
Under the scope of HKFRS 15, *Revenue from contracts with customers:*		
Sale of crude oil	61,342	74,710
Sale of goods	78,231	85,254
Sale of properties	4,500	–
Service income	35,767	32,890
	179,840	192,854
Revenue from other sources:		
Distributions from interests in property development	720,000	1,400,000
Dividend income from equity investments	519	–
Interest income from debt investments	6,518	–
	906,877	1,592,854

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date with performance obligation is part of a contract that has an original expected duration of one year or less.

3. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting

The Group manages its businesses by segments which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified four (2018: three) operating segments for the year which comprise property investment, trading and development related activities and interests in property development ("Properties"), oil exploration and production related activities ("Oil"), manufacturing of ice and provision of cold storage and related services ("Ice and cold storage") and financial investments on equity and debt securities ("Financial investments").

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment but exclude exceptional items.

Reportable segment result represents result before taxation by excluding fair value changes on interests in property development, share of profits less losses of joint ventures, finance costs and head office and corporate expenses.

Segment assets include all tangible, intangible assets and current assets with exception of interest in joint ventures, deferred tax assets and other corporate assets.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate income/expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

3. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

Information regarding the Group's reportable segments as provided to the Group's senior management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	Properties *HK$'000*	Oil *HK$'000*	Ice and cold storage *HK$'000*	Financial investments *HK$'000*	2019 Total *HK$'000*
Revenue	724,500	61,539	113,801	7,037	906,877
Reportable segment result	734,127	(257,459)	25,243	7,615	509,526
Fair value changes on interests in property development	252,305	–	–	–	252,305
Head office and corporate expenses					(21,399)
Profit from operations					740,432
Finance costs					(69,065)
Share of profits less losses of joint ventures	70,442	–	–	–	70,442
Profit before taxation					741,809
Reportable segment assets	13,012,764	95,051	135,805	177,147	13,420,767
Interest in and amounts due from joint ventures	2,897,448	–	–	–	2,897,448
Deferred tax assets					3,800
Head office and corporate assets					438,248
					16,760,263
Capital expenditure incurred	–	68	2,643	–	2,711
Depreciation and amortisation	–	24,157	6,192	–	30,349
Impairment of oil production and exploitation assets	–	231,573	–	–	231,573

During the year ended 31 December 2019, the Group had recognised distributions from interests in property development of HK$720,000,000 as revenue under the "Properties" segment, which exceeded 10% of the Group's revenue.

3. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

	Properties *HK$'000*	Oil *HK$'000*	Ice and cold storage *HK$'000*	2018 Total *HK$'000*
Revenue	1,400,000	75,053	117,801	1,592,854
Reportable segment result	1,406,525	(14,777)	25,451	1,417,199
Fair value changes on interests in property development	170,201	–	–	170,201
Head office and corporate expenses				(23,348)
Profit from operations				1,564,052
Finance costs				(51,808)
Share of profit of joint venture	111,619	–	–	111,619
Profit before taxation				1,623,863
Reportable segment assets	13,479,897	343,485	145,240	13,968,622
Interest in and amount due from joint ventures	2,717,007	–	–	2,717,007
Deferred tax assets				42,227
Head office and corporate assets				305,803
				17,033,659
Capital expenditure incurred	–	3,286	1,187	4,473
Depreciation and amortisation	–	17,862	7,463	25,325

During the year ended 31 December 2018, the Group had recognised distributions from interests in property development of HK$1,400,000,000 as revenue under the "Properties" segment, which exceeded 10% of the Group's revenue.

3. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than financial assets and deferred tax assets. The geographical location of revenue is based on the location which the goods were delivered or the services were provided. The geographical location of non-current assets is based on the physical location of the assets and, in the case of interest in joint venture, the location of operations.

	Revenue		Non-current assets	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The People's Republic of China	**845,338**	1,517,801	**2,816,798**	2,645,955
Kazakhstan	**61,539**	75,053	**66,706**	322,707
	906,877	1,592,854	**2,883,504**	2,968,662

In addition to the above non-current assets, the Group has interests in property development of HK$10,826,000,000 (2018: HK$11,149,530,000) in the People's Republic of China.

4. OTHER INCOME

An analysis of the Group's other income is as follows:

	2019	2018
	HK$'000	*HK$'000*
Rental income from properties held for sale	**9,101**	8,372
Bank and other interest income	**6,560**	384
Others	**1,729**	3,030
	17,390	11,786

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2019 *HK$'000*	2018 *HK$'000*
(a)	**Finance costs**		
	Interest expense on		
	– Bank loans	**44,596**	35,371
	– Amount due to immediate holding company *(note 25(c))*	**10,965**	15,441
	– Amounts due to related companies *(note 25(c))*	**12,646**	–
		68,207	50,812
	Other finance costs	**858**	996
		69,065	51,808
(b)	**Staff costs**		
	Staff costs (excluding directors' remuneration)#:		
	Wages and salaries	**53,745**	54,486
	Contributions to retirement benefit scheme	**1,677**	1,665
		55,422	56,151
(c)	**Other items**		
	Depreciation of property, plant and equipment#	**29,657**	24,666
	Amortisation of oil exploitation assets#	**692**	659
	Lease payments in respect of land and buildings	**1,824**	1,745
	Auditor's remuneration	**2,009**	2,243
	Exchange (gain)/loss	**(354)**	3,779
	Loss/(gain) on disposal of property, plant and equipment	**23**	(57)
	Share of taxation of joint ventures (included in share of profits less losses of joint ventures)	**8,589**	13,859

Cost of sales includes HK$28,341,000 (2018: HK$22,109,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2019 HK$'000	2018 HK$'000
Current tax		
– Hong Kong Profits Tax	2,105	1,918
– Income tax outside Hong Kong	1,571	2,069
– Over-provision in respect of prior years	(10,464)	(48)
	(6,788)	3,939
Deferred tax	37,976	(741)
	31,188	3,198

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 HK$'000	2018 HK$'000
Profit before taxation	741,809	1,623,863
Tax charge at the applicable income tax rate	109,978	262,585
Tax effect of share of profits less losses of joint ventures	(7,153)	(13,859)
Tax effect of expenses not deductible in determining taxable profit	13,148	10,714
Tax effect of income not taxable in determining taxable profit	(163,083)	(259,083)
Utilisation of tax losses previously not recognised	(135)	(1,163)
Tax effect of temporary differences not recognised	46,315	–
Tax effect of temporary differences derecognised	38,427	–
Tax effect of tax losses not recognised	4,047	3,943
Over-provision in respect of prior years	(10,464)	(48)
Others	108	109
Actual tax expense	31,188	3,198

7. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Performance related bonuses HK$'000	Provident fund contributions HK$'000	2019 Total HK$'000
Mr. Or Wai Sheun	–	–	–	–	–
Mr. Yeung Kwok Kwong	–	2,560	500	236	3,296
Ms. Wong Yuk Ching	–	1,624	250	150	2,024
Ms. Chio Koc Ieng	–	1,648	350	–	1,998
Mr. Lai Ka Fai	200	–	–	–	200
Ms. Or Pui Ying, Peranza	200	–	–	–	200
Mr. Liu Kwong Sang	200	–	–	–	200
Dr. Tsui Wai Ling, Carlye	200	–	–	–	200
Prof. Dr. Teo Geok Tien Maurice	200	–	–	–	200
	1,000	5,832	1,100	386	8,318

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Performance related bonuses HK$'000	Provident fund contributions HK$'000	2018 Total HK$'000
Mr. Or Wai Sheun	–	–	–	–	–
Mr. Yeung Kwok Kwong	–	2,502	450	231	3,183
Ms. Wong Yuk Ching	–	1,565	190	144	1,899
Ms. Chio Koc Ieng	–	1,588	250	–	1,838
Mr. Lai Ka Fai	190	–	–	–	190
Ms. Or Pui Ying, Peranza	190	–	–	–	190
Mr. Liu Kwong Sang	190	–	–	–	190
Dr. Tsui Wai Ling, Carlye	190	–	–	–	190
Prof. Dr. Teo Geok Tien Maurice	190	–	–	–	190
	950	5,655	890	375	7,870

7. DIRECTORS' AND MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

In addition to the directors' emoluments disclosed above, the Group pays a management fee to an intermediate holding company, part of which is for the services provided by certain directors/ management of an intermediate holding company who are Directors of the Company. Details of the amount of fee payable are disclosed in note 25. No apportionment of this management fee has been made as the Directors do not believe that it is practicable to apportion this amount between the qualifying services provided by the Directors and all other services provided by an intermediate holding company.

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2018: three) are directors whose emoluments are disclosed in note 7(a). The aggregate of the emoluments in respect of the other two (2018: two) individuals are as follows:

	2019	2018
	HK$'000	*HK$'000*
Salaries and other benefits	**2,207**	2,062
Performance related bonuses	**710**	630
Provident fund contributions	**18**	18
	2,935	2,710

The emoluments of the two (2018: two) individuals with the highest emoluments are within the following bands:

	2019	2018
HK$1,000,001 – HK$1,500,000	**2**	2

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$707,329,000 (2018: HK$1,618,545,000) and 4,438,967,838 ordinary shares (2018: 4,438,967,838 ordinary shares) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2019 and 2018.

9. DIVIDENDS

(a) Dividends attributable to the year:

	2019 HK$'000	2018 HK$'000
Interim dividend declared and paid of HK$0.013 (2018: HK$0.012) per share	**57,707**	53,268
Final dividend proposed after the end of the reporting period of HK$0.060 (2018: HK$0.083) per share	**266,338**	368,434
	324,045	421,702

The final dividend declared after the year end has not been recognised as a liability at 31 December.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	2019 HK$'000	2018 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.083 (2018: HK$0.02) per ordinary share	**368,434**	88,779

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land	Buildings	Oil production assets	Other assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 January 2019	**120,210**	**32,790**	**1,504,049**	**45,223**	**1,702,272**
Additions	**–**	**–**	**68**	**2,643**	**2,711**
Disposals	**–**	**–**	**(433)**	**(17)**	**(450)**
At 31 December 2019	**120,210**	**32,790**	**1,503,684**	**47,849**	**1,704,533**
At 1 January 2018	120,210	32,790	1,501,085	45,764	1,699,849
Additions	–	–	3,286	1,187	4,473
Disposals	–	–	(322)	(1,728)	(2,050)
At 31 December 2018	120,210	32,790	1,504,049	45,223	1,702,272
Accumulated depreciation and impairment losses:					
At 1 January 2019	**39,835**	**9,794**	**1,208,858**	**39,565**	**1,298,052**
Charge for the year	**2,820**	**807**	**23,465**	**2,565**	**29,657**
Impairment loss *(note 2(c))*	**–**	**–**	**210,731**	**–**	**210,731**
Disposals	**–**	**–**	**(75)**	**(14)**	**(89)**
At 31 December 2019	**42,655**	**10,601**	**1,442,979**	**42,116**	**1,538,351**
At 1 January 2018	37,014	8,987	1,191,683	36,709	1,274,393
Charge for the year	2,821	807	17,203	3,835	24,666
Disposals	–	–	(28)	(979)	(1,007)
At 31 December 2018	39,835	9,794	1,208,858	39,565	1,298,052
Net book value:					
At 31 December 2019	**77,555**	**22,189**	**60,705**	**5,733**	**166,182**
At 31 December 2018	80,375	22,996	295,191	5,658	404,220

Key sources of estimation uncertainty relating to oil production assets are disclosed in note 2(c).

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

Analysis of the carrying values of right-of-use assets by class of underlying asset:

	2019	2018
	HK$'000	*HK$'000*
Ownership interests in leasehold land and buildings held for own use in Hong Kong with remaining lease term of		
– between 10 and 50 years	**99,744**	103,371

Analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019	2018
	HK$'000	*HK$'000*
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings	**3,627**	3,628

Ownership interests in leasehold land and buildings held for own use

The Group holds buildings for its ice and storage business. The Group is the registered owner of these property interests. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

11. OIL EXPLOITATION ASSETS

	2019 *HK$'000*	2018 *HK$'000*
Cost:		
At 1 January	**130,570**	130,579
Additions	**19**	–
Disposals	**–**	(9)
At 31 December	**130,589**	130,570
Accumulated amortisation and impairment losses:		
At 1 January	**103,054**	102,404
Amortisation for the year	**692**	659
Impairment loss *(note 2(c))*	**20,842**	–
Disposals	**–**	(9)
At 31 December	**124,588**	103,054
Net book value	**6,001**	27,516

Key sources of estimation uncertainty relating to oil exploitation assets are disclosed in note 2(c).

12. INTERESTS IN PROPERTY DEVELOPMENT

	2019 HK$'000	2018 HK$'000
At 1 January	**12,021,188**	11,850,987
Distributions	**(720,000)**	(1,400,000)
Changes in fair value recognised in profit or loss	**972,305**	1,570,201
Net changes in fair value	**252,305**	170,201
At 31 December	**12,273,493**	12,021,188
Representing:		
Non-current assets	**10,826,000**	11,149,530
Current assets	**1,447,493**	871,658
	12,273,493	12,021,188

Interests in property development represent the Group's interests in the development of various properties located at Lote P and Lotes T+T1 of Novos Aterros da Areia Preta in Macau under two co-investment agreements with two wholly-owned subsidiaries of Polytec Holdings. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the property development projects which is subject to an aggregate maximum amount. In return, the two wholly-owned subsidiaries of Polytec Holdings will pay to the Group cash flows from the property development projects according to the formulae set out in the co-investment agreements. Details of the funding arrangement and other key terms of the co-investment agreements were disclosed in the Company's Circular dated 23 May 2006. The basis and estimations for arriving at the fair value of the interests in property development are further described in note 2(e).

During the year ended 31 December 2019, pursuant to one of the co-investment agreements, distributions of HK$720,000,000 (2018: HK$1,400,000,000) were made by one of the wholly-owned subsidiaries of Polytec Holdings to the Company, in relation to the property development project at Lotes T+T1. Income arising from interests in property development recognised in the consolidated income statement from the distributions during the year ended 31 December 2019 amounted to HK$720,000,000 (2018: HK$1,400,000,000).

As at 31 December 2019, out of the interests in property development, an amount of HK$1,447,493,000 (2018: HK$871,658,000) was expected to be recoverable within one year and was classified as current assets.

13. INTEREST IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Investment cost	1,003,664	1,003,664
Share of post acquisition profits less losses	1,492,247	1,516,268
Share of net assets	2,495,911	2,519,932
Loan to a joint venture	198,416	–
	2,694,327	2,519,932

The loan to a joint venture is unsecured, interest bearing at a fixed rate with reference to bank lending rate and is not expected to be repaid within one year.

Details of the Group's material interest in the joint ventures, which is accounted for using the equity method in the consolidated financial statements are as follows:–

Joint venture	Form of business structure	Place of incorporation/ operation	Percentage of equity interest attributable to the Group	Principal activities
South Bay Centre Company Limited ("South Bay")	Corporate	Macau	50%	Property investment and trading
Smart Rising Limited ("Smart Rising")	Corporate	British Virgin Islands/ Mainland China	50%	Investment holding and property development

13. INTEREST IN JOINT VENTURES *(continued)*

Summarised financial information of joint ventures, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements are disclosed below:

	Smart Rising		South Bay	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**–**	–	**193,995**	277,605
(Loss)/profit for the year	**(13,613)**	–	**154,496**	223,239
Other comprehensive income	**(48,702)**	–	**–**	–
Total comprehensive income	**(62,315)**	–	**154,496**	223,239
Dividend received	**–**	–	**70,112**	68,684
Depreciation	**–**	–	**1,203**	2,615
Income tax	**–**	–	**17,177**	27,717
Current assets	**6,554,286**	6,301,367	**34,151**	36,855
Non-current assets	**113,591**	115,686	**3,434,508**	3,414,170
Current liabilities	**(406,597)**	(394,272)	**(68,180)**	(67,042)
Non-current liabilities	**(4,440,469)**	(4,139,655)	**(353,647)**	(351,423)
Equity	**1,820,811**	1,883,126	**3,046,832**	3,032,560
Reconciliation to the Group's interest in joint ventures:				
Group's share of net assets	**910,406**	941,563	**1,523,416**	1,516,280
Goodwill	**62,089**	62,089	**–**	–
Group's share of carrying amount in the consolidated financial statements	**972,495**	1,003,652	**1,523,416**	1,516,280

The above unlisted investments in joint ventures are indirectly held by the Company.

14. GOODWILL

For the purposes of impairment testing, the goodwill has been allocated to an individual cash-generating unit (the "CGU") in the ice and cold storage segment. At 31 December 2019, management of the Group determined that there is no impairment of the CGU containing goodwill.

15. OTHER FINANCIAL ASSETS

	2019 HK$'000	2018 HK$'000
Non-current		
Debt investments measured at amortised cost		
Listed debt securities in Hong Kong	34,401	–
Listed debt securities outside Hong Kong	126,649	–
	161,050	–
Current		
Equity investments measured at FVPL		
Listed equity securities in Hong Kong	15,418	–
Total	176,468	–
Market value of listed debt securities	167,298	–

16. INVENTORIES

	2019 HK$'000	2018 HK$'000
Properties held for sale	**73,196**	73,282
Crude oil	**3,561**	4,359
Consumables	**4,065**	6,129
Others	**1,621**	2,226
	82,443	85,996

The analysis of carrying value of land under inventories is as follows:

	2019 HK$'000	2018 HK$'000
In Hong Kong, with remaining lease term of:		
– between 10 and 50 years	**26,118**	26,118
Outside Hong Kong, with remaining lease term of:		
– Freehold	**6,034**	6,034
	32,152	32,152

17. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Ageing analysis (based on the due date) of trade receivables:		
Current	**17,691**	10,227
Within 3 months	**2,770**	7,424
More than 3 months	**55**	16
Trade receivables	**20,516**	17,667
Other receivables	**192,704**	188,245
	213,220	205,912

Other receivables of the Group of HK$3,146,000 (2018: HK$3,146,000) are expected to be recovered after more than one year.

Included in other receivables was a deposit of HK$161,095,000 paid to Polytec Holdings for the proposed acquisition of 60% interest of a wholly-owned subsidiary of Polytec Holdings together with the assignment of loans from Polytec Holdings. In 2018, the Group has paid the deposit of HK$161,095,000 for the proposed acquisition through the loan from immediate holding company. The proposed acquisition was terminated in January 2020 and the deposit was refunded to the Group accordingly.

The Group has established different credit policies for each of the Group's businesses and allows a credit period of not more than 90 days to its trade customers.

The Group measures loss allowance for trade receivables at an amount equal to lifetime ECLs, which are calculated at a provision matrix. Given the Group has not experienced any significant credit losses in the past, the allowance for ECLs is therefore insignificant.

The fair value of the Group's trade and other receivables at the end of the reporting period approximates the corresponding carrying amount.

18. CASH AND BANK BALANCES

The carrying amounts of cash and bank balances approximates their fair value at the end of the reporting period.

19. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Ageing analysis (based on the due date) of trade payables:		
Current	**600**	386
Within 3 months	**29**	39
More than 3 months	**3**	3
Trade payables	**632**	428
Other payables		
– Government fees and levies	**2,722**	4,594
– Others	**60,512**	70,389
	63,234	74,983
	63,866	75,411

All of the trade and other payables are expected to be settled or recognised as income within one year.

20. BANK LOANS

As at 31 December 2019, the bank loans were secured and repayable as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 1 year	**78,500**	73,500
After 1 year but within 2 years	**1,328,000**	73,500
After 2 years but within 5 years	**90,000**	1,323,000
	1,418,000	1,396,500
	1,496,500	1,470,000

The bank loans are subject to fulfilment of covenants relating to certain of the Group's ratios of the statement of financial position, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facility would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(c). As at 31 December 2019, none of the covenants relating to the drawn down facilities had been breached (2018: Nil).

21. DEFERRED TAXATION

The following are the components of deferred tax (assets)/liabilities recognised and movements during the current year and the prior year:

Deferred tax arising from:	Accelerated depreciation allowances HK$'000	Revaluation of assets HK$'000	Others HK$'000	Total HK$'000
At 1 January 2019	**(26,165)**	**14,634**	**(14,613)**	**(26,144)**
Charged/(credited) to the profit or loss	**23,788**	**(425)**	**14,613**	**37,976**
At 31 December 2019	**(2,377)**	**14,209**	**–**	**11,832**
At 1 January 2018	(25,848)	15,058	(14,613)	(25,403)
Credited to the profit or loss	(317)	(424)	–	(741)
At 31 December 2018	(26,165)	14,634	(14,613)	(26,144)

	2019 HK$'000	2018 HK$'000
Representing:		
Deferred tax assets	**(3,800)**	(42,227)
Deferred tax liabilities	**15,632**	16,083
	11,832	(26,144)

No deferred tax asset has been recognised in respect of tax losses and temporary differences due to the unpredictability of future profit streams. At the end of the reporting period, the Group has unrecognised tax losses of HK$167,516,000 (2018: HK$131,295,000) and unrecognised temporary differences of HK$1,253,700,000 (2018: HK$830,000,000) available for offset against future profits, of which tax losses of HK$134,756,000 (2018: HK$99,724,000) will expire within ten years from the year in which they arose and the remaining losses may be carried forward indefinitely.

22. SHARE CAPITAL AND RESERVES

	2019	2018
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.1 each	**1,000,000**	1,000,000
5,000,000,000 convertible preference shares of HK$0.01 each	**50,000**	50,000
	1,050,000	1,050,000
Issued:		
4,438,967,838 fully paid ordinary shares of HK$0.1 each	**443,897**	443,897

(a) Share premium

The application of the share premium account is governed by Section 34 of the Cayman Islands Companies Law.

(b) Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, borrowings from a related company/immediate holding company, amount due from a related company, cash and cash equivalents and equity attributable to equity shareholders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital and maintains an appropriate gearing ratio determined as the Group's borrowings (bank borrowings and amounts due to a related company/immediate holding company) less amount due from a related company and cash and bank balances over the total equity attributable to equity shareholders of the Company. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as raising new debts or redemption of existing debts. The Group's overall strategy remains unchanged from prior year and the gearing ratio as at 31 December 2019 was 12.0% (2018: 11.7%).

(c) Distribution of reserves

As at 31 December 2019, the retained profits of the Company available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands amounted to HK$1,811,739,000 (2018: HK$1,131,235,000). Further, the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at 31 December 2019, the Company's share premium account amounted to HK$5,912,600,000 (2018: HK$5,912,600,000).

23. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash (used in)/generated from operating activities:

	2019 HK$'000	2018 HK$'000
Operating activities		
Profit before taxation	741,809	1,623,863
Adjustments for:		
Share of profits less losses of joint ventures	(70,442)	(111,619)
Distributions from interests in property development	(720,000)	(1,400,000)
Impairment of oil production and exploitation assets	231,573	–
Fair value changes on interests in property development	(252,305)	(170,201)
Gain on disposal of equity investments	(802)	–
Fair value changes on equity investments	175	–
Dividend income from equity investments	(519)	–
Interest income from debt investments	(6,518)	–
Bank and other interest income	(6,560)	(384)
Depreciation and amortisation	30,349	25,325
Loss/(gain) on disposal of property, plant and equipment	23	(57)
Finance costs	69,065	51,808
Operating cash flow before working capital changes	15,848	18,735
Decrease in inventories	3,553	28
Increase in trade and other receivables	(6,457)	(1,440)
(Decrease)/increase in trade and other payables	(11,307)	3,087
Cash generated from operations	1,637	20,410
Distribution received from interests in property development	–	680,000
Interest received	1,715	384
Interest paid	(45,454)	(36,983)
Dividends received from equity investments	519	–
Tax paid	(771)	(1,712)
Net cash (used in)/generated from operating activities	(42,354)	662,099

23. NOTE TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Reconciliation of liabilities arising from financing activities

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

	Bank loans *HK$'000* *(Note 20)*	Amounts due to related companies *HK$'000* *(Note 25(c))*	Amount due to immediate holding company *HK$'000* *(Note 25(c))*	Total *HK$'000*
At 1 January 2019	1,470,000	–	1,643,453	3,113,453
Changes from financing cash flows:				
Amount advanced from immediate holding company	–	–	619,000	619,000
Amount advanced from a related company	–	680,106	–	680,106
Drawdown of bank loans	100,000	–	–	100,000
Repayments of bank loans	(73,500)	–	–	(73,500)
Repayments of amount due to immediate holding company	–	–	(235,854)	(235,854)
Repayments of amount due to a related company	–	(385,317)	–	(385,317)
Total changes from financing cash flows	26,500	294,789	383,146	704,435
Other changes:				
Non-cash repayments of amounts due to related companies/ immediate holding company *(notes 23(c)(ii), 23(c)(iii) and 23(c)(iv))*	–	(240,274)	(2,037,564)	(2,277,838)
Non-cash drawdowns of amounts due to related companies *(notes 23(c)(i) and 23(c)(ii))*	–	1,037,203	–	1,037,203
Interest expenses *(note 5(a))*	–	12,646	10,965	23,611
Total other changes	–	809,575	(2,026,599)	(1,217,024)
At 31 December 2019	1,496,500	1,104,364	–	2,600,864

23. NOTE TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Reconciliation of liabilities arising from financing activities *(continued)*

	Bank loans *HK$'000* *(Note 20)*	Amount due to immediate holding company *HK$'000* *(Note 25(c))*	Total *HK$'000*
At 1 January 2018	1,354,800	943,666	2,298,466
Changes from financing cash flows:			
Amount advanced from immediate holding company	–	646,437	646,437
Drawdown of bank loans	480,000	–	480,000
Repayments of bank loans	(364,800)	–	(364,800)
Repayments of amount due to immediate holding company	–	(1,323,297)	(1,323,297)
Total changes from financing cash flows	115,200	(676,860)	(561,660)
Other changes:			
Non-cash drawdowns of amount due to immediate holding company *(note 23(c)(v))*	–	1,361,206	1,361,206
Interest expenses *(note 5(a))*	–	15,441	15,441
Total other changes	–	1,376,647	1,376,647
At 31 December 2018	1,470,000	1,643,453	3,113,453

23. NOTE TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Non-cash transactions

(i) During 2019, the Group has provided a loan to a joint venture of HK$17,065,000 through Polytec Holdings.

(ii) During 2019, the Group through a related company has provided a loan to a joint venture of HK$181,351,000, made advances to a joint venture of HK$4,158,000 and repaid the amount due to immediate holding company and Polytec Holdings of HK$817,564,000 and HK$17,065,000 respectively.

(iii) During 2019, the Group has partially repaid the amount due to a related company by distribution from interests in property development of HK$220,000,000 and interest income received of HK$3,209,000.

(iv) During 2019, the Group has partially repaid the amount due to immediate holding company by distribution from interests in property development of HK$1,220,000,000.

(v) On 22 June 2018, a wholly-owned subsidiary of the Group had entered into an agreement with Polytec Holdings for the proposed acquisition of 50% equity interest of a wholly-owned subsidiary of Polytec Holdings ("target company") together with the assignment of loans from Polytec Holdings for an aggregate consideration of HK$1,200,111,000. The assets held by the subsidiary comprised of a development project located in Zhongshan, Mainland China.

The completion of the acquisition of the target company which has assets comprised of the development project located in Zhongshan, Mainland China took place on 31 December 2018 and it became a joint venture of the Group accordingly. The aggregate consideration of HK$1,200,111,000 was settled through current account with the immediate holding company, apportioned as to HK$1,003,652,000 for the acquisition of 50% equity interest of the target company and as to HK$196,459,000 for the assignment of loans from Polytec Holdings. At the date of acquisition, the fair value of the target company's identifiable net assets amounted to HK$941,563,000 and a goodwill of HK$62,089,000 is recognised.

24. OPERATING LEASE ARRANGEMENTS AND CAPITAL COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its office properties and factory premises under operating lease arrangements which were previously classified as operating leases under HKAS17. Leases for properties are negotiated for terms from three months to two years. As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 *HK$'000*
Within 1 year	696
After 1 year but within 2 years	248
	944

As lessor

The Group leases certain of its inventories under operating lease arrangements with lease terms for not exceeding five years. As at 31 December 2019, undiscounted lease payments under non-cancellable operating leases in place will be receivable by the Group in future period as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Within 1 year	**8,168**	2,914
After 1 year but within 2 years	**7,762**	–
After 2 years but within 3 years	**8,218**	–
After 3 years but within 4 years	**8,458**	–
After 4 years but within 5 years	**3,172**	–
	35,778	2,914

(b) Capital commitments

As at 31 December 2019, the Group had capital commitments contracted but not provided for in the amount of HK$1,600,000 (2018: HK$1,200,000).

25. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed above, the Group also entered into the following material related party transactions:

(a) The amount due from a related company was arisen from the distribution received from the interests in property development (note 12). The amount was unsecured, interest free and subsequently settled against the amount due to a related company after the year end date (2018: the amount was subsequently settled against the amount due to immediate holding company after the year end date).

(b) The amounts due from joint ventures were unsecured, interest-free and recoverable on demand.

(c) The amounts due to immediate holding company and related companies were unsecured, interest bearing at a premium over Hong Kong Interbank Offered Rate ("HIBOR") and repayable after more than one year. During the year, interest of HK$10,965,000 (2018: HK$15,441,000) and HK$12,646,000 (2018: HK$Nil) were payable to the immediate holding company and related companies respectively.

(d) During the year, the Group paid rental expenses and building management fees amounting to HK$1,085,000 (2018: HK$1,076,000) in aggregate to an intermediate holding company of the Company for the leasing of administrative offices in Hong Kong.

(e) During the year, management fees totalling HK$3,281,000 (2018: HK$4,848,000) were payable to an intermediate holding company of the Company for the administrative expenses shared by the Group.

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of notes 25(c), (d) and (e) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, they are exempt from the disclosure requirements of Chapter 14A of the Listing Rules.

26. PLEDGE OF ASSETS

As at 31 December 2019, the banking facilities granted to the Group were secured by legal charge over:

(a) all of the Group's ownership interests in leasehold land with an aggregate net book value of HK$77,555,000 (2018: HK$80,375,000);

(b) all of the Group's ownership interests in buildings with an aggregate net book value of HK$22,189,000 (2018: HK$22,996,000); and

(c) the joint venture's investment properties with an aggregate book value of HK$1,711,000,000 (2018: HK$1,778,000,000).

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to interest rate, credit, liquidity, price and currency risks arising in the normal course of the Group's business as set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by financial policies and practices undertaken by the Group.

(a) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and borrowings from immediate holding company and a related company. All the borrowings are on a floating rate basis. The risk is mainly concentrated on the fluctuation in Hong Kong dollar interest rates arising from the Group's Hong Kong dollar denominated borrowings.

Interest rate risk is managed by the Group's senior management with defined policies through regular review to determine the strategy as to funding in floating/fixed rate mix appropriate to its current business profile, and engaging in relevant hedging arrangements at appropriate times.

If interest rates had increased/decreased by 100 basis points, with all other variables held constant, the Group's result attributable to the equity shareholders of the Company and retained profits would have decreased/increased by HK$25,256,000 (2018: HK$30,343,000).

The sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amount of interest-bearing borrowings outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease in Hong Kong dollar interest rates is used when reporting interest rate risk. The analysis has been performed on the same basis as for 2018.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2019 and 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables. Collateral is usually obtained in respect of loans and advances to customers.

Cash at bank and deposits placed with financial institutions are with counterparties with sound credit ratings to minimise credit exposure.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

All of the Group's debt investments measured at amortised cost of HK$161,050,000 at 31 December 2019 represent listed debt securities. Management assessed the credit risk of each of the Group's investment in debt securities with reference to the grading by market credit rating agencies, where available, and default probability analysis performed by external agencies. As at the end of the reporting period, no significant increase in credit risk was identified since the initial recognition of each investment, based on changes in credit rating since investments made, and the loss allowance recognised during the period was therefore limited to 12 months ECLs.

The Group estimated credit loss based on respective 12 months default risks rate as at 31 December 2019 for the issuer of each listed debt securities, which are obtained from external agencies and considered that the allowance for ECLs is insignificant.

(c) Liquidity risk

Cash management of the Group is centralised at the Group level. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Liquidity risk *(continued)*

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	Contractual undiscounted cash flows					
	Within 1 year or on demand *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years but within 5 years *HK$'000*	Undated *HK$'000*	Total *HK$'000*	Statement of financial position carrying amount *HK$'000*
At 31 December 2019						
Trade and other payables	**63,866**	**–**	**–**	**17,688**	**81,554**	**81,554**
Bank loans	**135,886**	**1,370,240**	**93,012**	**–**	**1,599,138**	**1,496,500**
Amount due to a related company	**–**	**–**	**–**	**1,104,364**	**1,104,364**	**1,104,364**
	199,752	**1,370,240**	**93,012**	**1,122,052**	**2,785,056**	**2,682,418**

	Contractual undiscounted cash flows					
	Within 1 year or on demand *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years but within 5 years *HK$'000*	Undated *HK$'000*	Total *HK$'000*	Statement of financial position carrying amount *HK$'000*
At 31 December 2018						
Trade and other payables	75,411	–	–	17,450	92,861	92,861
Bank loans	123,714	121,184	1,357,364	–	1,602,262	1,470,000
Amount due to immediate holding company	–	–	–	1,643,453	1,643,453	1,643,453
	199,125	121,184	1,357,364	1,660,903	3,338,576	3,206,314

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Price risk

At the end of the reporting period, the Group has the following financial instruments measured at fair value across the three levels of fair value hierarchy based on the degree to which the fair value is observable:

	2019 *HK$'000*	2018 *HK$'000*
Assets		
Level 1 *(Notes)*		
Other financial assets		
– Listed equity securities in Hong Kong	**15,418**	–
Level 3 *(Notes)*		
– Interests in property development	**12,273,493**	12,021,188

During the year there were no significant transfers between instruments in Level 1 and Level 2.

The movements during the year in the balance of Level 3 fair value measurements are set out in note 12 to the financial statements.

Notes:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: Fair values using quoted prices in active markets for similar financial instruments or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3: Fair values measured using valuation techniques in which any significant input is not based on observable market data

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Price risk *(continued)*

The Group is exposed to property price risk through its interests in property development. The Group has a team reporting to the senior management which performs the valuation of the interests in property development required for financial reporting purposes. Discussions of valuation processes and results are held between the senior management and the team at least once every six months, in line with the Group's half-yearly reporting dates. The key unobservable market data used in the model of development project at Lotes T+T1 includes estimated selling prices of the underlying properties which are derived from observable market data, including average market prices of residential properties in Macau, with certain adjustments to reflect the impact of those factors on the development. The adjustments to the average market selling price range from –10% to +10%. The fair value measurement is positively correlated to adjustments to the selling prices of the underlying properties. At 31 December 2019, it is estimated that an increase/decrease of 5% in the expected/forecasted selling price of the underlying properties at Lotes T+T1 (2018: underlying properties at Lotes T+T1) of the Group's interests in property development classified as non-current assets, with all other variables held constant, would have increased/decreased the Group's retained profits by HK$196,383,000/HK$196,383,000 (2018: HK$261,508,000/HK$261,508,000).

The analysis has been determined assuming that the changes in the selling price of the underlying properties had occurred at the end of the reporting period and had been applied to the exposure to property price risk in existence at that date. The analysis has been performed on the same basis as for 2018 and taken into amount of the expiration of the land concession as set out in note 2(e).

(e) Currency risk

The Group conducts its oil exploration and production business primarily in Kazakhstan. Currency exposure arises from sales of crude oil in a currency other than the local currency of the domicile of the Group entity making the sale. The sales are substantially denominated in United States dollars, whilst the costs are substantially denominated in Kazakhstan Tenge.

Management considers this risk is insignificant to the Group as a whole but still manages and monitors this risk to ensure that its net exposure is kept to an acceptable low level.

28. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND ITS NOTES

(a) Company-Level Statement of Financial Position

	Note	2019 HK$'000	2018 HK$'000
Non-current asset			
Investments in subsidiaries		**1**	1
Current assets			
Amounts due from subsidiaries		**11,460,797**	11,173,153
Amount due from a joint venture		**4,158**	–
Other receivables		**778**	533
Cash and cash equivalents		**9,720**	163,413
		11,475,453	11,337,099
Current liabilities			
Other payables		**6,209**	7,942
Amounts due to subsidiaries		**2,196,645**	2,197,973
		2,202,854	2,205,915
Net current assets		**9,272,599**	9,131,184
Total assets less current liabilities		**9,272,600**	9,131,185
Non-current liabilities			
Amount due to a related company		**1,104,364**	–
Amount due to immediate holding company		**–**	1,643,453
NET ASSETS		**8,168,236**	7,487,732
CAPITAL AND RESERVES			
Share capital	*22*	**443,897**	443,897
Reserves	*28(b)*	**7,724,339**	7,043,835
TOTAL EQUITY		**8,168,236**	7,487,732

Approved and authorised for issue by the board of directors on 25 March 2020.

Or Wai Sheun
Director

Yeung Kwok Kwong
Director

28. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND ITS NOTES *(continued)*

(b) Reserves of the Company

	Share premium *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2019	**5,912,600**	**1,131,235**	**7,043,835**
Profit and other comprehensive income for the year	**–**	**1,106,645**	**1,106,645**
Dividends paid *(note 9)*	**–**	**(426,141)**	**(426,141)**
At 31 December 2019	**5,912,600**	**1,811,739**	**7,724,339**
At 1 January 2018	5,912,600	792,209	6,704,809
Profit and other comprehensive income for the year	–	481,073	481,073
Dividends paid *(note 9)*	–	(142,047)	(142,047)
At 31 December 2018	5,912,600	1,131,235	7,043,835

29. STAFF RETIREMENT SCHEME

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of eligible employees. Contributions to the Mandatory Provident Funds of HK$2,062,000 (2018: HK$2,040,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year. Contributions to the scheme vest immediately.

30. PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2019 and 2018, the Directors consider the parent company and ultimate holding company to be Marble King International Limited and New Explorer Developments Limited, which are both incorporated in the British Virgin Islands. Neither entity produces financial statements available for public use.

31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Defining of material*	1 January 2020

The Group is in the progress of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

32. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2019 are as follows:

Subsidiaries	Place of incorporation/ operations	Particulars of issued and paid up capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Noble Prime International Limited	British Virgin Islands	US$1	100%	Investment holding
Power Charm International Limited	British Virgin Islands	US$1	100%	Investment holding
Power Mighty Limited	British Virgin Islands	US$1	100%	Investment holding
Sinocharm Trading Limited	British Virgin Islands	US$1	100%	Investment holding
Indirectly held:				
Aquatic & Agriculture (HK) Company Limited	Hong Kong	HK$1	100%	General trading
Caspi Neft TME	Kazakhstan	50,000,000 Tenge	100%	Oil exploration and production
Coöperatieve Power Mighty U.A.	Netherlands	Euro30,000	100%	Investment holding
Eastford Development Limited	Hong Kong	HK$100	100%	Property development and investment
Equal Talent Limited	British Virgin Islands	US$1	100%	Investment holding
Glentech International Company Limited	Hong Kong	HK$2	100%	Provision of consultancy services
Kam Yuen Property Investment Limited	Macau	MOP30,000	58%	Property investment and development
Melosa Limited	British Virgin Islands	US$1	100%	Financial investments
New Bedford Properties Limited	British Virgin Islands	US$1	100%	Investment holding

32. PARTICULARS OF SUBSIDIARIES *(continued)*

Subsidiaries	Place of incorporation/ operations	Particulars of issued and paid up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: (continued)				
New Cosmos Holdings Limited	British Virgin Islands	US$100	58%	Investment holding
Noble Gainer Limited	Hong Kong	HK$2	100%	Ice manufacturing and trading
Power Giant Limited	British Virgin Islands/ Macau	US$1	100%	Property trading and investment
Power Mighty A N.V.	Curacao	US$6,000	100%	Investment holding
Power Mighty B N.V.	Curacao	US$6,000	100%	Investment holding
Power Mighty B.V.	Netherlands	Euro18,000	100%	Investment holding
Profit Sphere International Limited	British Virgin Islands	US$1	100%	Investment holding
Richstone International Limited	Hong Kong	HK$1	100%	Property development and investment
Sheen Concord Enterprises Limited	Hong Kong	HK$2	100%	Investment holding
Success Ever Limited	British Virgin Islands	US$1	100%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	HK$500,000	100%	Ice manufacturing and provision of cold storage services
Think Bright Limited	British Virgin Islands/ Macau	US$200	70.5%	Property trading and investment

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

32. PARTICULARS OF SUBSIDIARIES *(continued)*

Subsidiaries	Place of incorporation/ operations	Particulars of issued and paid up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: (continued)				
Top Vision Assets Limited	British Virgin Islands	US$1	100%	Investment holding
Wide Universe International Limited	British Virgin Islands	US$1	100%	Inactive
瀋陽景裕建設管理有限公司 *(Remark 2)*	Mainland China	HK$10,000,000 *(Remark 1)*	100%	Investment holding

Remarks:

(1) The amount represented the registered capital not yet paid up.

(2) Wholly foreign owned enterprise incorporated in Mainland China

PARTICULARS OF PROPERTIES

31 DECEMBER 2019

Properties	Purpose	Gross floor area	Group's interest (%)	Stage of completion
Land held for future development of the joint venture:				
Property development project at Nantongwei and Shawei, Beitai Village, South District, Zhongshan City, Guangdong Province, Mainland China	Residential/ Commercial	587,004 square metres	50	Pending for future development
Properties held for sale of the Group:				
3 car parking spaces of Pacifica Garden at Lots TN25b and TN26d near Estrada Coronel Nicolau de Mesquita, Taipa, Macau	Commercial	3 car parking spaces	58	Completed
35 shop units and 57 car parking spaces at China Plaza Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6 – B, Macau	Commercial	1,940 square metres and 57 car parking spaces	70.5	Completed
4 car parking spaces at Va long Praca da Amizade Nos. 6-52, Avenida do Infante D. Henrique Nos. 25-31 and Avenida Doutor Mario Soares Nos. 227-259, Macau	Commercial	4 car parking spaces	100	Completed
Lot no. 725 in Demarcation District no. 171 and Lot No. 67 in Demarcation District no. 175, Kau To Shan, Shatin, New Territories, Hong Kong	Residential	1,122 square metres	100	Completed

PARTICULARS OF PROPERTIES

31 DECEMBER 2019

Properties	Purpose	Gross floor area	Group's interest (%)	Category of lease
Investment properties of the joint venture:				
208 shop units, 208 office units and 265 car parking spaces at The Macau Square Rua do Dr. Pedro Jose Lobo No. 2-16A, Avenida do Infante D. Henrique No. 43-53A and Avenida Doutor Mario Soares No. 81-113 Macau	Commercial	36,553 square metres and 265 car parking spaces	50	Short term lease

Properties	Purpose	Gross floor area/ site area	Group's interest (%)	Status	Expected completion date
Interests in property development of the Group:					
La Marina The Orient Pearl District Novos Aterros da Areia Preta Macau*	Residential/ Commercial	182,000 square metres/ 17,969 square metres	80	Completed	N/A

* The development of this property is under the co-investment agreement with a wholly-owned subsidiary of a related company of the Company.

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