珠光控股
ZHUGUANG HOLDINGS




ZHUGUANG HOLDINGS GROUP COMPANY LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)
STOCK CODE : 1176

ANNUAL REPORT 2019

* *For identification purposes only*

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi) *(Chairman)*
Mr. Liu Jie *(Chief Executive Officer)*
Mr. Liao Tengjia *(Deputy Chairman)*
Mr. Huang Jiajue *(Deputy Chairman)*
Mr. Chu Muk Chi (alias Mr. Zhu La Yi)
Ms. Ye Lixia

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wo Ping *JP*
Mr. Wong Chi Keung
Dr. Feng Ke

AUDIT COMMITTEE

Mr. Leung Wo Ping *JP (Committee Chairman)*
Mr. Wong Chi Keung
Dr. Feng Ke

REMUNERATION COMMITTEE

Mr. Wong Chi Keung *(Committee Chairman)*
Mr. Leung Wo Ping *JP*
Mr. Huang Jiajue

NOMINATION COMMITTEE

Mr. Wong Chi Keung *(Committee Chairman)*
Mr. Leung Wo Ping *JP*
Mr. Huang Jiajue

REGISTERED OFFICE

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COMPANY SECRETARY

Mr. Chan Chit Ming, Joeie

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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8 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Agricultural Bank of China Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China Limited

WEBSITE

www.zhuguang.com.hk

STOCK CODE

1176

MILESTONE 2019

The Company was awarded as the "Most Potential Listed Company (最具潛力上市公司)" under the 2019 China Financial Market Award

Zhuguang Financial Town One was awarded as the "2020 Most Expected Property *(2020年度值得期待實力大盤)"

Yujing Scenic Garden was awarded as the "Innovative Quality Habitat Property of the Year *(年度品質人居創新名盤)" in 2019

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CHAIRMAN'S STATEMENT

I herein present the results and report on the operations of Zhuguang Holdings Group Company Limited ("Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2019 ("FY2019").

RESULTS

The consolidated results of the Group for FY2019 are as follows: (1) the consolidated revenue of the Group for FY2019 was approximately HK$4,074,814,000, representing an increase of 50.7% as compared to that of approximately HK$2,704,796,000 for the financial year ended 31 December 2018 ("FY2018"); (2) the consolidated gross profit of the Group increased by 91.9% to approximately HK$2,087,261,000; and (3) the consolidated profit of the Group for FY2019 was approximately HK$719,497,000, representing an increase of 824.2% as compared to that of approximately HK$77,852,000 for FY2018. The consolidated profit attributable to the equity holders of the Company for FY2019 was approximately HK$747,225,000 and the basic earnings per share was HK9.72 cents, which were higher as compared with the consolidated profit attributable to the equity holders of the Company of approximately HK$4,717,000 and the basic loss per share of HK0.06 cents for FY2018.

NET ASSET VALUE

As at 31 December 2019, the number of ordinary shares of the Company ("Shares") in issue was 7,194,417,247 Shares in aggregate and the shareholders' equity of the Group was approximately HK$7,465,574,000. The Group's consolidated net asset value per share attributable to the equity holders of the Company as at 31 December 2019 was approximately HK$1.04.

BUSINESS REVIEW

During the Central Economic Work Conference of the People's Republic of China ("PRC") held in late 2019, the central government stressed that its aim was to ensure the "steady and healthy development" of the property market. In addition, it further reiterated the principle that "housing is for living in, not for speculation". During this Central Economic Work Conference, it was also mentioned that more work needs to be done to ensure the stable supply of homes for the low-income urban population, to strengthen urban renewal and enhancement of the existing residential projects, to regenerate old urban communities, and to increase rental housing. All these dovetail with the vision of 廣州珠光城市更新集團有限公司 (Guangzhou Zhuguang Urban Renewal Group Company Limited*), a wholly-owned subsidiary of the Company.

FY2019 saw the implementation of some of the Group's significant reforms. Guided by the reform philosophy and direction provided by the board ("Board") of directors ("Directors") of the Company, the Company continued to operate two working groups, namely (1) the urban renewal group; and (2) the real estate group, striving to maximise their respective strengths and advantages with a view to achieving "dual-driven" business development for the Group.

As a provider of primary land consolidation services, the Company's urban renewal group should take full advantage of its unique reputation as an "urban renewal expert" and live up to it, carrying out each urban renewal project in a professional and satisfactory manner in order to maintain the Group's most important land supply in the next three years. This is also the characteristic and advantage of the Group's future development. In FY2019, the Huocun Urban Renewal Project, one of the Group's urban renewal projects, has achieved remarkable progress. The overall planning of the Huocun Urban Renewal Project has been completed and the relevant land use right certificates have been obtained. On 22 April 2020, United Talent Investment Limited ("United Talent", a wholly-owned subsidiary of the Company), the Company, Skyleap Investments

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Chairman's Statement

Limited ("Skyleap", a wholly-owned subsidiary of the Company), Guangzhou Yuhong Investment Company Limited* (廣州御宏投資有限公司) ("Guangzhou Yuhong", a non-wholly-owned subsidiary of the Company) and Guangzhou Bohao Corporate Management Partnership (Limited Liability Partnership)* (廣州博浩企業管理合伙企業(有限合伙)) ("Guangzhou Bohao") entered into a co-development agreement pursuant to which (a) United Talent has conditionally agreed to sell, and Guangzhou Bohao has conditionally agreed to acquire, 100% equity interest in Guangzhou Yuhong which will, through the relevant project company, have interest in the Huocun Urban Renewal Project; (b) Guangzhou Bohao shall (i) bear all the construction costs (and related taxes) of the Huocun Urban Renewal Project; and (ii) be responsible for the construction of part of the area of the Huocun Urban Renewal Project of a site area of approximately 345,420 sqm; and (c) the Group shall be responsible for the construction of the remaining part of the Huocun Urban Renewal Project of a site area of approximately 260,900 sqm, provided that the funding for the cost of construction of both areas shall be provided by Guangzhou Bohao. The Group believes that through proactive introduction of outstanding strategic investors and co-operation partners such as the Huocun Urban Renewal Project mentioned above, it will be able to carry out development of major projects and reorganisation of resources to facilitate continuous breakthrough for its projects and sustainable corporate development.

Meanwhile, the Company's real estate group, as a provider of secondary land development services, should work in an artisanal manner, focusing on the enhancement of product quality and paying attention to the smallest details in order to construct high value-added premier properties with their own characters, which provide high profit margin to the Group and good investment value to the purchasers.

LAND ACQUISITIONS

The Group's efforts in maintaining a sufficient land bank and designing accurate urban layout have laid a solid foundation for its future developments. During FY2019, South Trend Holdings Limited (南興控股有限公司) ("South Trend"), a wholly-owned subsidiary of the Company, a vendor and a guarantor entered into an agreement ("SP Agreement") in relation to the acquisition ("All Flourish Acquisition") of 100% of the issued share capital of All Flourish Investments Limited (通興投資有限公司) ("All Flourish"), which indirectly holds 51% interests in 廣州發展汽車城有限公司 (Guangzhou Development Automobile City Co., Ltd.*) ("Guangzhou Project Company"). The Guangzhou Project Company holds interests in a property development project ("AEC Project") known as "Zhuguang Financial Town One* (珠光金融城壹號)", which is a three-old transformation project* (三舊改造項目) (i.e., urban renewal involving transformation of the old town, old factories and old villages) located at Huangpu Road East, Tianhe District, Guangzhou City, Guangdong Province, the PRC. The All Flourish Acquisition was completed in March 2020, upon which All Flourish has become an indirect wholly-owned subsidiary of the Company, and the financial results of the Guangzhou Project Company have not been consolidated into those of the Group under the applicable accounting standards but have been equity accounted for as a joint venture. After completion of the All Flourish Acquisition, the Company will be able to obtain first-hand information on the AEC Project and make further assessment on the prospects of the Guangzhou Project Company. The Group will consider to acquire additional equity interest in the Guangzhou Project Company in order to take further control of the AEC Project in the future.

With its successful experience in relation to three-old transformation projects in the past and its broad business footprint in Guangzhou, the Group has continuously maintained its reputation as an "urban renewal expert (城市更新專家)" in the industry. As at 31 December 2019, the Group had land bank of approximately 29,239 square meters ("sqm"), including its existing projects under development, which would be sufficient to support the needs of the Group over the next three years. During FY2019, the Group's contracted sales were contributed by the Group's projects in the first-tier cities and second-tier cities in the PRC. Such a diverse market mix demonstrates the Group's ability to adapt itself to different market segments and to effectively cater for the market volatility brought by the challenging economy and the government control policies to the real estate market in the PRC. Meanwhile, the Group will adopt prudent and proactive strategies to increase its quality land reserves as appropriate by acquiring quality land when the opportunities arise.

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FINANCING COSTS AND CHANNELS

As at 31 December 2019, the gearing ratio of the Group was 65% (31 December 2018: 64%). The increase in the gearing ratio was mainly due to the Company's issue of the senior secured guaranteed notes in 2019 ("2019 Senior Notes") for the refinancing of the senior secured guaranteed notes issued by the Company in 2016 ("2016 Senior Notes") and the new bank and other borrowings incurred by the Group, and the increase in the prepayment of deposits for potential acquisitions which decreased the cash on hand. As at 31 December 2019, the bank balances and cash of the Group amounted to approximately HK$3,890 million (31 December 2018: HK$6,993 million) and the balance of the interest-bearing debts of the Group amounted to approximately HK$18,206 million (31 December 2018: HK$19,145 million). The weighted average cost of capital of the Group was 8.33% in FY2019 (FY2018: 8.13%).

In FY2019, the Company has been committed to enhancing the communication with its shareholders ("Shareholders") and its dedication to investor relationship. Through various channels, such as an investor forum, an investment promotion conference and project visits, the Company has maintained smooth communication with the Shareholders and investors in an effective manner, and enabled the investors to have an in-depth understanding of the Company's development strategy and business philosophy. The Company has also flexibly seized business development opportunities and fully utilised the financing function of its listed company status to issue the 2019 Senior Notes with an aggregate principal amount of US$410 million and extended the maturity date of the outstanding senior secured guaranteed notes in the amount of US$42 million issued by the Company in 2017 ("2017 Senior Notes") to 12 December 2020. As at the date of this report, all outstanding 2017 Senior Notes in the principal amount of US$42 million have been redeemed.

OUTLOOK

Looking ahead to 2020, due to the unstable global economic environment, together with the unpredictable progress of the trade talk between China and the United States and the adverse economic impact brought about by the outbreak of the Coronavirus Disease 2019 in the PRC, economic and financing activities in the PRC will slow down, which will in turn lead to increasingly fierce competition in the real estate industry in the PRC. As the additional supply of land resources in the first-tier cities and second-tier core cities in the PRC is nearly saturated, the Group will continue to closely monitor the situation and focus on urban renewal projects to support its medium-term to long-term development in these challenging times, while relying on additional light-asset projects to meet its short-term needs.

As the Group will acquire land resources mainly through urban renewal projects in the future, it will leverage on the Company's competitive edge and strengths in urban renewal to boost its urban renewal business. In addition, the Group will maintain its development at an appropriate scale and focus on delivering high-quality projects to raise its brand awareness and reputation.

APPRECIATION

On behalf of the Board, I would like to thank our management team and every staff member of the Group. The growth of the Group would not have been possible without their dedication and contribution. I would also like to express my appreciation to our investors, customers and business partners for their strong support and confidence in the Group. The management and staff of the Group will continue to dedicate their professional knowledge with excellent team spirit to overcome every difficulty ahead so as to achieve more outstanding results.

Chu Hing Tsung
Chairman

Hong Kong, 8 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in property development, property investment, project management, and other property development related services in the PRC.

BUSINESS REVIEW

During FY2019, faced with growing economic downward pressure, the central people's government of the PRC pledged to maintain supportive policies toward private businesses, with tax cuts to ease tax burdens for the private sector, incentives to boost innovation and stimulus to shore up confidence and stabilise the economy in the PRC. During FY2019, the Group adjusted its sales policy according to the changing market conditions in a timely manner, utilised various sales strategies in a flexible way and proactively promoted bulk sales. It strengthened its sales efforts for its projects under development, thereby achieving a steady sales volume in its contracted sales. Meanwhile, the Group sped up the return of funds in order to reduce the cost of loans and its gearing ratio, expedite its capital turnover and provide guarantee for the funding of its new projects.

The Group has actively expanded its land reserves through various channels, including participation in government public auctions, urban redevelopment projects, primary land development, co-operation with real estate project companies and acquisition of real estate project companies.

Management Discussion and Analysis

During FY2019, South Trend Holdings Limited (南興控股有限公司) ("South Trend"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("SP Agreement") to acquire 100% of the issued share capital of All Flourish Investments Limited (通興投資有限公司) ("All Flourish") at the consideration of RMB1,050 million (equivalent to approximately HK$1,165.7 million) ("All Flourish Acquisition"), which indirectly holds 51% interests in 廣州發展汽車城有限公司 (Guangzhou Development Automobile City Co., Ltd.*) ("Guangzhou Project Company"). The Guangzhou Project Company holds interests in a project ("AEC Project") known as "Zhuguang Financial Town One* (珠光金融城壹號)" with a total gross floor area ("GFA") for development of approximately 360,655 square meters ("sqm"), which is located at Huangpu Road East, Tianhe District, Guangzhou City, Guangdong Province, the PRC and is near the Sanxi (三溪) Station of Guangzhou Metro Line No. 5 and within the scope of the planned Guangzhou International Financial Town (廣州國際金融城) in Tianhe District, Guangzhou City, Guangdong Province, the PRC. Such acquisition was completed in March 2020 ("AEC Completion"), upon which All Flourish has become an indirect wholly-owned subsidiary of the Company. After the AEC Completion, the financial results of the Guangzhou Project Company have not been consolidated into those of the Group under the applicable accounting standards but have been equity accounted for as a joint venture.

Property Development and Sales

During FY2019, the Group continued its focus on the first-tier and key second-tier cities in the PRC with potential growth in demand for properties. The Group achieved contracted sales of approximately HK$2,559,945,000 and contracted GFA of approximately 183,879 sqm in FY2019, representing an increase of approximately 0.88% and a decrease of approximately 9.36% respectively as compared with those for FY2018. The details of the contracted sales and the contracted GFA sold achieved for FY2019 are set out below:

Projects	**Contracted sales** (HK$'000)	**Contracted GFA sold** (sqm)
Pearl Xincheng Yujing ("Xincheng Yujing")	540,985	51,138
Zhuguang Yujing Scenic Garden ("Yujing Scenic Garden")	823,090	52,624
Pearl Yunling Lake	219,899	14,008
Pearl Tianhu Yujing Garden ("Tianhu Yujing")	31,812	2,580
Pearl Yijing	403,126	27,540
Project Tian Ying	227,651	16,745
Hua Cheng Yujing Garden	34,269	381
Yujing Yayuan	127,326	7,988
	2,408,158	173,004
Car parks	151,787	10,875
	2,559,945	183,879

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It is expected that the following projects will be available for sale/pre-sale and/or leasing in 2020:

Projects	Available for sale/ pre-sale/ leasing period	GFA available for sale/lease (sqm)	Usage
Xincheng Yujing	1st quarter	82,498	Leasing/Sale
Yujing Scenic Garden	1st quarter	53,220	Sale
Pearl Yunling Lake	1st quarter	41,056	Sale
Tianhu Yujing	1st quarter	29,933	Leasing/Sale
Pearl Yijing	1st quarter	28,713	Sale
Project Tian Ying	1st quarter	12,047	Sale
Central Park	1st quarter	2,432	Sale
Nansha Scenic	1st quarter	12	Sale
Zhukong International	1st quarter	3,134	Leasing
Hua Cheng Yujing Garden	1st quarter	39,554	Leasing/Sale
Yujing Yayuan	1st quarter	29,979	Sale
Meizhou Chaotang Project	1st quarter	26,813	Leasing/Sale

As at 31 December 2019, the Group owned the following property development projects, the details of which are as follows:

Yujing Scenic Garden — 100% interest

"Yujing Scenic Garden" is located at Provincial Highway G105 ("Highway G105") line at Jiulibu District, Jiangpu Town, Conghua, Guangzhou, the PRC, which is well connected via a number of highways to and from Guangzhou. Yujing Scenic Garden is a 20-minute drive from downtown Conghua and a 10-minute drive from Wenquan Town, Conghua, with a site area of approximately 294,684 sqm, which is being developed into a commercial and residential complex, comprising residential buildings and a street-level commercial podium, service apartments and car parks. The total GFA available for sale is approximately 758,575 sqm, which comprises four phases of development. District II of Phase IV with a total GFA available for sale of approximately 85,935 sqm is still under construction and will be delivered in 2020. Apart from the properties developed for sale under Phases I to IV, Yujing Scenic Garden also comprises properties with a total GFA of approximately 3,628 sqm, which are held by the Group for investment purposes.

Properties with a total GFA of approximately 2,716 sqm were leased out during FY2019. During FY2019, contracted sales of approximately HK$823,090,000 with GFA of approximately 52,624 sqm were recorded with respect to Yujing Scenic Garden.

Management Discussion and Analysis

Tianhu Yujing — 100% interest

"Tianhu Yujing" is located at Shui Di Village, Jiulibu District, Wenquan Town, Conghua, Guangzhou, the PRC, with a site area of approximately 55,031 sqm. The land of this project is located adjacent to Yujing Scenic Garden, and the Group has developed this land together with Yujing Scenic Garden to expand the Group's development and presence in Conghua. The project is developed into 5 blocks of 32-storey modern residential buildings and a street-level commercial podium with total GFA available for sale of approximately 186,895 sqm. The development is divided into two phases. The total GFA available for sale under Phase I and Phase II is approximately 97,183 sqm and 89,712 sqm respectively.

The aggregate GFA delivered under Phase I was approximately 92,041 sqm, of which approximately 1,837 sqm was delivered during FY2019. The aggregate GFA delivered under Phase II was approximately 43,478 sqm, of which approximately 2,956 sqm was also delivered during FY2019. During FY2019, contracted sales of approximately HK$31,812,000 with GFA of approximately 2,580 sqm were recorded with respect to Tianhu Yujing.

Pearl Yunling Lake — 100% interest

"Pearl Yunling Lake" is located at Provincial Highway S355 line at Jiekou Street, Conghua, Guangzhou, the PRC, which is adjacent to the Fengyunling Forest Park, and is the main transportation link between Conghua and downtown Guangzhou. The project site area is approximately 200,083 sqm and the total GFA is expected to be approximately 126,827 sqm. The development is divided into two phases, with Phase I comprising 57 villas and 5 apartment buildings, with an aggregate GFA of approximately 42,884 sqm, and Phase II comprising 44 villas, 3 apartment buildings and a hotel, with an aggregate GFA of approximately 83,943 sqm. Phase I with a total GFA available for sale of approximately 39,046 sqm and Phase II with a total GFA available for sale of approximately 56,084 sqm were launched for sale in the first and third quarters of the financial year ended 31 December 2017 ("FY2017") respectively, whilst the hotel has been retained as a long-term asset of the Group.

The aggregate GFA delivered under Phase I was approximately 20,233 sqm, of which approximately 2,150 sqm was delivered during FY2019. The aggregate GFA delivered under Phase II was approximately 10,688 sqm, of which approximately 5,603 sqm was delivered during FY2019. The remaining GFA available for sale under Phase I and Phase II is expected to be delivered in 2020. During FY2019, contracted sales of approximately HK$219,899,000 with GFA of approximately 14,008 sqm were recorded with respect to Pearl Yunling Lake.

Xincheng Yujing — 100% interest

"Xincheng Yujing" was acquired by the Group in September 2016. It is located at Zhong Su Shang Wei* (種玊上圍), Sunshine Village* (陽光村), Tang Nan Town* (湯南鎮), Fengshun County* (豐順縣), Meizhou City, Guangdong Province, the PRC (next to Line G235), a county famous for its hot spring resources which is a major tourism attraction. The project site area is approximately 280,836 sqm and a total GFA of approximately 355,160 sqm is expected to be developed. The project is being developed into various types of villas, high-rise apartment buildings and an ancillary commercial development. The development of the project is divided into three phases. Phase I with a total GFA available for sale of approximately 57,159 sqm commenced pre-sale during FY2017 with delivery commencing in FY2018. Phase II commenced pre-sale in FY2017 which was completed with delivery commencing in FY2019. During FY2019, an aggregate GFA of approximately 3,557 sqm was delivered under Phase I and an aggregate GFA of approximately 59,133 sqm was delivered under Phase II. Phase III is currently under development and is expected to be completed in 2020 to 2021. The ancillary commercial building plus a basement with a total GFA of approximately 10,084 sqm were leased out during FY2019. During FY2019, contracted sales of approximately HK$540,985,000 with GFA of approximately 51,138 sqm were recorded with respect to Xincheng Yujing.

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Pearl Yijing — 100% interest

"Pearl Yijing" is located at No. 168 Xinkai Street, Xianghe County, Hebei Province, the PRC, with a site area of approximately 63,044 sqm and a total GFA available for sale of approximately 164,628 sqm. The project was developed into two phases with several residential buildings and street-level commercial areas. A total GFA available for sale of approximately 72,109 sqm under Phase I was delivered, and the remaining part of Phase I with a total GFA available for sale of approximately 1,025 sqm is expected to be completed in 2020. A total GFA available for sale of approximately 62,420 sqm under Phase II was delivered, of which approximately 41,471 sqm was delivered during FY2019. During FY2019, contracted sales of approximately HK$403,126,000 with GFA of approximately 27,540 sqm were recorded with respect to Pearl Yijing.

Project Tian Ying — 100% interest

"Project Tian Ying" is located in Jiang Pu Street, Conghua, Guangzhou, the PRC, and is next to Highway G105, which is only a 10-minute drive and a one-hour drive from Conghua central business district and Guangzhou City, respectively. The site area of the project is approximately 22,742 sqm and the GFA available for development is approximately 74,502 sqm. The project will be developed into a stylish low-density residential complex with a commercial podium and certain public facilities. The project was completed in 2019. Total GFA of approximately 25,255 sqm was delivered during FY2019. During FY2019, contracted sales of approximately HK$227,651,000 with GFA of approximately 16,745 sqm were recorded with respect to Project Tian Ying.

Zhukong International — 80% interest

"Zhukong International" is located at Lot A2-1, Zhujiang New Town, Tianhe District, Guangzhou, the PRC, at the junction of Guangzhou Avenue* (廣州大道) and Huang Pu Da Dao* (黃埔大道), which is a 35-storey high-rise commercial complex, including a 6-storey commercial podium, a 29-storey Grade A office building and a 3-storey underground car park. The complex was completed in 2015 with a site area of approximately 10,449 sqm and a total GFA (including carpark areas) available for sale and leasing of approximately 109,738 sqm. The aggregate GFA of the office building and carparks sold during the period from 2014 to FY2019 was approximately 62,686 sqm, and GFA of approximately 3,134 sqm of this property is still available for sale or leasing. The Group has designated GFA of approximately 43,918 sqm of this property as investment properties held for long-term investment purpose.

Central Park — 100% interest

"Central Park" is located at Lot H3-3, Zhujiang New Town, Tianhe District, Guangzhou, the PRC with a site area of approximately 3,430 sqm, and a total GFA available for sale of approximately 28,908 sqm thereof has been developed into a 30-storey building, including service apartments, a street-level commercial podium and a 4-storey underground car park. The aggregate GFA available for sale of the service apartments delivered was approximately 23,631 sqm. The Group has designated GFA of approximately 2,746 sqm of this property as investment properties held for long-term investment purpose.

Nansha Scenic — 100% interest

"Nansha Scenic" is located at Jinzhou Main Street, Nansha District, Guangzhou, the PRC, which is the central business district in Nansha. As at 31 December 2019, the project was completed and only certain car parks still remained available for sale.

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Management Discussion and Analysis

Hua Cheng Yujing Garden — 100% interest

"Hua Cheng Yujing Garden" was acquired by the Group in FY2018. It is located at Zhujiang Xincheng, Tianhe District, Guangzhou City, Guangdong Province, the PRC, with a site area of approximately 60,237 sqm, and the total GFA available for development that belongs to the Group is approximately 109,113 sqm. Out of the GFA of approximately 109,113 sqm, a GFA of approximately 48,044 sqm is attributable to a commercial and residential complex which comprises carparks, residential buildings, shopping malls and office premises, and a GFA of approximately 61,069 sqm is attributable to a commercial complex which comprises shopping malls and office premises. During FY2019, contracted sales of approximately HK$34,269,000 with GFA of approximately 381 sqm were recorded with respect to Hua Cheng Yujing Garden.

Meizhou Chaotang Project — 100% interest

"Meizhou Chaotang Project" is located at Chaotang Village, Chengdong Town, Meixian District, Meizhou City, the PRC. The site area and the GFA available for development under Phase I of the project are approximately 46,793 sqm and approximately 97,617 sqm, respectively. Phase I of the project will be developed into a number of different types of villas in addition to a hotel. Pre-sale of ten blocks of villas with a GFA of approximately 2,936 sqm has commenced in the fourth quarter of 2019. The Group has designated the hotel with GFA of approximately 7,389 sqm as an investment property held for long-term investment purpose.

Yujing Yayuan — 50% interest

"Yujing Yayuan" is located at Guoji, Fuyong, Nanqu, Zhongshan City, the PRC. The site area and the GFA available for development of this project are approximately 15,745 sqm and approximately 50,471 sqm, respectively. This project which will be developed into five blocks of modern residential buildings, a street-level commercial podium and an underground car park, has commenced pre-sale in March 2019. During FY2019, contracted sales of approximately HK$127,326,000 with GFA of approximately 7,988 sqm were recorded with respect to Yujing Yayuan.

Land Bank

It is the Group's strategy to maintain a sufficient land bank and design accurate urban layout to support the Group's own development pipeline for at least the next three to five years. The Group has actively expanded its land reserves through various channels, including participation in government public auctions, urban redevelopment projects and acquisition of other property development projects. The Group will continue to explore new opportunities in cities in the PRC in which the Group has already invested, as well as new cities in the PRC with growth potential and the best investment value.

Property Investments

As at 31 December 2019, the Group owned (1) certain floors of Royal Mediterranean Hotel ("RM Hotel") located at 518 Tianhe Road, Tianhe District, Guangzhou, the PRC, with GFA of approximately 18,184 sqm (31 December 2018: 18,184 sqm); (2) "Zhukong International" with GFA of approximately 43,918 sqm (31 December 2018: 43,918 sqm); (3) certain floors of a commercial complex in Hua Cheng Yujing Garden with GFA of approximately 32,051 sqm (31 December 2018: 30,604 sqm); (4) a hotel located at Chaotang Village, Chengdong Town, Meixian District, Meizhou City, the PRC, with GFA of approximately 7,389 sqm (31 December 2018: Nil); and (5) certain commercial properties in the Guangdong Province, the PRC, with GFA of approximately 18,459 sqm (31 December 2018: 14,310 sqm) as investment properties. During FY2019, RM Hotel, Zhukong International and the commercial properties were partially leased out with total rental income of approximately HK$164,248,000 generated, representing a slight decrease of approximately 0.3% as compared to that of approximately HK$164,690,000 for FY2018. The existing investment properties held by the Group are intended to be held for medium-term to long-term investment purposes. The Group will continue to seek high quality properties with potential appreciation in value for investment purposes and build up a portfolio that will generate steady cash flows to the Group in the future.

Project Management Services

During FY2019, the Group provided funding and project management services to its customers for property development projects and urban redevelopment projects. The Group is entitled to project management services income based on the terms of the entrusted construction and management service agreements entered into with these customers and such income enables the Group to broaden its income source. The Group recorded project management services segment results of approximately HK$1,608,304,000 for FY2019, comparing to that of approximately HK$471,715,000 for FY2018. The increase in the revenue generated from this business segment was mainly attributable to the increase in the number of property development projects and urban redevelopment projects entered into by the Group in FY2019. The Group will continue to utilise its expertise in project management in order to maintain a steady income stream in the future.

Significant Investment

As at 31 December 2019, the Group's investment in an associate, Silver Grant International Holdings Group Limited ("Silver Grant"), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with stock code: 0171, was the only significant investment held by the Group which represented 5% or more of the Group's total assets. As at 31 December 2019, the Group held 681,240,022 ordinary shares of Silver Grant, representing 29.56% of the equity interest of Silver Grant, which were acquired by the Group for an aggregate cash consideration of approximately HK$2,058,415,000 during FY2018. Silver Grant and its subsidiaries ("Silver Grant Group") are principally engaged in property leasing and investments. As at 31 December 2019, the carrying amount of this investment was HK$2,182,785,000, representing approximately 6.09% of the total assets of the Group as at 31 December 2019. During FY2019, no dividend income was received from this investment and the Group recorded a share of profit from this investment of approximately HK$144,797,000 (2018: share of loss of approximately HK$12,760,000). As disclosed in the preliminary announcement of annual results for FY2019 of Silver Grant dated 8 May 2020, (i) the outbreak of the Coronavirus Disease 2019 ("COVID-19") has made a significant adverse impact on the daily operations of Silver Grant Group; (ii) as the balance of non-performing loans carried by commercial banks in the PRC has been increasing continuously, the Silver Grant Group would follow the development pattern of the macro-economy, thoroughly investigate the regulatory policies and the changes in the legislative policies, to identify the business direction that is supported by the relevant policies, and make investments in non-performing loans that will provide high returns accordingly and would participate in the restructuring of low-performing enterprises that have operational value; and (iii) a joint venture of Silver Grant would boost its efforts in developing high-end lubricating oil products, expanding its scale in the lubricating oil industry, and transforming into a high-end polyolefin enterprise, so as to increase its profit, which would in turn create better returns for the shareholders of Silver Grant. The Group will continue to hold this investment as a long-term investment.

EVENTS AFTER THE REPORTING YEAR

(a) On 23 January 2020, the Group has entered into a number of pre-delivery management agreements ("Pre-delivery Management Agreements") and post-delivery management agreements ("Post-delivery Management Agreements", together with the Pre-delivery Management Agreements, collectively as "Management Agreements") with 廣州珠光物業管理有限公司 (Guangzhou Zhuguang Property Management Company Limited*) ("Management Company"), pursuant to which the Management Company agreed to provide various property management services in respect of certain property projects to the Group.

As the Management Company has been owned as to 90% by Ms. Zhu Ziyu* (朱梓瑜) ("Ms. Zhu"), who is (i) a daughter of Mr. Chu Hing Tsung, an executive Director, the chairman of the Board and a 34.06% shareholder of Rong De Investments Limited ("Rong De") (a controlling shareholder of the Company (within the meaning of the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange); and (ii) a niece of Mr. Chu Muk Chi, an executive Director and a 29.94% shareholder of Rong De (a controlling shareholder of the Company (within the meaning of the Listing Rules)) since 26 December 2019, Ms. Zhu has been an associate (within the meaning of the Listing Rules) of Mr. Chu Hing Tsung and a deemed connected person (within the meaning of the Listing Rules) of Mr. Chu Muk Chi, and the Management Company has thus become a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Management Agreements constitute continuing connected transactions of the Company under the Listing Rules.

Further details of the Management Agreements are set out in the announcement of the Company dated 23 January 2020.

(b) The All Flourish Acquisition was completed in March 2020, upon which All Flourish has become an indirect wholly-owned subsidiary of the Company. After the AEC Completion, the financial results of the Guangzhou Project Company have not been consolidated into those of the Group under the applicable accounting standards but have been equity accounted for as a joint venture.

(c) On 22 April 2020, (i) United Talent Investments Limited, a wholly-owned subsidiary of the Company, as the vendor ("Vendor"); (ii) Guangzhou Yuhong Investment Company Limited* (廣州御宏投資有限公司), a non-wholly owned subsidiary of the Company, as the target company ("Target Company"); (iii) the Company; (iv) Skyleap Investments Limited, a wholly-owned subsidiary of the Company; and (v) Guangzhou Bohao Corporate Management Partnership (Limited Liability Partnership)* (廣州博浩企業管理合伙企業(有限合伙)), an independent third party of the Company, as the purchaser ("Purchaser"), entered into a co-development agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire equity interest in the Target Company and the net amount advanced by way of loan by the Vendor and/or the subsidiaries of the Company to, among others, the Target Company ("Disposal"). The Disposal constitutes a very substantial disposal of the Company under the Listing Rules and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Further details of the Disposal are set out in the announcement of the Company dated 22 April 2020.

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MATERIAL ACQUISITIONS AND DISPOSALS

During FY2019, the Group entered into the following contracts:

(a) On 23 June 2017, South Trend, as purchaser, Quan Xing Holdings Limited (荃興控股有限公司), as vendor ("Quan Xing"), and Cheung Fong Wing ("Mr. Cheung"), as guarantor, entered into a sale and purchase agreement ("All Flourish SPA"), which was amended and supplemented by the supplemental agreements dated 28 March 2018, 2 August 2018 and 28 December 2018 entered into among South Trend, Quan Xing and Mr. Cheung in relation to the acquisition of the entire issued share capital of All Flourish at the consideration of RMB3.5 billion (equivalent to approximately HK$3.95 billion) (subject to adjustment) ("First All Flourish Acquisition"). As completion of the First All Flourish Acquisition was conditional upon and subject to the satisfaction of certain conditions precedent (unless having been otherwise waived) on or before 30 June 2019 (or such later date as South Trend and Quan Xing may agree in writing) and such conditions precedent were not fulfilled by 30 June 2019, the All Flourish SPA lapsed on 30 June 2019.

Further details of the First All Flourish Acquisition are set out in the announcements of the Company dated 23 June 2017, 27 October 2017, 14 February 2018, 28 March 2018, 29 June 2018, 2 August 2018, 31 October 2018, 28 December 2018 and 1 July 2019.

(b) On 18 December 2019, South Trend, as purchaser, Quan Xing, as vendor, and Mr. Cheung, as guarantor, entered into the SP Agreement in relation to the All Flourish Acquisition. Pursuant to the SP Agreement, South Trend has conditionally agreed to acquire, and Quan Xing has conditionally agreed to sell, the entire issued share capital of All Flourish at the consideration of RMB1,050 million (equivalent to approximately HK$1,165.7 million).

All Flourish holds 100% of the equity interests of Pacific Win Investments Limited ("Pacific Win"), and Pacific Win in turn holds 51% of the equity interests of the Guangzhou Project Company, which holds interests in the AEC Project known as "Zhuguang Financial Town One* (珠光金融城壹號)", which is located at Huangpu Road East, Tianhe District, Guangzhou City, Guangdong Province, the PRC.

The AEC Project involves the development of three parcels of land with a total site area of approximately 63,637 sqm, which are being developed into buildings for office, apartment and commercial uses. The total GFA for sale and development of the AEC Project are approximately 352,496 sqm and 360,655 sqm, respectively, and the AEC Project comprises five phases of development. Phase I which covers four blocks of apartment buildings (including a retail portion) with a total GFA available for sale of approximately 33,081 sqm is under construction as at the date of this annual report and is scheduled to be completed in November 2020. Phase II to Phase V with a total GFA available for sale of approximately 319,415 sqm is scheduled to be completed in March 2024.

The All Flourish Acquisition was completed in March 2020, upon which All Flourish and Pacific Win have become indirect wholly-owned subsidiaries of the Company. While the financial results of All Flourish and Pacific Win have been consolidated into the Group's financial statements after the AEC Completion, the financial results of the Guangzhou Project Company have not been consolidated into those of the Group under the applicable accounting standards but have been equity accounted for as a joint venture.

Further details of the All Flourish Acquisition are set out in the announcement of the Company dated 18 December 2019.

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OUTLOOK

Looking ahead, as the International Monetary Fund has revised the global growth projections downward and the trade disputes between China and the United States remain unresolved, the financial market will continue to be affected negatively. With the real estate industry being one of the most important sectors of the Chinese economy, it is expected that the PRC government will continue to focus on establishing a long-term management and regulation mechanism, thus eventually leading the real estate market to develop in a stable way.

The Group will enter into a critical stage of development in 2020, with both opportunities and challenges awaiting it. In the future, the Group will continue to have a firm grip of its business in the first-tier cities in the PRC and the Guangdong-Hong Kong-Macau Greater Bay Area, and expand its business in the satellite cities of the first-tier cities and the key second-tier cities in the PRC. In 2020, the Group's inventory for sale will still be its completed projects in Guangzhou, and the Group will continue to step up its efforts to market its projects in the Conghua area in Guangzhou. As at the date of this annual report, the Group's saleable inventory in the Conghua area is relatively abundant. As a result, Conghua will still be a focused sales area of the Group in 2020, where the Group will continue to pay close attention to the sales in this market.

In terms of land acquisition, the Group will continue to implement its strategy under which it will focus on urban renewal projects to support its medium-term to long-term development, while relying on additional light-asset projects to meet its short-term needs. As the Group will acquire land resources mainly through urban renewal projects in the future, it will leverage the Company's competitive edge and strengths to boost its urban renewal operations. In addition, the Group will maintain its development at an appropriate scale and focus on delivering high-quality projects to raise its brand awareness and reputation.

Impact of the COVID-19

In view of the outbreak of the COVID-19 in the PRC, the PRC authority has taken national prevention and control measures to combat the outbreak. The COVID-19 has certain impacts on the business operations and overall economy in some geographical areas and industries in the PRC. To a certain extent the outbreak might affect the property development and property investment industries in the PRC, and the extent of the impact depends on the duration of the epidemic and the implementation of the regulatory policies and the relevant protective measures. The Group will stay alert on the development of the COVID-19 and continue to assess its impacts on its financial position and operating results.

FINANCIAL REVIEW

Revenue

During FY2019, the Group's revenue by operating segment included revenue from property development, property investment and project management services. The total revenue of the Group for FY2019 was approximately HK$4,074,814,000 (FY2018: HK$2,704,796,000), which represented an increase of approximately 50.7% as compared to that for FY2018.

Revenue from property development for FY2019 amounted to approximately HK$2,540,074,000 (FY2018: HK$2,527,991,000). The increase was mainly due to the increase in the average selling price of the properties delivered during FY2019 as compared to that of the properties delivered during FY2018.

The Group recorded a slight decrease of 0.3% in rental income for FY2019, as compared to that for FY2018. The rental income decreased from approximately HK$164,690,000 for FY2018 to approximately HK$164,248,000 for FY2019, mainly due to the slight decrease in GFA of the investment properties leased out by the Group during FY2019.

The income from project management services segment contributed approximately HK$1,370,492,000 (FY2018: HK$12,115,000) to the total revenue of the Group for FY2019. The significant increase was mainly due to the increase in the number of property development projects and urban redevelopment projects entered into by the Group in FY2019.

Gross profit and margin

For FY2019, the Group recorded a gross profit of approximately HK$2,087,261,000 (FY2018: HK$1,087,787,000). The increase was mainly due to the increase in the number of property development projects and urban redevelopment projects entered into by the Group in FY2019.

Fair value gain on investment properties, net

For FY2019, the fair value gain on investment properties, net, recorded by the Group amounted to approximately HK$384,868,000 (FY2018: HK$279,009,000), representing an increase of approximately 37.9% as compared to that of FY2018. The increase in fair value gain on investment properties, net was mainly due to the capital appreciation of the commercial complex of Hua Cheng Yujing Garden and the hotel located in Meizhou as at 31 December 2019.

Other income and gains

Other income and gains of the Group decreased to approximately HK$435,979,000 during FY2019 (FY2018: HK$468,528,000). The decrease was primarily due to the decrease in interest income earned during FY2019 as compared to that in FY2018.

Administrative expenses and selling and marketing costs

Administrative expenses and selling and marketing costs of the Group increased from approximately HK$338,116,000 for FY2018 to approximately HK$393,418,000 for FY2019. The increase was primarily due to (i) the increase in the selling and marketing costs incurred to boost the contracted sales during FY2019; and (ii) the increase in the staff costs due to the increase in the number of employees in FY2019.

Other expenses

Other expenses of the Group increased from approximately HK$172,087,000 for FY2018 to approximately HK$473,273,000 for FY2019. Other expenses mainly comprised (i) foreign exchange losses of approximately HK$254,697,000 (FY2018: HK$60,376,000); (ii) impairment loss of financial assets following the assessment of expected credit loss of approximately HK$200,296,000 (FY2018: HK$45,978,000); and (iii) provision for administrative penalties of approximately HK$14,573,000 (FY2018: HK$58,513,000). The increase was mainly attributable to the increase in foreign exchange losses as a result of the depreciation of the RMB against the HK$ during FY2019 as compared to that in FY2018 and the impairment loss of financial assets following the assessment of expected credit loss.

Management Discussion and Analysis

Change in fair value of financial assets at fair value through profit or loss

Change in fair value of financial assets at fair value through profit or loss of the Group increased from approximately HK$459,600,000 for FY2018 to approximately HK$662,507,000 for FY2019. The increase was mainly due to the increase in the fair value of certain project management services agreements as at 31 December 2019 under which the Group agreed to provide funding and management services in relation to property development projects.

Share of profit of an associate

Share of profit of an associate was approximately HK$144,797,000 during FY2019 (FY2018: share of loss of HK$12,760,000), which represented the Group's share of the profit from its associate, Silver Grant International Holdings Group Limited (銀建國際控股集團有限公司) (formerly known as Silver Grant International Industries Limited (銀建國際實業有限公司)), the shares of which are listed on the Main Board of the Stock Exchange with stock code: 0171. Silver Grant and its subsidiaries are principally engaged in investments and property leasing. The Group completed the acquisitions of approximately 29.56% interest of the issued share capital of Silver Grant on 31 October 2018 and Silver Grant has become an associate of the Group since then.

Finance costs

Finance costs for FY2019 were approximately HK$1,503,924,000 (FY2018: HK$1,248,810,000), which were made up of interest expenses incurred during FY2019 after deduction of the interest expenses capitalised to development costs. The increase in finance costs was mainly due to the increase in the cost of borrowings of the Group in FY2019.

Income tax expense

Income tax expense comprised corporate income tax ("CIT") and land appreciation tax ("LAT") in the PRC and deferred tax. CIT of approximately HK$233,985,000 (FY2018: HK$214,696,000), LAT of approximately HK$153,149,000 (FY2018: HK$105,680,000) and deferred tax of approximately HK$238,166,000 (FY2018: HK$124,923,000) accounted for the Group's total income tax expense of approximately HK$625,300,000 for FY2019 (FY2018: HK$445,299,000). The increase in total income tax expense for FY2019 was mainly due to the net effect of (i) the decrease in tax-deductible expenses incurred during FY2019, as compared to those incurred in FY2018; (ii) the increase in the provision of deferred tax made for FY2019, as compared to that for FY2018; and (iii) the decrease in income generated during FY2019 which was not subject to income tax, as compared to that generated in FY2018.

Profit for the year

The Group's profit for FY2019 was approximately HK$719,497,000 (FY2018: HK$77,852,000), which represented an increase of approximately 824.2% as compared to that for FY2018. The increase in profit was mainly attributable to (i) the increase in the revenue during FY2019 to approximately HK$4,074,814,000 (FY2018: HK$2,704,796,000); and (ii) the increase in the change in fair value of financial assets at fair value through profit or loss recorded during FY2019 to approximately HK$662,507,000 (FY2018: HK$459,600,000), which were partially offset by (a) the increase in other expenses recorded in FY2019 to approximately HK$473,273,000 (FY2018: HK$172,087,000); (b) the increase in finance costs incurred by the Group during FY2019 to approximately HK$1,503,924,000 (FY2018: HK$1,248,810,000); and (c) the increase in the income tax expenses incurred by the Group during FY2019 to approximately HK$625,300,000 (FY2018: HK$445,299,000).

Treasury and funding policies

The Group has adopted a prudent approach with respect to its treasury and funding policies. The Group's financial and fundraising activities are subject to effective centralised management and supervision, with an emphasis on risk management and transactions that are directly related to the business of the Group.

Cash position

As at 31 December 2019, the Group's bank and cash balances (including restricted cash and term deposits with initial terms of over three months) amounted to approximately HK$3,889,815,000 (31 December 2018: HK$6,993,085,000). The cash and cash equivalents of the Group were mainly denominated in RMB, United States dollar ("US$") and HK$.

Borrowings, charges on group assets and gearing ratio

The Group's bank and other borrowings comprised the following:

	31 December 2019 HK$'000	31 December 2018 HK$'000
Bank loans — secured	**4,659,742**	5,661,378
Bank loans — unsecured and guaranteed	**478,264**	—
Senior notes — secured	**3,381,035**	3,551,193
Other borrowings — secured	**9,446,734**	9,712,584
Other borrowings — unsecured and guaranteed	**220,000**	220,000
Lease liability	**20,242**	—
	18,206,017	19,145,155

(a) As at 31 December 2019, the Group's total borrowings were made up of financing from (i) bank loans; (ii) senior notes; (iii) other borrowings, including trust loans, a margin loan and a term loan facility; and (iv) a lease liability. Out of these borrowings, approximately HK$1,270,973,000 (31 December 2018: HK$1,569,398,000), approximately HK$13,467,953,000 (31 December 2018: HK$13,773,675,000) and approximately HK$3,467,091,000 (31 December 2018: HK$3,802,082,000) were denominated in HK$, RMB and US$, respectively. The senior notes and other borrowings carried fixed interest rates ranging from 3.00% to 12% (31 December 2018: 7.51% to 12%). Approximately 97.4% (31 December 2018: 89.6%) of the bank loans carried fixed interest rates ranging from 2.97% to 14.25% (31 December 2018: 5.27% to 11.0%) while the remaining 2.6% (31 December 2018: 10.4%) of the bank loans carried floating interest rates.

(b) The gearing ratio of the Group is measured by the net debt (total interest-bearing borrowings net of cash and cash equivalents, term deposits with initial terms of over three months and restricted cash) over the total capital (total equity plus net debt) of the Group. As at 31 December 2019, the gearing ratio of the Group was 65% (31 December 2018: 64%).

Management Discussion and Analysis

(c) As at 31 December 2019, the Group had outstanding secured bank loans of approximately HK$4,659.7 million, which were secured by the following: (i) the Group's investment properties; (ii) the Group's properties under development; (iii) the Group's completed properties held for sale; (iv) the Group's term deposits; and (v) the entire equity interest of the Company's subsidiaries, namely, 廣州珠光城市更新集團有限公司 (Guangzhou Zhuguang Urban Renewal Group Company Limited*), 香河縣逸景房地產開發有限公司 (Xianghe County Yijing Property Development Company Limited*) and 梅州御景房地產有限公司 (Meizhou Yujing Property Company Limited*). The secured bank loans comprised (1) a revolving bank loan in the principal amount of HK$49.48 million with the final maturity date falling due in August 2020; (2) a bank loan in the principal amount of RMB120 million repayable by instalments within 3 years with the last instalment due in July 2020; (3) a bank loan in the principal amount of RMB127 million repayable by instalments within 3 years with the last instalment due in December 2020; (4) a bank loan in the principal amount of RMB750 million due in July 2020; (5) a bank loan in the principal amount of RMB5 million due in August 2021; (6) a bank loan in the principal amount of RMB2,500 million due in August 2021; (7) a bank loan in the principal amount of RMB1 million due in November 2022; (8) a bank loan in the principal amount of US$11.05 million due in November 2020; (9) a revolving bank loan in the principal amount of RMB50 million due in June 2020; (10) a bank loan in the principal amount of RMB300 million repayable by instalments within 3 years with the last instalment due in November 2021; (11) bank loans in the principal amount of HK$198.56 million due in September 2021; and (12) a bank loan in the principal amount of HK$349 million due in October 2021.

(d) As at 31 December 2019, the Group had an outstanding unsecured and guaranteed bank loan of approximately HK$478.3 million, which was guaranteed by (i) the corporate guarantees executed by the Company, Guangdong Zhuguang Group Company Limited ("Guangdong Zhuguang Group") and one of the subsidiaries of Guangdong Zhuguang Group; and (ii) the personal guarantees executed by the executive Director, Mr. Chu Hing Tsung. The unsecured and guaranteed bank loan had a principal amount of RMB600 million repayable by instalments within 4 years with the last instalment due in October 2021.

(e) As at 31 December 2019, the Group had outstanding senior secured guaranteed notes issued in 2019 ("2019 Senior Notes") in the aggregate principal amount of US$410 million (equivalent to approximately HK$3,060.1 million), due on 21 September 2022, which are secured and guaranteed by (i) 3,361,112,000 Shares owned by Rong De; (ii) the 100% equity interest of the Company's subsidiaries, namely, Ai De Investments Limited (靄德投資有限公司) ("Ai De"), Capital Fame Investments Limited (嘉鋒投資有限公司) ("Capital Fame"), Cheng Chang Holdings Limited (誠昌控股有限公司) ("Cheng Chang"), East Orient Investment Limited (達東投資有限公司) ("East Orient"), Ever Crown Corporation Limited (冠恒興業有限公司) ("Ever Crown"), Fresh International Limited (豐順國際有限公司) ("Fresh International"), Fully Wise Investment Limited (惠豐投資有限公司) ("Fully Wise"), Polyhero International Limited (寶豪國際有限公司) ("Polyhero International"), Profaith International Holdings Limited (盈信國際控股有限公司) ("Profaith International"), Talent Wide Holdings Limited (智博控股有限公司) ("Talent Wide"), Top Asset Development Limited (通利發展有限公司) ("Top Asset"), Top Perfect Development Limited (泰恒發展有限公司) ("Top Perfect"), Vanco Investment Limited (雅豪投資有限公司) ("Vanco Investment") and World Sharp Investments Limited (華聲投資有限公司) ("World Sharp"); (iii) the corporate guarantees executed by Rong De, Zhuguang Group Limited (珠光集團有限公司) ("Zhuguang Group"), South Trend, Ai De, Capital Fame, Cheng Chang, East Orient, Ever Crown, Fully Wise, Polyhero International, Profaith International, Talent Wide, Top Asset, Top Perfect, Vanco Investment, Fresh International and World Sharp; and (iv) the personal guarantees executed by the executive Directors, namely, Mr. Liao Tengjia, Mr. Chu Hing Tsung and Mr. Chu Muk Chi.

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(f) As at 31 December 2019, the Group had outstanding senior secured guaranteed notes issued in 2017 ("2017 Senior Notes") in the principal amount of US$42 million (equivalent to approximately HK$320.9 million). The maturity date of the 2017 Senior Notes has been extended to 12 December 2020 by a consent letter dated 22 January 2020 entered into between the relevant parties. The first tranche of the 2017 Senior Notes in the outstanding principal amount of US$42 million is secured and guaranteed by (i) 100,000,000 Shares owned by Rong De; (ii) the 100% equity interest of the Company's subsidiaries, namely, Victory Global Investments Limited (榮浩投資有限公司) ("Victory Global"), China Honest International Investments Limited (創豪國際投資有限公司) ("China Honest") and Graceful Link Limited (愉興有限公司); (iii) the corporate guarantees executed by Rong De, South Trend, Victory Global and China Honest; and (iv) the personal guarantees executed by the executive Directors, namely, Mr. Liao Tengjia, Mr. Chu Hing Tsung and Mr. Chu Muk Chi. As at 31 December 2019 and up to the date of this annual report, the second tranche of the 2017 Senior Notes had not been issued.

(g) As at 31 December 2019, the Group had outstanding secured other borrowings of approximately HK$9,446.7 million, which were secured and guaranteed by (i) the Group's properties for sale under development and completed properties held for sale; (ii) the Group's assets under construction under property and equipment and land use rights classified under intangible assets; (iii) the Group's investment properties; (iv) the entire equity interest of the Company's subsidiaries, namely, 廣州市潤啟房地產有限公司 (Guangzhou City Runqi Property Company Limited*), 廣東海聯大廈有限公司 (Guangdong Hailian Building Company Limited*), 廣州東港合眾房地產有限公司 (Guangzhou Dong Gang He Zhong Property Company Limited*) and 廣州珠光實業集團有限公司 (Guangzhou Zhuguang Industrial Group Company Limited*); (v) certain equity interest of the Company's subsidiary, 廣州御宏投資有限公司 (Guangzhou Yu Hong Investment Company Limited*); (vi) the corporate guarantees executed by the Company and Guangdong Zhuguang Group; (vii) the personal guarantees executed by the executive Directors, namely, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi; (viii) 425,000,000 Shares owned by Rong De; and (ix) 681,240,000 shares in Silver Grant owned by the Company. The secured other borrowings comprised (1) a loan in the principal amount of RMB2,550 million due in December 2022; (2) a loan in the principal amount of RMB551 million repayable by instalments within 8 years with the last instalment due in November 2024; (3) a loan in the principal amount of RMB636 million due in April 2026; (4) a loan in the principal amount of RMB1,104.3 million repayable by instalments within 3 years with the last instalment due in July 2020; (5) a loan in the principal amount of RMB629.6 million repayable by instalments within 3 years with the last instalment due in January 2020; (6) a loan in the principal amount of RMB1,200 million due in July 2021; (7) a loan in the principal amount of RMB450 million repayable by instalments within 3 years with the last instalment due in January 2021; (8) a loan in the principal amount of RMB1,200 million due in July 2021; (9) loans in the principal amounts of HK$430 million due in October 2020; (10) a loan in the principal amount of RMB600 million due in January 2024; (11) loans in the principal amount of RMB165.5 million repayable by instalments within 2 years with the last instalment due in November 2021; and (12) a loan in the principal amount of RMB58.5 million repayable by instalments within 2 years with the last instalment due in November 2021.

(h) As at 31 December 2019, the Group had outstanding unsecured and guaranteed other borrowings of HK$220 million, which were guaranteed by the personal guarantee executed by the executive Director, Mr. Chu Hing Tsung. The unsecured and guaranteed other borrowings comprised (1) a loan in the principal amount of HK$20 million due in March 2020; and (2) a loan in the principal amount of HK$200 million due in June 2020.

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Management Discussion and Analysis

Issue of subscription shares

On 26 November 2018, the Company entered into a subscription agreement with Rong De (the controlling shareholder of the Company), pursuant to which the Company has conditionally agreed to allot and issue, and Rong De has conditionally agreed to subscribe for, 770,000,000 new Shares ("Subscription Shares", each a "Subscription Share") at the price ("Subscription Price") of HK$1.30 per Subscription Share ("Subscription"). The Subscription Price represents: (i) a discount of approximately 6.5% over the closing price of HK$1.39 per Share as quoted on the Stock Exchange on 23 November 2018 ("Last Trading Day"); (ii) a discount of approximately 7.8% over the average closing price of HK$1.41 per Share for the last five consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 9.1% over the average closing price of HK$1.43 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 60.5% over the audited net asset value per Share of approximately HK$0.81 as at 31 December 2017. The closing price of the Shares on 26 November 2018, being the date on which the terms of the Subscription were fixed, was HK$1.42 per Share. Completion of the Subscription took place on 2 January 2019, upon which 770,000,000 Shares of an aggregate nominal value of HK$77,000,000 have been successfully subscribed by Rong De at the Subscription Price of HK$1.30 per Subscription Share. The total net proceeds of approximately HK$1,000.5 million received by the Company from the Subscription have been fully used by the Group for repaying its bank and other borrowings as intended.

FINANCIAL GUARANTEE CONTRACTS

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**3,671,035**	3,313,578

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) the issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgage loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties.

Except for the financial guarantee contracts as disclosed above, the Group had no material contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

FOREIGN EXCHANGE RATE

During FY2019, the Group conducted its business almost exclusively in RMB except that certain transactions were conducted in HK$ and US$. The conversion of RMB into HK$, US$ or other foreign currencies has been based on the rates set by the People's Bank of China. The value of RMB against the HK$, US$ and other foreign currencies may fluctuate and is affected by factors such as changes in the PRC's political and economic conditions. During FY2019, the Group did not adopt any financial instruments for hedging purposes. However, the Group will constantly assess the foreign exchange risk it encounters so as to decide on the hedging policy required against the possible foreign exchange risk that may arise.

CAPITAL COMMITMENT

The capital expenditures in 2020 are currently expected to be settled by cash through internal resources of the Group. Please refer to note 41 of the notes to the financial statements for the details of the capital and other commitments of the Group as at 31 December 2019. Other than those as disclosed, the management of the Group does not expect there to be any plans for material investments or capital assets in 2020 with reference to the current situation as at the date of this annual report.

EMPLOYEES AND REMUNERATION POLICIES

The Group had in aggregate 476 employees in Hong Kong and the PRC as at 31 December 2019 (31 December 2018: 332). During FY2019, the level of the Group's overall staff cost was approximately HK$154.6 million (FY2018: HK$103.9 million). The employees of the Group are remunerated according to their respective job nature, market conditions, individual performance and qualifications. Other staff benefits include annual bonus and retirement benefits. The Directors' remuneration is determined based on their qualifications, experience, duties and responsibilities, the Company's remuneration policy and the prevailing market conditions.

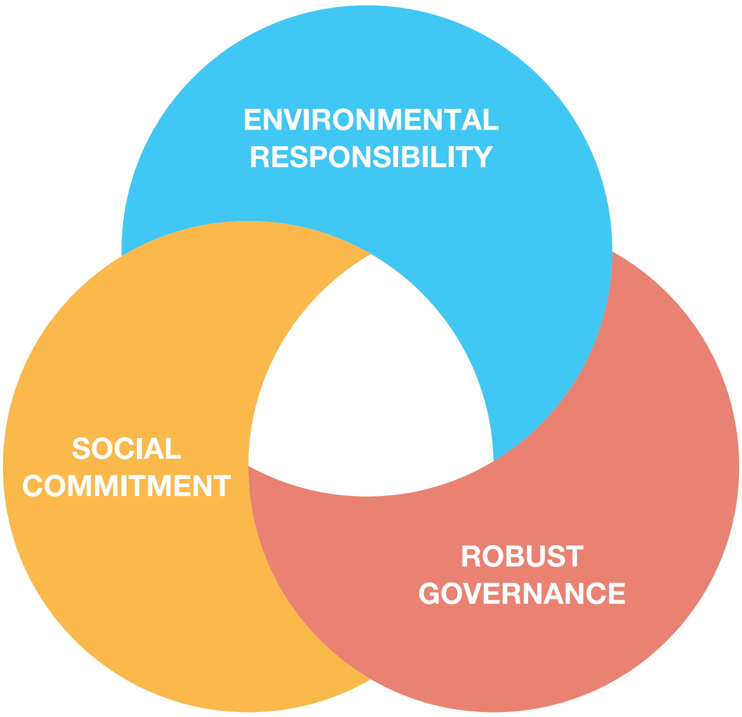
The Group encourages sustainable training of its employees through coaching and further studies. In-house training was provided to eligible employees during FY2019, including training on updates of accounting standards and training on market updates.

During FY2019, the Group did not experience any significant problem with its employees or disruption to its operations due to labour discipline nor did it experience any difficulty in the recruitment and retention of experienced staff. The Group has maintained a good relationship with its employees. Most members of the senior management have been working for the Group for many years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2019

I. PREAMBLE

The property development sector, underpinned by the accelerating urbanisation, has been driving growth in China during recent decades. The increasing demand for sustainable building throughout the global real estate marketplace has transformed the property development industry in China towards sustainability. As a socially responsible enterprise that has long been engaged in the business of property development, property investment, project management, and other property development related services in the PRC, the Group has been stringently adhering to its environmental and social responsibilities, actively scaling up its efforts in various aspects to transition towards low-carbon development and committed to thwarting global warming. As such, the Group takes into consideration the material environmental, social and governance (collectively referred to as "ESG") matters alongside financial factors in its decision-making process and operations, and inherently connects its long-term success with the effectiveness of its corporate ESG management and sustainable development.



II. ABOUT THE REPORT

In strict compliance with the requirements under Appendix 27 — Environmental, Social and Governance Reporting Guide to the Listing Rules, the Group is pleased to present its ESG Report ("ESG Report") for FY2019, which demonstrates the Group's approach and performance in terms of its ESG management and corporate sustainable development for FY2019.

Boundary Setting

Setting a reporting boundary helps report preparers to summarise the accurate information and users to comprehend the implementation of relevant ESG policies within the organisation, as well as allowing the Group to highlight its major business operations and their significant environmental and social impacts during the year under review. Given the business nature and development plans of the Group, this ESG Report covers the ESG performance and management policies of operations of the Group under the operational control approach, including the Group's businesses of property investment and property development and sales in the PRC, and the Group's offices in Hong Kong and the PRC in FY2019.

Reporting Principles

The Group has followed the following reporting principles, namely materiality, quantitative, balance and consistency, in its preparation of the ESG Report.

Materiality:

The Group made a materiality assessment of the ESG-related topics via an online survey, in which its well-selected stakeholders voiced their concerns about the Group's sustainable development. The materiality assessment matrix showed that *'Health and safety relating to products/services', 'Customers satisfaction (Welfare)', 'Marketing and promotion', 'Product quality assurance and recall percentage', 'Protection of consumer information and privacy', 'Occupational health and safety', 'Energy use' and 'Anti-corruption policies and whistle-blowing procedure'* are issues of high importance to the Group in its ESG management, to which the Group will continue to pay more attention in its business development.

Quantitative:

The application of the reporting principle of quantitative was reflected in the calculation and numeric presentation of the Group's environmental performance such as annual greenhouse gas ("GHG") emissions and the Group's social performance including the employment structure in terms of gender, age and position types.

Balance:

To ensure that a complete picture of the Group's sustainable development can be delivered to its stakeholders, the Group fully conformed to the disclosure requirements under Appendix 27 — Environmental, Social and Governance Reporting Guide to the Listing Rules and revealed both its outstanding achievements and rooms for improvement in comparison with its previous performance.

Consistency:

The Group insisted on the adoption of a consistent reporting framework and a series of reporting techniques including the categorisation of business segments for evaluation and calculation methodology for GHG emissions that were in alignment with its previous ESG Reports, aiming to add more coherence to the entire reporting process and build a roadmap visualising its genuine growth in sustainability to all.

III. BOARD INCLUSIVENESS

Sustainability that encompasses ESG-related concerns is increasingly positioned at the top of board agendas on a global level and it is widely acknowledged that the Board should be uniquely positioned to ensure that sustainability concept is fully embedded into business strategies, decision-making and practices in a manner championing the long-term profitability and impacts of enterprises. The Company is fully aware of the pivotal role that its Board plays in corporate ESG management, including the effective implementation of relevant policies, the supervision of daily practices within the organisation and the identification of potential risks and opportunities arising from the market fluctuations and climate change. To deliver a clear message of corporate vision of sustainable development, facilitate communication of the relevant regulatory requirements throughout the entire organisation and encourage the staff to update the policymakers and executives of the Group on a timely basis with the hands-on experience that they have gained in the daily operations of the Group, the Group has adopted a general top-down and bottom-up approach in its ESG management. In particular, the Board initiates sustainability strategies and proposes guidelines including setting up relevant performance indicators, whereas the management of the Group steers, supervises and monitors the implementation of the Group's sustainability practices. Different business units of the Group are responsible for the execution of the policies at different stages of operations. With a fiduciary duty to protect and enhance shareholder value as well as the progress of corporate sustainability, the Board values its stakeholders' support and has the responsibility for the Company's communication with stakeholders on ESG-related issues, ensuring that the Group's sustainable development is connected with the corporate purpose and strategy with due considerations of the interests of its key stakeholders.

The Group has built an ESG steering group ("ESG Steering Group") and an ESG taskforce ("ESG Taskforce") which are mainly responsible for the efficient management of the Group's ESG matters. Specifically, the ESG Steering Group, which is formed by the executive Directors, the chief financial officer and company secretary of the Company, and the general manager of the financial management centre of the Company, is in charge of the supervision of the entire process of the preparation of the ESG report and the communication with the Board about relevant affairs of the ESG report. The major duties of the ESG Taskforce are to coordinate and monitor the data collection process in the preparation of the ESG report, ensuring that material ESG policies of different companies can be identified and the accurate information of ESG performance of each subsidiary can be obtained.

Message from the Board

In recognition of the material sustainability factors that influence the Group's financial returns and drive the long-term value to all, the Group has been unswervingly focusing its efforts on the improvement of its ESG management system and optimisation of its business models to adapt to the ever-changing market and mitigate the risks posed by environmental and social trends as well as its stakeholders' expectations that can, and will increasingly, impact a company's capability to realise its strategic goals. Facing multiple impacts of climate change nowadays, the Group, as a leading enterprise in the property development industry, has been dedicated to managing the climate-related risks in its operations and implementing effective policies in line with global best practices to increase its resilience to climate change and address the impacts of climate change on its value chain. In recent years, the Chinese government has implemented more environmental policies under the global climate emergency, such as the prohibition of sand mining in rivers and the requirement of off-peak production, which have tightened the supply of construction materials, caused price surge of sand, concrete and cement, and resulted in the rising operating costs and project delay. Facing the stringent mandates and potential risks, the Group has adapted its business strategies to the external market changes, optimised its internal risk monitoring system, enhanced its corporate awareness of risk management and reviewed and adjusted its internal strategic plan every year. Based on the Group's business philosophy and purpose together with the analysis of the current industry trend, the Group has set short-, mid- and long-term strategic objectives in the next three years, guiding the diversified development of the Group.

With a culture of sustainability being ingrained in the blood of the Group for years, the Board has reinforced its belief that sound ESG management approach and excellent sustainability performance are conducive to risk control and value creation, and takes the lead on and assumes the overall responsibility of the Group's ESG issues. The use of energy resources, implementation of anti-corruption policies and protection of occupational health and safety are the issues of which the Board is most concerned. As such, the Board mainly acquires corporate ESG information in these areas through the following channels:

a. disclosure of key performance indicators in the Company's ESG reports;

b. oral presentations in the meetings between the Board and the ESG Steering Group;

c. Shareholders' general meetings, including annual general meetings; and

d. questionnaires/online surveys containing comments or feedback provided by the internal and external stakeholders of the Group.

Environmental, Social and Governance (ESG) Report 2019

In overseeing the ESG management, the Board has adopted a systematic approach to ensure the integration of the full spectrum of material ESG-related factors. Through defining a sustainability strategy, setting and approving targets, creating criteria for incentives and establishing regular dialogues and internal grievance mechanisms with its stakeholders, the Group's integrated ESG management approach has led to a higher sustainability awareness of its employees and clearer sustainability responsibilities for different functions within the enterprise. The management of the Group is also playing a pivotal role in pricing the opportunities and risks in ESG management by actively identifying the impacts of its business operations on the environment and stakeholders, and improving the Group's performance in energy, waste and water resources management. Meanwhile, with sustainability-related topics securing more time at Board meetings and daily discussions in the Group, the Group continues its resilience building by

(a) incorporating ESG-related risks into its enterprise risk management (ERM) that enables the Board and the management to prioritise business issues and allocate resources more effectively;

(b) ensuring access to relevant information and resources for building adaptive capacity to monitor the progress towards sustainability objectives;

(c) opening up more avenues for business development and diversifying business types;

(d) benchmarking global best practices to evaluate the performance of the Group in compliance with legally binding regulations as well as international standards; and

(e) deepening the analysis of its corporate strategy by compiling strategic measures and action plans every 3 years.

A sustainable management approach to fulfilling the Group's environmental and social responsibilities is central to the business philosophy and company culture of the Group. There is no denying that climate change is affecting the way people live and business operates and bringing significant changes to the perception of both individuals and organisations of its implications on companies. With an aim to minimise its environmental impacts that are closely linked to the speed of global warming while differentiating itself competitively by generating social benefits to the regions where the Group operates from its peers in the industry, the Group will keep measuring its exposure to the ESG-related risks, evaluating the adaptability of its business model in the market, integrating climate change in the strategic plans, taking into consideration the social welfare and operating in a manner that preserves the natural ecosystem while contributing to the prosperity of communities.

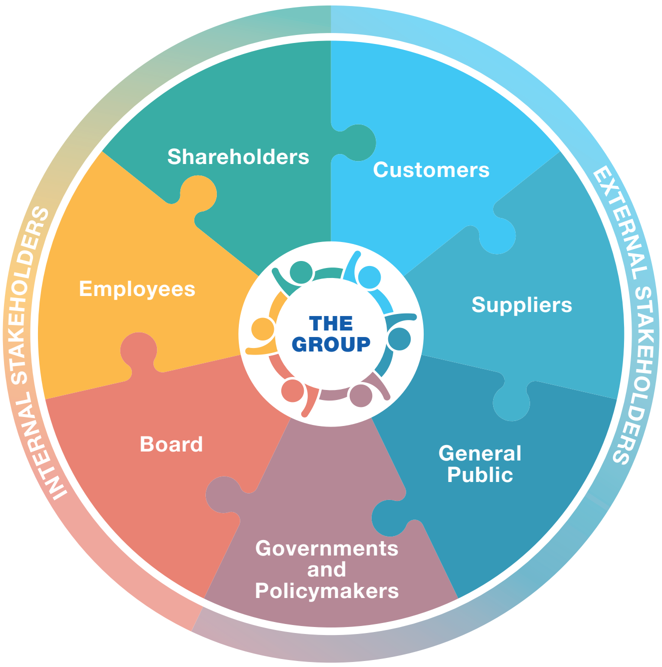
FY2019
ZHUGUANG AWARDS

'Annual classic residential property building'

'Excellent Human Resources Management in 2019'

'Socially responsible brand of the year'

IV. STAKEHOLDER ENGAGEMENT



Fostering a sound relationship with all stakeholders has been regarded by the Company as the premise of valuation creation for all. As such, the Company relies on its good corporate citizenship, reputational influence and strong capability in coordination to communicate and collaborate with its stakeholders effectively. Through a broad range of open communication channels in recent years, the Group has successfully gained a deeper understanding of its stakeholders' concerns and expectations, which has facilitated the Group to better position itself in the competitive market and to make rapid and appropriate strategic adjustments.

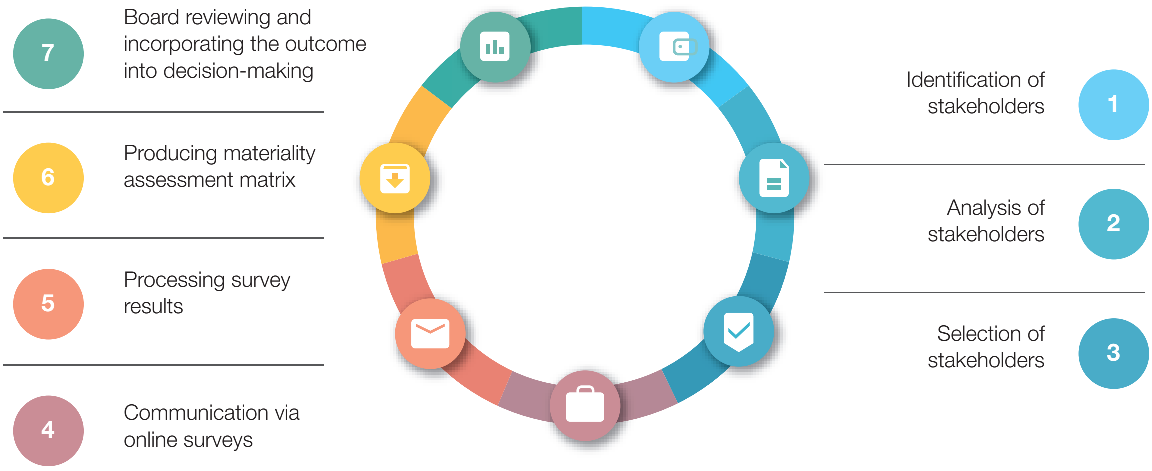
Environmental, Social and Governance (ESG) Report 2019

Communication with Stakeholders

Stakeholders	Expectations and Concerns	Communication Channels
Government and regulatory authorities	— Compliance with laws and regulations — Anti-corruption policies — Occupational health and safety	— Supervision on compliance with local laws and regulations — Routine reports and tax payments
Shareholders	— Return on investments — Corporate governance — Compliance with laws and regulations	— Regular reports — Announcements — General meetings — Official website of the Company
Employees	— Employees' remuneration and benefits — Career development — Health and safety in the workplace — Sustainable solid waste management and water consumption — Correlation between ESG performance and corporate financial returns	— Performance reviews — Regular meetings and training — Written comments via emails, notice boards, telephone calls and team building activities with management
Customers	— Production quality assurance — Protection of the rights of customers — Customer satisfaction — Implications of market changes on the business prospect	— Customer satisfaction surveys — Face-to-face meetings and on-site visits — Customer service hotline and emails
Suppliers	— Fair and open procurement — Win-win upstream and downstream cooperation — Environmental protection — Protection of intellectual property rights	— Open tenders — Suppliers' satisfaction assessments — Telephone conferences, face-to-face meetings and on-site visits — Industry seminars
General public	— Involvement in communities — Compliance with laws and regulations — Environmental protection awareness	— Media conferences and responses to enquiries — Public welfare activities — Face-to-face interviews

Materiality Assessment

INTERPRETATION OF MATERIALITY ASSESSMENT PROCESS



As ESG risks and opportunities vary among the stakeholders of the Group involving different backgrounds, principal activities and business/operating models, the Group undertakes an annual review to identify its stakeholders' main concerns and material interests in relation to the ESG issues of the Group. In FY2019, the Group engaged its stakeholders to conduct a materiality assessment survey. Specifically, the Group referenced ISO 26000 (Guidance on Social Responsibility) and chose its stakeholders against criteria including legal obligations, power of influence, significance in the value chain and willingness for engagement. The selected stakeholders were then invited to participate in an online survey to express their views on a list of ESG issues of the Group. The online survey contained numerous well-designed questions, which were believed to be material and relevant to the Group's business development and strategies from the stakeholders' standpoint. Such an objective, transparent and decision-useful materiality assessment allowed the Group to prioritise its ESG issues after mapping the results of the survey to a materiality matrix as shown below. The assessment process demonstrated the Group's emphasis on stakeholders' engagement. The results of the survey served as a powerful tool which assisted the Group to develop its action plans for more focused ESG management.

STAKEHOLDER ENGAGEMENT MATERIALITY MATRIX

MATERIALITY ASSESSMENT SHEET

Areas that are identified to be relatively more important to external stakeholders only

- Product design & Lifecycle management
- Procurement practices

Areas that are identified to be vital

- Health and safety relating to products/services
- Customers satisfaction (Welfare)
- Marketing and promotion
- Product quality assurance and recall percentage
- Protection of consumer information and privacy
- Occupational health and safety
- Energy use
- Anti-corruption policies and whistle-blowing procedure

Areas that are identified to be relatively insignificant

- Social risks (e.g. monopoly) of the suppliers
- Environmentally preferable products and services
- Number of legal cases filed against the company about bribery, extortion, fraud and money laundering
- Selection of local suppliers
- Environmental risks (e.g. pollution) of the suppliers
- Smooth communication and sound relationship with suppliers
- Community engagement
- Diversity of employees
- Participation in charitable activities and support public welfare
- Solid waste treatment
- Mitigation measures to protect environment and natural resources
- Anti-corruption training provided to directors and staff
- Climate-related risks
- Use of other raw/packaging materials
- Systemic risk management
- Labelling relating to products/services
- Cultivation of local employment
- Business model adaptation and resilience to environmental, social, political and economic risks and opportunities
- Water use
- Employee development and training
- Land use, pollution and restoration
- Air and greenhouse gas emissions
- Critical incident risk responsiveness

Areas that are identified to be relatively more important to internal stakeholders only

- Observing and protecting intellectual property rights
- Preventing child and forced labour
- Management of the legal & regulatory environment (regulation-compliance management)
- Sewage treatment
- Employee remuneration and benefits

Through the materiality analysis matrix, the Group identified *'Health and safety relating to products/services', 'Customers satisfaction (Welfare)', 'Marketing and promotion', 'Product quality assurance and recall percentage', 'Protection of consumer information and privacy', 'Occupational health and safety', 'Energy use'* and *'Anti-corruption policies and whistle-blowing procedure'* as the ESG issues that were significant to the Group's sustainable development.

Stakeholders Feedback

As the Group strives for excellence, the Group welcomes its stakeholders' feedback and advice on the improvement of its corporate ESG approach and performance, especially the ESG issues identified as the most important in the materiality assessment of the Group. Readers are also welcome to share their views on the ESG matters with the Group at info@zhuguang.com.hk or www.zhuguang.com.hk.

V. ENVIRONMENTAL SUSTAINABILITY

To seek long-term sustainability of the environment and community in which it operates, the Group has made tremendous efforts in controlling its emissions as well as its consumption of resources, and has strictly complied with the relevant environmental laws and regulations in the PRC in its daily operations, including but not limited to the following:

- *Environmental Protection Law of the People's Republic of China** *(中華人民共和國環境保護法);*
- *Environmental Impact Assessment Law of the People's Republic of China** *(中華人民共和國環境影響評價法);*
- *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes** *(中華人民共和國固體廢物污染環境防治法);*
- *Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise** *(中華人民共和國環境噪聲污染防治法);*
- *Law of the People's Republic of China on Prevention and Control of Water Pollution** *(中華人民共和國水污染防治法);*
- *Atmospheric Pollution Prevention and Control Law of the People's Republic of China** *(中華人民共和國大氣污染防治法);*
- *Energy Conservation Law of the People's Republic of China** *(中華人民共和國節約能源法); and*
- *Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong).*

The following section primarily discloses the Group's policies, practices and quantitative data on its emissions, use of resources, the environment and natural resources in FY2019.

** English name is translated for identification purpose only*

A.1. Emissions

In FY2019, the Group complied with the relevant national and local environmental laws in terms of emissions during its daily operations. In particular, the Group was not in violation of any laws and regulations in relation to air and GHG emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, and noise that have a significant impact on the Group. Sticking to the vision of ‘innovative, coordinated, green and open development’ (創新、協調、綠色、開放、共享的發展理念), the Group followed the general principle of pursuing sustainable development and operated holistically to respond to the all-out fight to keep our skies blue, our waters clear and our land pollution-free (藍天、碧水、淨土保衛戰). The Group has implemented various measures to mitigate its impacts on the environment, thereby facilitating the building of ecological civilisation.

In FY2019, the air pollutants emitted by the Group, such as sulphur oxides (“SO_x”), nitrogen oxides (“NO_x”) and particulate matter (“PM”), were mainly generated from vehicles used for transportation and business affairs. Specifically, the Group’s air emissions of SO_x, NO_x and PM amounted to 0.35 kg, 15.34 kg and 1.13 kg, respectively in FY2019. Climate change is a generic term describing the complex shifts driven by the accelerating greenhouse gas concentrations in the atmosphere that are now affecting our planet’s weather and climate systems drastically. GHG emissions from the Group were primarily due to the burning of fossil fuels for transportation and the electricity purchased and consumed in its business operations during FY2019. In FY2019, the Group’s total GHG emissions amounted to 1,376.79 tonnes of CO_2e, with an intensity of 0.34 tonnes of CO_2e/HKD million. In addition, a total of 516.4 tonnes of non-hazardous solid wastes including domestic, commercial and construction wastes, and 29,168.9 m^3 of non-hazardous wastewater including domestic, commercial and construction sewage were generated by the Group during FY2019. In FY2019, the Group did not discharge any hazardous wastes (solid waste and sewage) to the environment during its operations. The Group’s total emissions in FY2019 are summarised in Table 1 below. The Group’s total emissions in FY2018 are also included in Table 1 for comparison.

Table 1 The Group’s Total Emissions by Category in FY2019 and FY2018***

Emission Category	Key Performance Indicator (KPI)	Unit	Amount in FY2019	Intensity* (Unit/HKD million) in FY2019	Amount in FY2018	Intensity# (Unit/HKD million) in FY2018
Air Emissions	SOx	Kg	0.35	2.59×10^{-5}	0.60	2.22×10^{-4}
	NOx	Kg	15.34	4.25×10^{-3}	26.08	9.64×10^{-3}
	PM	Kg	1.13	3.12×10^{-4}	1.92	7.10×10^{-4}
GHG Emissions	Scope 1 (Direct Emissions)	Tonnes of CO_2e	54.96	–	92.58	–
	Scope 2 (Energy Indirect Emissions)	Tonnes of CO_2e	1,299.39	–	1,250.31	–
	Scope 3** (Other Indirect Emissions)	Tonnes of CO_2e	22.44	–	1.23	–
	Total (Scope 1 & 2 & 3)	Tonnes of CO_2e	1,376.79	0.34	1,344.12	0.50
Non-hazardous Waste	Solid Wastes***	Tonnes	516.4	0.13	14.00	5.18×10^{-3}
	Wastewater****	m^3	29,168.90	4.79	127,885.63	47.39

Environmental, Social and Governance (ESG) Report 2019

* *Intensity for FY2019 was calculated by dividing the amount of air, GHG and other emissions respectively by the Group's revenue of approximately HKD4,074.8 million in FY2019.*

The amount and intensity in FY2018 were extracted from the data in the ESG Report 2018 in Annual Report 2018 of the Group;

** *The Group's Scope 3 (Other Indirect Emissions) in FY2019 included other indirect emissions from paper waste disposed at landfills and electricity used for processing fresh water and sewage by government departments, while the data in FY2018 only included other indirect emissions from paper waste disposed at landfills;*

*** *The solid wastes in FY2019 included domestic and commercial wastes (16.4 tonnes) and construction wastes (500 tonnes), while the data in FY2018 only included the domestic and commercial wastes;*

**** *The total amount of wastewater generated by the Group in FY2019 was primarily based on the measurement and appropriate estimations assuming 100% of the fresh water consumed will enter the sewage system in areas where an accurate recording of the amount of wastewater is hard to obtain. As such, the amount of wastewater consumed in FY2018 was adjusted based on the same method for better consistency and comparison of the Group's sustainability performance over the years; and*

***** *The methodology adopted for reporting on GHG emissions set out above was based on "How to Prepare an ESG Report? — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange and the 2006 IPCC (Intergovernmental Panel on Climate Change) Guidelines for National Greenhouse Gas Inventories.*

Hong Kong Office

The Group's Hong Kong office is located at Two International Finance Centre ("Two IFC") in Central. In FY2019, Two IFC kept promoting environmental protection and energy efficiency initiatives in various areas and integrating sustainability concepts into property management services and was awarded a number of accolades and praises for its strenuous endeavour.

Accolades from Hong Kong

The Group recognises that workplace productivity is inherently linked to the quality of the built environment, where an improved environmental management system and enhanced awareness of environmental sustainability, such as the instalment of eco-friendly lighting fixtures and access to sufficient fresh air in the building, can bring positive impacts to the tenants and their businesses. The Group takes the following awards received by Two IFC from the government and the community not only as a great honour and commendation for Two IFC's accomplishment in moving towards green development, but also a driving force to ramp up its uptake of climate-friendly technologies, optimise its business operations and speed up its differentiation within its marketplace. Meanwhile, the Group engaged in a range of environmental campaigns and activities initiated by Two IFC during FY2019, consolidating its environmental leadership in business and commitments to environmental protection.

AWARDS AND ACCOLADES RECEIVED BY TWO IFC

LEED Green Building Certification — Gold

In March 2019, Two IFC received Gold Certification under the LEED v4 Building Operations and Maintenance: Existing Buildings rating system presented by the U.S. Green Building Council, which complimented its endeavours in pursuing sustainability through maintaining a healthy, high-efficient and cost saving green building property.

Achievement of 'Excellence Level' for Wastewi$e Certificate

In 2019, Two IFC was awarded the Wastewi$e Certificate — Excellence Level by Hong Kong Green Organisation Certification, commending its efforts in bringing stringent measures to reduce the amount of wastes during operations.

Indoor Air Quality Certificate (Excellent Class)

In June 2019, the Hong Kong Environmental Protection Department awarded Two IFC the Indoor Air Quality Certificate for meeting the requirements of the 'Excellence Class' of the Indoor Air Quality Objectives at the whole building. The accolade demonstrated the contributions of Two IFC in improving its management of indoor air quality and its persistent efforts in maintaining an environmentally-friendly workplace for all tenants.

Certificate of Appreciation — 'Rechargeable Battery Recycling programme' and 'Computer & Communication Products Recycling Programme

In FY2019, the Hong Kong Environmental Protection Department awarded TWO IFC the certificates of appreciation of 'Rechargeable Battery Recycling Programme 2019-2020' and 'Computer & Communication Products Recycling Programme 2019-2020', showing the commitment of TWO IFC to environmental protection by preventing the contamination of hazardous materials contained in the electronic items on the soil and recovering the valuable materials in the waste.

CAMPAIGNS AND ACTIVITIES INITIATED BY TWO IFC

Peach Blossom Recycling program 2019

In February 2019, the Group was invited by Two IFC to participate in the activity of 'Peach Blossom Recycling Program' organised by the Hong Kong Environmental Protection Department, collecting and delivering the undecorated peach blossoms to the designated collection points for further processing. The recycling can lessen the heavy burden on landfills by transforming peach blossoms into mulches and composting materials.

WWF Earth Hour 2019 — Change the Way We live

Started by WWF (World Wildlife Fund) and partners as a symbolic lights-out event in Sydney in 2007, Earth Hour is currently one of the world's largest grassroots movements for the environment. In March 2019, the Group joined Two IFC in supporting the Earth Hour event by turning off idle and non-essential lights in the office for one hour. While an hour of electricity conservation could merely make a difference to the global energy crisis, the Group together with Two IFC were committed to making full use of this opportunity as a catalyst for positive environmental impact and empowering more people to protect our planet through collective actions.

Green Initiative - Installation of Additional Hand Dryers

Two IFC, as a recognised Hong Kong Green Organisation, has been proactively advocating environmentally friendly practice to reduce the amount of solid wastes through the provision of services and products with due considerations of environmental protection. As such, additional hand dryers with high-efficiency particulate air (HEPA) filters and antibacterial additives were installed at 57/F washrooms by Two IFC in March 2019, encouraging more tenants to reduce the usage of paper towels.

Energy Saving Charter 2019

In FY2019, Two IFC participated in the scheme of 'Energy Saving Charter 2019' organised by the Hong Kong Electrical and Mechanical Services Department to tackle climate change and support energy conservation. In response to the pledge of Two IFC to maintain the average indoor temperature of the common areas between 24°c and 26°c during the months from June to September 2019, the Group strictly controlled the temperature of its office in the range and will continue this practice in the future.

Mooncake Boxes Recycling Campaign 2019

In September 2019, Two IFC invited its tenants to join the 'Mooncake Boxes 'Recycling Campaign 2019', an event that aimed to raise tenants' awareness in waste recycling. The Group actively responded to the call of Two IFC by organising all its employees in the Two IFC office to collect clean metal mooncake boxes. The collected containers were then donated to 'St. James' Settlement People's Food Bank' for philanthropy.

Chinese New Year Red Packets Recycle Programme 2019

As a precious tradition during the Spring Festival in China, people distributing red packets for gift giving is a common practice that symbolises good luck. In February 2019, the Group participated in the Chinese New Year Red Packet Recycle Programme 2019 arranged by Two IFC by collecting used red packets to the concierge for recycling.

In the pursuit of an improved sustainable waste management performance, the Group has implemented effective policies and taken various measures, such as using centralised garbage cans for the collection of waste in its Hong Kong office. Besides, the Group focused its efforts on solid waste classification. The sorted municipal solid waste from the office was handled and disposed of by the property management of Two IFC. Meanwhile, the Group has strengthened the education of waste reduction among its employees, encouraging them to pay attention to details such as avoiding single-use straws, plates, cups and cutlery when catering, reusing scrap paper to take notes and making preference to refillable printer cartridges in choosing office supplies.

In FY2019, the wastewater generated from the Hong Kong office of the Group was directly discharged into the sewage network of the office building and handled by the property management of Two IFC. Since the amount of wastewater generated highly depends on the amount of fresh water used, the Group has put emphasis on the advocacy of water conservation measures and taken actions to reduce the water consumption in its Hong Kong office, which are further described in the subsection headed "Water" under the subsection headed "A.2 Use of Resources" in this ESG Report.

Property Investment

Major emissions from the Group's property investments business during FY2019 were domestic and commercial solid waste and sewage. During FY2019, the Group laid great emphasis on the management of its daily waste generation and aimed to minimise its environmental impact at source by strictly controlling its use of resources, especially following the '3R' principles, that is, reduce, reuse and recycle. Aiming to rid the office of single-use plastic and disposable utensils and dishware, the Group purchased a microwave for use in the office, which encouraged employees to bring their own lunch boxes instead of ordering takeaway food to minimise the generation of packaging waste. More measures are further described in the subsection headed "A.2 Use of Resources" in this ESG Report.

Property Development

Emissions generated from the Group's property development business during FY2019 included air and GHG emissions, solid waste, wastewater and noise emissions. As an enterprise committed to taking proactive approaches to promote environmentally sustainable practices for the built environment, the Group has adhered to best-in-class sustainability standards in all stages of its operations including analysis of land-use patterns, project planning, construction process and procurement of materials for property development, and tracked its environmental performance on a continuous basis, aiming to achieve its ambitious goals of sustainable development.

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- Precisely assess the ecological footprint and exposure to various environmental risks;
- Fully comply with environmental laws and regulations in regions where the Group operates;
- Play a part in altering the global GHG emissions trajectory with innovative solutions such as efficient heating sustainable travel plans, natural ventilation and recycling initiatives;
- Take into consideration the economic impacts of climate-related risks on business development and operations;
- Alleviate the damage to ecosystem and the burden on natural resources;
- Integrate the idea of 'circular economy' in its supply chain management.

Air & GHG Emissions

In FY2019, air and GHG emissions generated during the construction operations of the Group mainly came from the use of gasoline and electricity by onsite machinery and heavy vehicles for operation and transportation purposes. To standardise its operating practices thereby minimising its environmental impacts, the Group has implemented its internal policy 'Anti-pollution and Anti-noise Construction Scheme'* (防污染防噪音施工方案), which introduces feasible sustainable measures for the management of construction projects of the Group. The Group also requires the following practices to be adopted at all construction sites of the Group:

- Clean the wheels of the vehicles before leaving the construction sites;
- Rinse the ground or sprinkle water daily to settle dirt and avoid sludge accumulation; and
- Install bag-house dust collectors, closed hoods and pressurised dust reduction spray devices along the main road of the construction sites.

Since the consumption of electricity and other energy resources is the major contributor to the generation of air pollutants and GHG emissions within the Group, the Group has set up internal policies regulating the procedures of energy conservation in order to mitigate its impacts on the environment at source, which are further described in the subsections headed "Electricity" and "Other energy resources" below.

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Wastewater

Wastewater generated from the Group's property development business during FY2019 consisted of industrial sewage during construction operations and domestic and commercial wastewater from workers in the offices. Sticking to its principles for environmental sustainability, the Group has set up policies in its onsite wastewater treatment. Specifically, the Group has installed sewage treatment facilities in the construction sites for the treatment of construction and domestic wastewater, which are regularly checked by the internal departments of the Group and local governmental agencies to ensure the regulatory compliance. The domestic wastewater on site is primarily treated through three-level septic tanks, while sedimentation basins are set up on-site for the treatment of construction wastewater before it is discharged into the municipal sewage network. The Group ensures that on-site wastewater meets the first grade under the Integrated Wastewater Discharge Standard (GB 8978-1996) * (污水綜合排放標準一級標準) of the PRC after treatment. The floating mud generated during the treatment process is normally collected and transported to certified external environmental organisations for further disposal.

Solid Waste

As construction projects produce a large amount of construction waste, the Group, as a leading property developer, has been aware of its urgency and responsibility to adopt an effective and holistic waste management approach in its operations that is considered an essential aspect of the move towards sustainable building practices. In recognition of different treatment measures that should be taken to manage on-site waste from varying waste streams, the Group has incorporated the principles of waste hierarchy, which are acknowledged as a robust management plan to prioritise the practices that should be implemented, into its waste stewardship strategy. Specifically, depending on the classification of different types of solid waste on-site, including inert, non-inert, soft, hard, recyclable and non-recyclable wastes, the Group is committed to reusing and recycling as much construction waste as possible. For example, rubble is collected, crushed, transported and reused in new construction projects and road building. Steel residues and wooden square bars are collected and transported regularly to landfill sites for disposal by special trucks. As for other general solid waste, the local sanitation department collects the domestic waste on a daily basis. Also, the Group has actively explored the viability of circular economy-inspired actions such as the application of recycled aggregates in the construction projects, endeavouring to improve resource efficiency while lowering the amount of waste.

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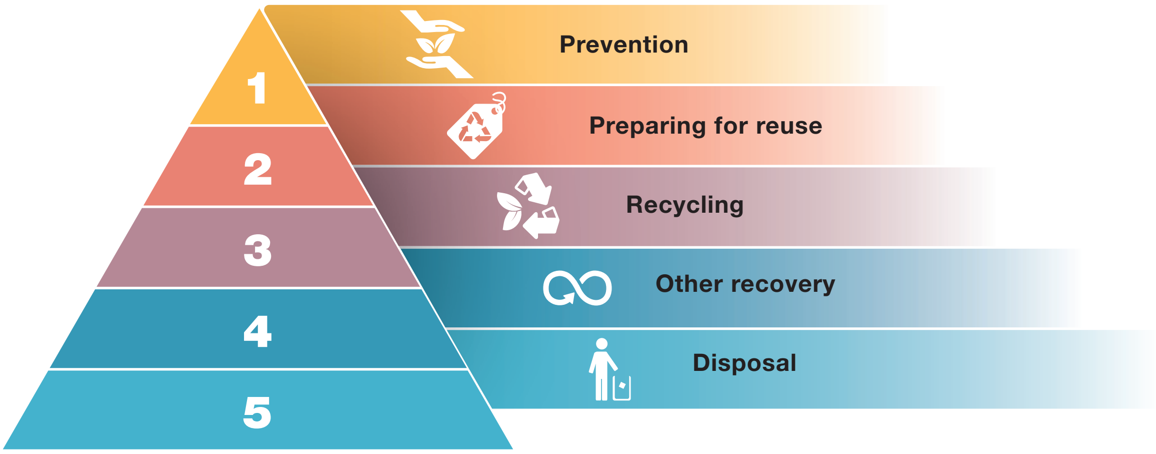
THE WASTE HIERARCHY



Meanwhile, the Group strictly implemented the policies stipulated by the government or local authorities for construction waste management and furthered its monitoring scope and disclosure of the generation of solid waste by measuring the amount of construction waste in FY2019. The Group believes that by fractionalising the solid wastes on-site, a high level of disclosure of the Group's environmental performance can facilitate more informed decisions of its stakeholders while allowing the Group for more accurate internal benchmarking.

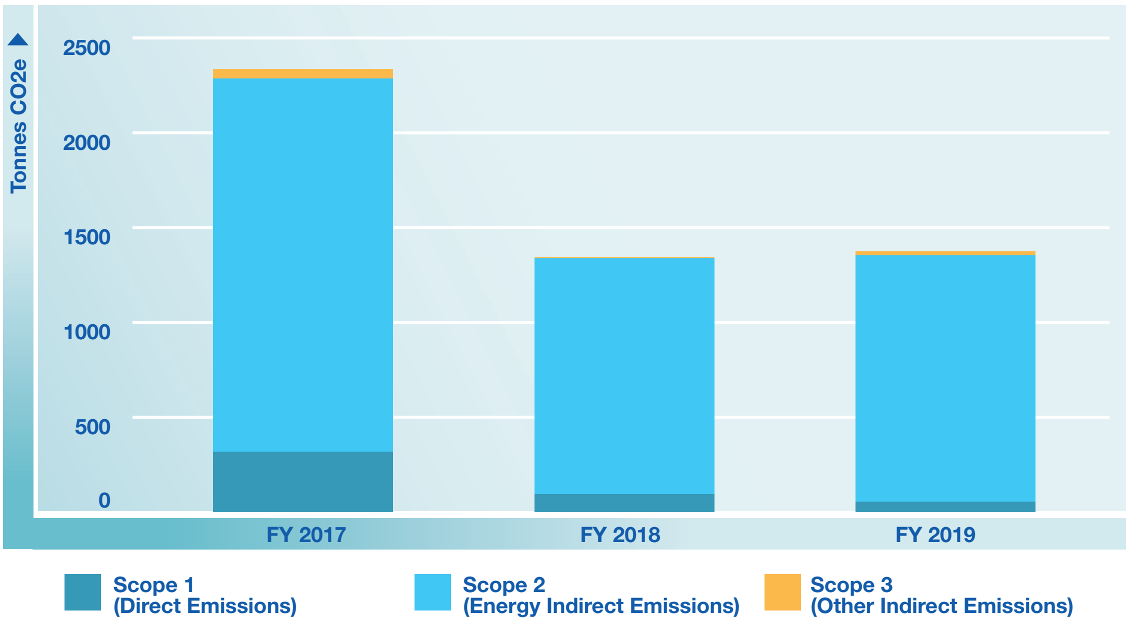
Noise

Noise emissions generated by the Group during FY2019 were mainly caused by the operation of construction machinery and equipment on-site. In strict compliance with the national and local regulations of the PRC in relation to noise emissions, such as the Emission Standards for Industrial Enterprises Noise at Boundary (GB12348-2008), the Group has implemented the following measures to minimise the nuisance of noise during construction operations in FY2019.

- Install shock pads, noise barriers, silencers, enclosures and real-time sound monitoring equipment in the construction sites;
- Restrict noisy operation and use of noisy equipment, such as hand-held breakers or electric drills, to less sensitive hours of the day;
- Use quality powered machinery and equipment with register labels such as the QPME (Quality Powered Mechanical Equipment) Labels; and
- Assign the staff to regularly check and review via reports or personally that construction activities are being carried out in strict compliance with statutory requirements.

Targets and Progress

With a goal to become an environmentally friendly enterprise that seeks to achieve its environmental sustainability goals, the Group has made unremitting efforts in emission control and waste management and made solid progress in limiting its environmental impacts in FY2019. Specifically, the total air emissions from transportation in FY2019 declined by approximately 41.2% as compared with those in FY2018, which was primarily attributed to the effective implementation of policies regulating the use of vehicles for business affairs. Due to the effective reduction on the consumption of fossil fuels, the total GHG emissions of the Group remained at the same level as FY2018, despite the rapid business development of the Group in FY2019. During FY2019, the Group kept reinforcing its monitoring of environmental data and further expanded its reporting scope in its calculation of other indirect GHG emissions, to include emissions from electricity used for processing freshwater and wastewater. In FY2019, the intensity of GHG emissions of the Group descended to 0.34 tonnes CO2e/HKD million, which was only 68% of the value in FY2018. While 500 tonnes of construction waste was generated and recorded by the Group in FY2019, the amount of commercial and domestic solid waste during FY2019 barely changed when compared with that in FY2018 as a robust waste management system has been developed that made the Group's operations more sustainable. In FY2019, the efficient water consumption of the Group resulted in a sharp fall of the amount of wastewater discharged by the Group with the same assumption being set out for the adjustment of data in FY2018. The Group's GHG emissions from FY2017 to FY2019 are summarised as below:



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A.2. Use of Resources

In FY2019, the primary resources consumed by the Group were electricity, water, gasoline, diesel, paper and other construction materials. Given its business nature, the Group did not consume any packaging material during FY2019. Table 2 illustrates the amount of different resources used by the Group in FY2019.

Table 2 Total Resource Consumption in FY2019

Use of Resources	Key Performance Indicator (KPI)	Unit	Amount in FY2019	Intensity* (Unit/HKD million) in FY2019	Intensity# (Unit/HKD million) in FY2018
Energy	Electricity	kWh'000	2,428	0.60	0.85
	Gasoline	L	15,863	3.89	14.97
	Diesel	L	7,405	1.82	–
Water	Water	m^3	30,829	7.57	47.28
Paper	Paper	Kg	2,540	0.62	0.10
Construction materials	Metal	Tonnes	3,551.82	0.87	3.51
	Concrete	Tonnes	5,489.78	1.35	5.41
	Wood	Tonnes	20	4.91×10^{-3}	0.01

* *Intensity for FY2019 was calculated by dividing the amount of resources the Group has consumed in FY2019 by the Group's revenue of approximately HKD4,074.8 million for FY2019; and*

Intensity for FY2018 was calculated by dividing the amount of resources the Group has consumed in FY2018 by the Group's revenue of approximately HKD2,704.8 million for FY2018.

Electricity

The Group purchases the electricity consumed in its daily operations at its offices and construction sites from the local public utility companies. Despite the unwavering efforts in electricity conservation of the Group, the total electricity consumption of the Group in FY2019 was 2,428 kWh'000, which was slightly higher than that in FY2018 primarily due to the business development. To lower the consumption of electricity so as to cut down on its GHG emissions, the Group has embedded the slogan of 'Saving Electricity' into its business strategy and daily operations, and in particular implemented the following practices:

- Clean air filter of air conditioners regularly to reduce the fan power;
- Switch off all idle lights and air conditioners (e.g. most electrical equipment is turned off during lunchtime);
- Replace traditional bulbs with energy-efficient lamps, such as T5 fluorescent lamps, compact fluorescent lamps (CFL) and light emitting diode (LED) lamps;
- Adjust the set temperature of air conditioners at offices based on the weather at the time;
- Use multiple light switches for separate zones to facilitate partial lighting in large areas when it is only partially occupied; and
- Initiate environmental campaigns and arrange relevant seminars to educate all employees to maximise daylight usage.

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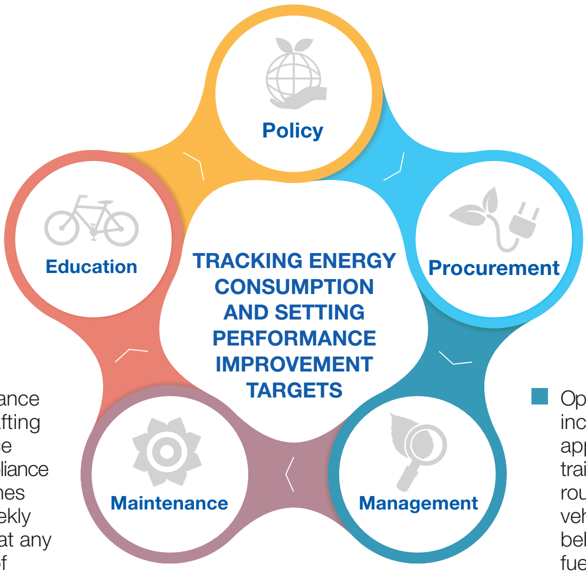
Other energy resources

Other energy resources consumed by the Group during FY2019 included gasoline and diesel, which were used for transportation purposes. The Group is aware that sound vehicle management is of paramount importance to reducing its environmental impacts as the reliance of vehicles on fossil fuels gives rise to poor air quality and carbon emissions that contribute to climate change. As such, the Group fully implemented its policies in the regulation of vehicle use in FY2019 and was committed to optimising its operations with more research in the feasibility of substituting renewable energy as a principal source of vehicles for fossil fuels. In particular, the Group has brought in the following measures in an effort to minimise the use of energy resources:

- Formulate and strictly implement a sustainable business travel policy within the organisation



- Encourage sustainable travel behaviours such as walking, cycling and smarter driving, and reduce the need to travel with the application of advanced technologies such as e-conference
- Procure eco-friendly vehicles with due considerations of their environmental performance
- Strengthen vehicle maintenance and upgrade, including drafting a servicing and maintenance schedule for vehicles in compliance with manufacturers' guidelines and drivers carrying out weekly vehicle checks to ensure that any inefficiency or malfunction of vehicles can be identified early
- Optimise operations and vehicle use, including taking a proactive approach to assessing and training drivers, enabling real-time routing and scheduling of vehicles, standardising driver behaviours that may increase fuel consumption such as speeding, harsh acceleration, harsh braking and unnecessary idling

In comparison with the performance in FY2018, the total amount of gasoline and diesel consumed by the Group in FY2019 reached 763 Gj, with a 39.3% decline being recorded. The Group will continue its commitment to 'low carbon and low consumption' operating process and keep improving its energy efficiency in the future.

Water

As one of the most vital natural resources, water is an indispensable element that is extensively consumed in the property development industry. To increase its water efficiency, the Group has set up comprehensive policies covering specifications and recommendations pertinent to how to use water smartly, and taken a range of effective measures during its operations. In FY2019, the Group did not face any problem in sourcing water that was fit for its purpose and a staggering 75.9% reduction in water consumption within the Group was recorded as compared to that in FY2018, marking a magnificent success of the Group in water management. In addition, the Group learned and adopted 'sponge city' features in its daily operations, incentivising all employees to reduce, reuse and recycle water resources through an integrated water management approach. For instance, the Group has paid attention to the installation of water-saving facilities such as dual flush toilets, automatic faucets and a rainwater harvesting system to recycle wastewater for landscaping, cleaning outdoor public spaces and other uses.

Paper

The application of cutting-edge technologies in offices is believed by the Group as one of the best ways to curb the overconsumption of paper while curtailing operating cost. The Group has been dedicated to converting to 'paperless office' and made enormous efforts in accessing, storing, and securing documents in digital ways, thereby eliminating and reducing the need for printing. Specific measures taken by the Group to lower its use of paper are highlighted as follows:

- Promote office automation and disseminate messages by electronic means (i.e. emails or e-bulletin boards) as much as possible;
- Reuse and recycle the folders in the offices;
- Set duplex printing as the default mode for most of the network printers;
- Encourage the staff to reuse one-side printed papers as drafts; and
- Select paper suppliers with sustainably sourced materials for procurement.

Raw Materials

The Group believes that it is crucial to achieve an integrated and intelligent use of raw materials by following the principle of value maximisation, pollution prevention and resource conservation. To lower its environmental footprint, the Group has set up policies to ensure that buildings materials are consumed in the most productive and sustainable way across their entire life cycle. Major raw materials, such as metals, cement and wood, were used by the Group in its construction operations during FY2019. As shown in Table 2 above, the Group made solid progress in FY2019 by reducing the amount of metals, cement and wood to varying degrees. In particular, the Group has adopted the following practices:

- Use aerated blocks to reduce the weight of the walls;
- Use new polymer waterproofing membranes to prevent water penetration;
- Use hollow glass tiles for insulation;
- Optimise construction procedures at the planning and design stage to improve the efficiency of material utilisation;
- Apply the ‘cradle-to-cradle’ approach to sourcing the recycled and reclaimed raw materials for construction;
- Integrate the concept of modular construction in project planning and construction operations; and
- Choose responsibly sourced green construction materials and locally sustainable construction materials to reduce the embodied impacts related to energy, waste, carbon and water.

A.3. The Environment and Natural Resources

As property development grows in China as a result of the accelerating urbanisation and the increasing demand for residence, the concern for sustainable property development is going up. As a prominent enterprise in the industry, the Group is deeply aware that property development functions as a key enabler with great potential to contribute significantly to all aspects of sustainable development, in particular addressing the critical environmental challenges. As such, the Group has long been committed to sustainable practices in business development and taking very seriously its role in minimising its potentially negative environmental impacts with effective environmental stewardship.

In FY2019, the Group diligently evaluated the implications of its business operations on the environment and identified that the major impacts of the Group on the environment and natural resources were GHG emissions, construction waste and exploitation of various types of energy and natural resources. Thus, the Group performs sustainable practices in a consistent way to control its environmental impacts throughout all stages from the land use planning, project preparation, building design, transportation management, noise abatement, procurement of low-impact building materials, all the way to the delivery of final property. With a strategic objective to be sustainable and lower corporate carbon footprint, the Group has incorporated a more environmentally conscious stance and introduced smart practices to improve its sustainable efforts.

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Water consumption

As a vital part of green construction, water management has drawn the Group's attention. The Group has supported the reuse and recycling of greywater and made efforts in the application of sustainable urban drainage systems such as the installation of a rainwater harvesting system that lessens that demand of the Group for fresh water.

Technological innovation

Aiming to develop its properties in an environmentally responsible manner in line with the advanced technology and practices which benefit the environment, the Group has been learning and planning to apply a variety of buildings techniques in the future for large-scale construction developments such as prefabricated prefinished volumetric construction (PPVC) and building information modelling, which could enhance worksite safety and decrease operating inefficiency, as well as maintaining cleaner worksites by generating less waste.

Phase of design

In the preliminary stage, the Group has been focusing on the improvement of the structural design of the buildings and selecting alternative building materials with higher recycled content and reclaimed materials if possible.

Energy use

The Group normally devises energy plans before the commencement of the project and keeps monitoring, recording and disclosing the total energy use during operations. The Group has rolled out and implemented its internal energy management policy to effectively manage its energy consumption.

Renewable energy has been taken into consideration by the Group for a wide application in operations. During FY2019, the Group not only encouraged its employees to take electric vehicles for travel, but also discussed the extensive use of vehicles powered by electricity or other clean energy in operations. Meanwhile, the Group has promoted the use of LED lighting instead of traditional bulbs for energy conservation. The Group has continued to strengthen its monitoring on the performance of corporate environmental sustainability by tracking and reporting the amount of energy conserved and the effectiveness of the energy conservation measures against the best practice benchmarks.

Collaboration with partners

The Group realises that the enterprise and its stakeholders should cooperate to solve complex environmental problems arising from property development operations. The Group believes that it is imperative to build strong partnerships with its contractors, professional organisations, suppliers and community groups, and has motivated all members in the value chain to raise environmental awareness and reduce the ecological footprint.

Policy implementation

Apart from engaging in meaningful activities that would raise the awareness of environmental protection among its employees, the Group has set up internal policies, such as the 'Notice on Strengthening Office's Energy Saving and Consumption Reduction'* (關於加強辦公室節能降耗工作的通知) and the 'Notice on Implementing Office Energy — Saving Inspection System'* (關於實施辦公室節能降耗巡查制度的通知), in order to further regulate the daily practices of all the subsidiaries of the Company on environmental protection.

Carbon offset

The Group has been engaging in carbon offset schemes for years, which not only allowed the Group to sequester carbon emissions through tree planting, but inspired its employees to protect wildlife habitats through activity participation as well. In FY2019, the Group possessed a total of 200 trees, which reduced the Group's GHG emissions in Scope 1 by around 4.6 tonnes CO_2e.

Moving forward, the Group understands that there is still a long way to go in achieving a holistic sustainable business model. Notwithstanding that, the Group will keep pursuing its strategic goals in sustainability and make incremental positive steps to lower its environmental impacts with a sustainability mindset.

VI. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

As a diversified enterprise that relies on technological advancement in property construction and the efforts made by its employees in daily operations for success, the Group believes that sound capital management and the formulation of appropriate employment policies are foundational to the long-term stability and competitiveness of the Company. Therefore, the Group treasures employees' talent and strives to provide its employees with a suitable platform and working environment for their professional development. During FY2019, the Group was awarded 'Excellent Human Resources Management in 2019' by 51Job for its outstanding performance in employment management. As at the end of FY2019, the total number of employees of the Group was 476.

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Table 3 — Total Workforce of the Group by Gender, Position Type, Age and Geographical Location in FY2019

Unit: Number of employees

Gender	Age group				
	Aged 30 or below	Aged between 31 and 40	Aged between 41 and 50	Aged 50 or above	Total
Male	71	111	64	22	268
Female	77	99	27	5	208
Total	148	210	91	27	476

Position type		
Full time	Part time	Total
476	0	476

Geographical location		
The PRC	Hong Kong	Total
468	8	476

Table 4 — Employee Turnover by Geographical Location and Gender in FY2019

Unit: Number of employees	Geographical location		
	The PRC	Hong Kong	Total
	83	1	84
Employee turnover rate* (percentage)	21.1%	0.3%	21.4%

	Gender		
	Male	Female	Total
	59	25	84
Employee turnover rate* (percentage)	15.0%	6.4%	21.4%

* *Turnover rate is calculated by dividing the number of employees who resigned by the number of employees on average in FY2019.*

Law and Compliance

The Group's employment policies have been updated and adjusted to cater to social changes since the inception of the Company, and more importantly, to abide by the relevant laws and regulations in Hong Kong and the PRC. In FY2019, the Group complied with all material relevant laws and regulations, including the following:

- *Employment Ordinance (Cap. 57 of the Laws of Hong Kong);*
- *Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong);*
- *Labour Law of the People's Republic of China* (中華人民共和國勞動法);*
- *Employment Promotion Law of the People's Republic of China* (中華人民共和國就業促進法); and*
- *Insurance Law of the People's Republic of China* (中華人民共和國社會保險法).*

Recruitment and promotion

The Group has set up a set of transparent and clear policies to implement its annual recruitment plan, such as 'Human Resource Management Procedures'* (人力資源管理辦法) and 'Recruitment Management Regulations'* (招聘管理規定). The Group considers talent acquisition to be essential to keeping the Group energetic and competitive in the market and has organised a number of job fairs and campus recruitment during FY2019. 'Chasing Light' programme was a recruitment plan for fresh graduates developed by the Group in FY2019, which symbolised young people endeavouring to pursue dreams. The programme demonstrated the culture of 'Zhuguang people will always start a business' in the Group. The Group provided a platform and opportunities for college graduates to pursue career development and encouraged them to be brave in realising their bright dreams together with the Group.

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Graduation of 'Chasing Light' Programme of Zhuguang

The graduates of the 'Chasing Light' Programme were holding their induction training certificates and embarking on their new career journeys.

Pursuant to its recruitment policy, the Group offers fair and competitive remuneration and benefits in accordance with the applicants' educational backgrounds, personal attributes, job experiences and career aspirations to attract high-calibre candidates. The Group also refers to market benchmarks in relation to staff promotion and provides equal opportunities of promotion and development for eligible employees who have shown outstanding performance and potential in their positions. With reference to the organisational structure chart and the 'Staff Handbook*' (員工手冊) of the Group, any promotion within the Group is based on clear and legitimate procedures.

Compensation and dismissal

The Group periodically reviews its compensation packages and performs the probationary and regular evaluations on the capability and performance of its employees, to ensure that all employees can be recognised by the Group appropriately with respect to their efforts and contributions. Adjustment of compensation and termination of employment which are determined by a number of factors, such as performance of the relevant employee and the Company, are based on reasonable and lawful grounds and the internal policies of the Group, such as the 'Staff Handbook'* (員工手冊) and the 'Implementation Rules for Staff Turnover and Movement on Positions'* (員工異動管理實施細則). Since the Group strictly prohibits any kind of unfair or illegitimate dismissal, stringent policies regulating the procedures of dismissal of employees are in place for employee management. In particular, for employees who have violated the Group's employment policies, the Group would warn them verbally before issuing a warning in writing. For employees who keep on making the same mistakes repeatedly notwithstanding having been warned, the Group would terminate their employment contracts according to the relevant laws and regulations in Hong Kong or the PRC (as the case may be).

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Working hours and rest periods

The Group has formulated policies, such as 'Implementation Rules for Attendance'* (考勤管理實施細則), based on local employment laws including Provisions of the State Council on Employees' Working Hours* (國務院關於職工工作時間的規定) to determine the working hours and rest periods for its employees. For instance, an attendance management system coupled with a field work registration form (外勤登記表) that needs to be filled out in detail by the employee and approved by the relevant department manager, have been adopted by the Group to monitor the working hours of each employee and to ensure that the employees who have worked overtime would be compensated with extra pay or additional days off. In addition to basic annual leave and statutory holidays, employees of the Group are also entitled to extra leave benefits, such as marriage leave, maternity leave and compassionate leave.

Equal opportunity, diversity and anti-discrimination

As an equal opportunity employer, creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions is central to the Group. The Group has set up policies and brought in stringent measures to regulate its daily corporate practices and avoided any activities that may violate the principles of equal opportunity and anti-discrimination. Specifically, hiring, training, promotion opportunities, dismissal and retirement policies are all based on factors irrespective of the applicants' or the employees' age, sex, marital status, pregnancy, family status, disability, race, colour, descent, national or ethnic origins, nationality, religion or any other non-job related factors. Meanwhile, in accordance with the local laws and regulations, the Group's equal opportunity policy allows zero tolerance to any workplace discrimination, harassment or vilification. Employees are vigorously encouraged to report any incidents involving discrimination to the human resource department of the Group, which takes the responsibility for assessing, dealing with, recording and taking any necessary disciplinary actions in relation to the substantiated cases.

Other benefits and welfare

The well-being of employees has invariably been one of the core issues to the Group since its establishment. In addition to the provision of employment injury insurance for its employees in accordance with the requirements under the relevant laws and regulations and additional bonuses and gifts during festivals, the Group held a plethora of entertaining and meaningful activities including dinner gatherings, annual banquet, quarterly birthday parties, garden parties for the Mid-autumn festival, Tianhe CBD basketball game, tree planting and excursions during FY2019, in order to create a positive atmosphere among the employees of the Group.

In FY2019, the Group was in compliance with the relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, welfare and other benefits that have a significant impact on the Group.

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B.2. Health and Safety

One of the Group's key missions is to drive a culture where the safety and well-being of its employees can be perfectly protected and integrated into the Group's business operations. To provide and maintain a safe, clean and environmentally friendly working environment for its employees, the Group has established strict safety and health policies in line with material relevant laws and regulations in Hong Kong and the PRC, including the following:

- *Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong);*
- *Construction Law of the People's Republic of China* (中華人民共和國建築法);*
- *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* (中華人民共和國職業病防治法);*
- *Administrative Provisions on the Work Safety License of Construction Enterprises* (建築施工企業安全生產許可證管理規定);*
- *Administrative Regulations on the Work Safety of Construction Projects* (建設工程安全生產管理條例);*
- *Regulation on Work-Related Injury Insurance* (工傷保險條例); and*
- *Warning Signs for Occupational Hazards in the Workplace* (工作場所職業病危害警示標識).*

Striving for zero accidents in its construction works, the Group rigorously follows the instructions of the Quality Management Systems (ISO 9001:2015) and the Occupational Health and Safety Management Systems (ISO 45001:2018) during its construction operations. In particular, relevant warning labels and public announcements regarding on-site health and safety are posted in the construction sites. In addition, the Group prohibits smoking and liquor drinking at the workplace. To provide a secure working environment for its employees, the Group provides suitable personal protective equipment, such as helmets, safety ropes and gloves to its workers on the sites and requires all personnel entering into the construction zone to wear safety helmets. The Group also provides medical and employment injury insurances to its staff according to the requirements under the relevant laws and regulations.

The engineering management department of the Group strictly follows the instructions under the Group's internal policy, 'Safe Production and Civil Construction Management', in carrying out its responsibility of monitoring and providing guidance and supervision in relation to construction work at its construction sites. Adhering to the Group's internal guidelines of 'Safety First, Precaution Matters', the Group has clearly defined the duties of the different business units on the construction sites. The Group is committed to optimising its countermeasures to any environment-related contingency in accordance with the National Emergency Plans in Response to the Outbreak of Environmental Incidents* (國家突發環境事件應急預案). To minimise the safety risks on-site, the administration department of the Group organises and supervises emergency drills for its employees on a regular basis.

In FY2019, the Group had one work-related fatality and the total lost days due to work injury amounted to 20 days. During FY2019, the Group was in compliance with the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group.

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B.3. Development and Training

The Group believes that the provision of appropriate training packages to employees is conducive to employee retention and morale uplift, thereby arranging a multitude of training courses that cover numerous subjects annually to its employees in accordance with its internal policy, such as 'Implementation Rules on Training'* (培訓管理實施細則) and 'Implementation Rules on Employee's Personal Development Management'* (員工個人進修管理實施細則). The Group pays attention to its employees' ability and development and provides various training opportunities to employees with different needs. Normally, an induction training is required to be completed by all new hires who are expected to have a better understanding of the Group in terms of corporate culture, organisational structure and policies concerning occupational health and safety after such training, while other job-related courses are offered to the experienced staff according to both corporate and individual needs. For more flexible training arrangement, the Group makes the full use of multimedia and online education technology, enabling its employees to have access to abundant learning opportunities at any time.

To further enhance their professional skills so as to meet the Group's development goal, the employees of the Group are highly encouraged to take professional qualification examinations and enrol in external training programmes. Employees who have taken professional qualification examinations and obtained vocational qualification certificates will receive reimbursements from the Group. Meanwhile, the Group partners with external organisations and experts in co-hosting seminars and training courses for its employees regularly. In FY2019, the Group organised a total of 32 training programmes to its employees.

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Environmental, Social and Governance (ESG) Report 2019

				Gender		Position type	
Item	Training topic	Training type	Number of attendees	Male	Female	Management level	General staff
1	2019 'Chasing Light' Welcome and Induction Training	Lecture and outward bound	18	12	6	0	18
2	General management training battalion — 'Human Resource Management for Non-Human Resource Manager'	Lecture	42	30	12	42	0
3	General management training battalion — 'Financial Management for Non-Financial Manager'	Lecture	36	25	11	36	0
4	Zhuguang Lecture — Interpretation of latest city renewal policies in Guangzhou and analysis of reform models	Seminar	123	65	58	58	65
5	Online training programme	Online teaching	95	52	43	30	65
6	2019 1st Induction Training — corporate culture, human resource management, administration, information technology and training exams	Internal training	14	9	5	1	13
7	2019 2nd Induction Training — corporate culture, human resource management, administration, information technology and training exams	Internal training	29	15	14	0	29
8	Latest Work Injury Insurance Training in 2019	Sharing session	10	8	2	0	10
9	Countermeasures of rate adjustment of added-value tax	Sharing session	45	15	30	0	45
10	Professional Electricity Management	Internal training	42	30	12	5	37
11	Analysis of problems in quality control and improvement	Internal training	42	25	17	4	38
12	Project experience sharing of Fine Decoration Management in Huangsha Project	Internal training	47	20	27	4	43
13	Perfection — Power for improvement — 1st Urban Marketing and Sales Skills Sharing	Internal training	20	10	10	1	19
14	Annual Urban Marketing Summary and New Property Building Sharing Session — Remain true to our original aspiration & Seek dream and set sail	Internal training	20	10	10	1	19
15	Perfection — Power for improvement — 2nd Urban Marketing and Sales Skills Sharing	Internal training	20	10	10	1	19
16	Perfection — Power for improvement — 3rd Urban Marketing and Sales Skills Sharing	Internal training	20	10	10	1	19

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Item	Training topic	Training type	Number of attendees	Gender: Male	Gender: Female	Position type: Management level	Position type: General staff
17	File Management Training	Internal training	31	10	21	0	31
18	Presentation Slides Video Training	Video education	100	56	44	0	100
19	Office Document Writing Training	Internal training	32	12	20	0	32
20	Techniques of calling customers in sales	Internal training	14	7	7	0	14
21	Interpretation of positive policies of projects	Internal training	15	10	5	1	14
22	Budget management measures and implementation rules training	Internal training	23	15	8	2	21
23	Verification of settlement documents of construction projects and visa management case study	Internal training	12	9	3	1	11
24	Corporate administrative management policy training	Internal training	7	2	5	0	7
25	Fire control knowledge training	Internal training	15	10	5	0	15
26	Interpretation of the calculation model of construction payment of project and total cost	Internal training	17	11	6	1	16
27	Taxchina tax training	External training	44	18	26	10	34
28	Bank policy	Internal training	17	8	9	2	15
29	Products in the market training	Internal training	8	5	3	0	8
30	Sales techniques sharing	Sharing session	36	20	16	0	36
31	New policy of interest rate with Loan Prime Rate (LPR) training	Internal training	33	18	15	0	33
32	Time Assistant application training and onsite management requirement	Internal training	14	6	8	0	14
	Total		1,041	563	478	201	840

Table 5 — Attendance of Training in the Group by Gender and Position Type in FY2019

Gender	Unit: Attendance
Male	563
Female	478
Total	1,041

Position Type	Unit: Attendance
Directors and management	201
General employee	840
Total	1,041

B.4. Labour Standards

In FY2019, the Group abided by the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), the Labour Law of the People's Republic of China* (中華人民共和國勞動法) and other related labour laws and regulations in Hong Kong and the PRC to prohibit any child and forced labour employment. To combat against illegal employment of child labour, underage workers and forced labour, the Group's human resource department follows standard verification procedures, requiring all job applicants to provide valid identity documents to ensure that they are lawfully employable prior to confirmation of any employment. It is also the responsibility of the Group's human resource department to monitor and guarantee the compliance of corporate policies and practices with the relevant laws and regulations that prohibit child labour and forced labour. Once the Group has identified any case which fails to comply with the relevant labour laws, regulations and standards, the relevant employment contract will be immediately terminated and disciplinary punishment will be taken against responsible individuals.

In FY2019, the Group was not in violation of any relevant laws and regulations in relation to the prevention of child and forced labour that have a significant impact on the Group.

OPERATING PRACTICES

B.5. Supply Chain Management

Following a robust supply chain management process, the Group has been committed to the mitigation of the environmental and social risks in its value chain, in order to maintain a reliable and stable financial income while fulfilling its environmental and social responsibilities.

The major types of suppliers and sub-contractors of the Group are engineering companies and intermediaries, from which the products and services that the Group purchases for internal consumption and business operations include construction projects, intermediary services, information technology products and office supplies. Given that the construction work of the Group is normally outsourced, the Group has formulated its internal policy, 'Implementation Rules for Cooperative Management'* (合作商管理實施細則), to ensure that the assessment, selection and contracting of suppliers and their ongoing performance management are consistently aligned with the relevant laws and regulations in the PRC, industry standards and the Group's internal requirements. To enhance the effectiveness of its procurement, the Group, in accordance with its two other internal policies, namely, 'Implementation Rules for Procurement Management'* (招標管理實施細則) and 'Implementation Rules for Evaluation on Construction Unit'* (施工單位評價管理細則), performs on-site investigations to assess the background of eligible tenderers based on several factors, including tenderers' reputation, service/product quality, environmental management qualification, cost, production and technical capacity, business track record for at least the recent 3 years, economic disputes history with the Group and regulatory compliance.

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The Group has specific staff responsible for the communication and collaboration with the suppliers for each project, and the contracts with suppliers are required to be reviewed and verified by the Group's internal regulatory department before approval to eliminate the unnecessary risks. The Group has established 'Cooperative Management Measures'* (合作商管理辦法) to standardise the management process with its partners and carry out ongoing evaluation of each project. The functional management department (職能管理部門) of the project management centre (工程管理中心) of the Group, including the project establishment department (立項部門), the engineering centre (工程中心) and the design centre (設計中心), conducts a performance review and an annual review after completion of each project and at the end of the year, respectively. In the meantime, the Group also welcomes the feedback from its partners, who will receive the 'Customer Evaluation Form'* (需方評估表) after the project and at the end of the year for an evaluation of the entire cooperation with the Group, including tender inspection, onsite management, supplier management, payment and personnel integrity. With the feedback from its partners, the tender management centre of the Group can make an objective assessment on the quality of the management work of the functional management department and the management staff, which is conducive to a more in-depth understanding of the entire collaboration process and timely adjustments if necessary. To stabilise its supply chain and avoid the monopoly of suppliers, the Group normally maintains relationships with at least two qualified suppliers for each type of raw materials it needs. Given the solid and steady relationships with its suppliers, the Group did not experience any material delays, conflicts or other significant issues with its suppliers in the past years.

By following the requirements under Quality Management Systems (ISO 9001:2015) and Environmental Management System (ISO 14001: 2015), the Group requires its business partners to conduct their operations in an environmentally sustainable manner. In the tender and procurement process, the Group has taken into account the environmental factors by adopting the practices of 'Green Procurement', giving preference to local business partners to minimise the detrimental environmental impacts in the supply chain while upholding local economy.

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B.6. Product Responsibility

In FY2019, the Group abided by the relevant rules, regulations and standards in Hong Kong and the PRC that have a significant impact on the Group concerning health and safety, advertising, labelling and privacy matters with respect to its products and services and methods of redress, including the following:

- *Construction Law of the People's Republic of China* (中華人民共和國建築法);*
- *Law on Protection of Consumer Rights and Interests of the People's Republic of China* (中華人民共和國消費者權益保護法);*
- *Advertising Law of the People's Republic of China* (中華人民共和國廣告法);*
- *Contract Law of the People's Republic of China* (中華人民共和國合同法);*
- *Administrative Regulations on the Work Safety of Construction Projects* (建設工程安全生產管理條例);*
- *Regulations on Quality Management of Construction Projects* (建設工程質量管理條例);*
- *Opinions on Strengthening the Protection of Intellectual Property Rights (關於強化知識產權保護的意見);*
- *Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong); and*
- *Consumer Council Ordinance (Cap. 216 of the Laws of Hong Kong).*

In strict compliance with the relevant laws and regulations above, the Group has set up internal policies for the management of its construction projects. The project management centre (工程管理中心) and the construction project supervision department (項目工程監理部) of the Group are responsible for overseeing, evaluating and leading construction projects from conception to completion, and ensuring that the operational process and its final delivery meet the standards. In accordance with the national standards in the PRC, such as GB/T 19001-2016 (質量管理體系要求) and GB/T 24001-2015 (環境管理體系要求及使用指南), the Group acts in conformity with its internal policies including 'Engineering Construction Supervision Manual'* (工程建設監理工作手冊), 'Rules on Engineering Quality Management'* (工程質量管理細則) and 'Rules on Project Schedule Management'* (工程進度管理細則), endeavouring to protect its customers' health and safety through delivering reliable and high-quality products and services. In the property development projects, for example, health and safety factors are embedded in all stages of operations from preliminary project design, selection of non-hazardous materials, to the completion and delivery to clients in which stringent procedures are followed to ensure the efficient and satisfactory handover of the property to customers. In the selection of construction materials, in particular, the Group implements its internal policy 'Operating Standard of Product Inspection'* (產品檢測作業標準) and has adopted sampling techniques to detect any potentially hazardous substances in the construction materials used in all phases of its projects. Once any unqualified product is discovered, the quality control ("QC") department of the Group will lead an investigation and address the problem as soon as possible following the requirements and procedures in its internal policy 'Control Procedure of Non-conforming Products'* (不合格產品控制程序).

The marketing service centre of the Group is responsible for the collection of customers' complaints. Once any complaint is received, the QC department of the Group will follow up the entire investigation to make sure that substantiated complaints are dealt with effectively.

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The Group has been committed to protecting its clients' privacy and keeping personal information confidential by abiding by the applicable laws and regulations concerning data protection, privacy and information security. The Group has implemented its internal policy, 'Confidentiality Management and Regulations'* (保密管理規定), to ensure that its customers' rights and privacy are strictly protected. Information collected by the Group from its customers would be used only for the purpose for which it has been collected. In FY2019, the Group did not receive any substantiated complaints concerning breaches of customer privacy or loss of customer data.

The legal counsel in the regulatory department of the Group is responsible for monitoring, verifying and confirming that accurate, complete and unbiased information is provided to the public in marketing and advertising materials and ensuring the compliance of the Group's marketing practices with the relevant laws and regulations. Any misrepresentation in marketing materials or exaggeration of offerings is strictly prohibited.

Given the Group's business nature and the principle of materiality, the labelling-related issue is not applicable to the Group, thereby not being discussed in this section.

B.7. Anti-corruption

Anti-corruption is material to the Group and can help maintain the trust between the Group and its clients and promote fair and ethical business dealings. To create a fair, ethical and efficient working environment, the Group abided by the local laws and regulations relating to anti-corruption and bribery, irrespective of the region in which the Group operates, including the Anti-Corruption Law of the People's Republic of China* (中華人民共和國反腐敗法), the Law of the People's Republic of China on Anti-money Laundering* (中華人民共和國反洗錢法), the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615 of the Laws of Hong Kong), and the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong) during FY2019.

The Group has formulated and strictly enforced its sales-related policies, such as 'Implementation Rules on Sales Management'* (銷售管理實施細則), to prevent any illegal practices, including corruption, extortion and money-laundering within the Group. The Group prohibits all forms of bribery and corruption, and requires all its employees to follow the relevant codes of professional ethics. A protocol called 'Sunshine Service Convention'* (「陽光服務公約」) has been adopted by the Group, introducing the duties of the Group's salespersons in rooting out any corrupt, bribery and fraudulent practice in the Group's business transactions. During FY2019, no legal cases regarding corrupt practices were brought against the Group or any of its employees.

The Group has focused its efforts on setting up comprehensive policies, optimising management systems, providing relevant training courses and improving the monitoring processes to identify and prevent any corruption in the Group. In FY2019, one anti-corruption-themed seminar was organised by the Group to raise its employees' awareness of the importance to discharge their duties with integrity. Meanwhile, the Group has set forth fundamental business conduct requirements for internal employees in the process of collaborating with suppliers.

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Whistle-blowers can report verbally or in writing to the audit committee of the Company for any suspected misconduct with supporting evidence. The audit committee of the Company will conduct investigations against any suspicious or illegal behaviour to protect the Group's interests. The Group has established an effective grievance mechanism to protect the whistle-blowers from unfair dismissal or victimisation. Where any crime is suspected by the Group, a report will be submitted promptly to the relevant regulators or law enforcement authorities when the management of the Group considers it necessary.

In FY2019, the Group was not in violation of any relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

COMMUNITY

B.8. Community Investment

The interests of community groups have long been the core tenets of the Group's corporate social responsibility policies. With a clear understanding of its obligations to contribute to the society and support the underprivileged people living in the communities where it operates, the Group has laid great emphasis on providing scalable and sustainable education and poverty alleviation programmes to the communities over the years. As a corporate citizen, the Group will continue its philanthropy and strengthen its collaboration with a diverse range of groups and charitable organisations to make its communities prosper and thrive.

BIOGRAPHY OF DIRECTORS

The Board currently comprises nine Directors, six of whom are executive Directors and three of whom are independent non-executive Directors.

EXECUTIVE DIRECTORS

Mr. Chu Hing Tsung (alias Zhu Qing Yi) ("Mr. Chu HT"), aged 50, is the chairman of the Company ("Chairman") and an executive Director. He has been appointed as an executive Director since September 2009 and he was appointed as the chief executive officer of the Company ("Chief Executive Officer") on 9 September 2009. In February 2010 he was appointed as a deputy chairman of the Company ("Deputy Chairman"). In December 2013, he was re-designated as the Chairman. With effect from 21 August 2015, Mr. Chu HT has resigned as the Chief Executive Officer. Mr. Chu HT is a shareholder of Rong De, the controlling shareholder of the Company. Mr. Chu HT has over 21 years of extensive experience in corporate management and property development in the PRC. He is the younger brother of Mr. Chu Muk Chi, an executive Director. Mr. Chu HT has been appointed as a non-executive director, the chairman of the board of directors and the chairman of the nomination committee of Silver Grant with effect from 29 January 2019.

Mr. Liu Jie ("Mr. Liu"), aged 56, was appointed as an executive Director and the Chief Executive Officer on 17 March 2017. He obtained a degree of Bachelor of Science from the Guangzhou Teachers College* (廣州師範學院) (now known as Guangzhou University) in 1985. Mr. Liu was a Deputy Mayor (副區長) of the People's Government of Haizhu District of Guangzhou Municipality of the PRC (廣州市海珠區人民政府) from November 2006 to April 2015 and the Mayor (區長) of the People's Government of Liwan District of Guangzhou Municipality of the PRC (廣州市荔灣區人民政府) from April 2015 to September 2016. Mr. Liu has over 21 years of experience in administrative and operation management in the PRC.

Mr. Liao Tengjia ("Mr. Liao"), aged 56, is a Deputy Chairman and an executive Director. He was appointed as the Chairman and an executive Director in September 2009 and a director of certain subsidiaries of the Group. In December 2013, Mr. Liao resigned as the Chairman. With effect from 21 August 2015, Mr. Liao has been appointed as the Chief Executive Officer. With effect from 17 March 2017, Mr. Liao has resigned as the Chief Executive Officer and was appointed as a Deputy Chairman. Mr. Liao is a shareholder and the sole director of Rong De, the controlling shareholder of the Company, whose interest in the Shares falls to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"). He has over 21 years' management experience in the property development industry in the PRC.

Mr. Huang Jiajue ("Mr. Huang"), aged 49, is a Deputy Chairman, an executive Director and a member of each of the nomination committee and the remuneration committee of the Company. He has been appointed as an executive Director since September 2009 and a director of a subsidiary of the Company. With effect from 21 August 2015, Mr. Huang has been appointed as a Deputy Chairman. Mr. Huang obtained a Master's Degree in Business Administration from the Sun Yat-Sen University in the PRC. He has over 21 years of financial management experience in the property development industry in the PRC. Mr. Huang has been appointed as an executive director, a member of the remuneration committee and an authorised representative under Rule 3.05 of the Listing Rules of Silver Grant with effect from 29 January 2019 and has been appointed as the chief executive officer of Silver Grant with effect from 2 September 2019.

Mr. Chu Muk Chi (alias Zhu La Yi) ("Mr. Chu MC"), aged 62, has been appointed as an executive Director since September 2009. He obtained a Bachelor's Degree in Medicine from the Guangzhou College of Traditional Chinese Medicine (now known as Guangzhou University of Chinese Medicine). Mr. Chu MC has over 21 years of extensive experience in corporate management, Chinese medicine and property development in the PRC. He is the elder brother of Mr. Chu HT, the Chairman and an executive Director.

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Biography of Directors

Ms. Ye Lixia ("Ms. Ye"), aged 55, was appointed as an executive Director on 17 June 2015. She is also a director of certain subsidiaries of the Company. Ms. Ye obtained a Master's Degree in Economics from the Sun Yat-Sen University in the PRC in 1989. Before joining the Company, Ms. Ye served as the General Manager of the Investment and Finance Management Centre of Guangdong Pearl River Investment Holdings Limited* (廣東珠江投資股份有限公司) from July 2007 to April 2015. She has over 10 years of financial management experience in the property development industry in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wo Ping ("Mr. Leung") *JP*, aged 76, has been appointed as an independent non-executive Director since October 2009. He is also the chairman of the audit committee of the Company, and a member of each of the nomination committee and the remuneration committee of the Company. Mr. Leung is a certified public accountant with extensive experience in Hong Kong tax and international tax planning for over 30 years. Currently, he is a senior advisor to Crowe Horwath (HK) CPA Limited. Mr. Leung is a fellow member of The Institute of Chartered Accountants in England and Wales, The Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. Apart from his professional work, Mr. Leung has actively participated in community affairs. He had been a Regional Councillor for 5 years and a District Councillor for 18 years. Mr. Leung is currently a Councillor of the New Territories Heung Yee Kuk and the Hon. Secretary of Heung Yee Kuk Foundation Limited. He also serves as a member of each of the Fund Raising Committee, the United Christian Nethersole Community Health Service Management Committee, the Management Committee on Nethersole Chinese Medicine Service cum the Chinese University of Hong Kong Chinese Medicine Clinical Training and Research Centre of the Alice Ho Miu Ling Nethersole Charity Foundation. Mr. Leung was awarded a Badge of Honour by Her Majesty Queen Elizabeth II in 1994 for his service to the community. He was a District Advisor to the Hong Kong Branch of Xinhua News Agency before 1997. He was also appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2000. Mr. Leung was an independent non-executive director of Heng Xin China Holdings Limited (a company listed on GEM of the Stock Exchange with stock code: 8046) from August 2009 to June 2016.

Mr. Wong Chi Keung ("Mr. Wong"), aged 65, has been appointed as an independent non-executive Director since June 2012. He is also the chairman of each of the nomination committee and the remuneration committee of the Company, and a member of the audit committee of the Company. He holds a Master's Degree in Business Administration from the University of Adelaide in Australia. He is a fellow member of each of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia, and an associate member of each of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants.

Mr. Wong has over 36 years of experience in finance, accounting and management. He was a Responsible Officer for asset management, advising on securities and advising on corporate finance for Greater China Capital Limited under the SFO from 23 March 2010 to 16 April 2016. Mr. Wong was a director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0123, which is now known as Yuexiu Property Company Limited), for over 10 years.

Biography of Directors

Mr. Wong was an independent non-executive director of FU JI Food and Catering Services Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 1175 and provisional liquidators appointed from 19 October 2009 to 2 July 2013, and now known as Fresh Express Delivery Holdings Group Co., Ltd.), for the period from 22 November 2004 to 24 June 2011. He was also an independent non-executive director and a member of each of the audit committee and the remuneration committee of First Natural Foods Holdings Limited ("First Natural Foods") (a company listed on the Main Board of the Stock Exchange with stock code: 1076 with provisional liquidators appointed from 6 January 2009 to 4 September 2012, which is now known as Imperial Pacific International Holdings Limited) for the period from 26 November 2007 to 20 November 2013, and a member of the nomination committee of First Natural Foods from 4 September 2012 to 20 November 2013. Mr. Wong had been an independent non-executive director of PacMOS Technologies Holdings Limited ("PacMOS") (a company listed on the Main Board of the Stock Exchange with stock code: 1010, which is now known as PacRay International Holdings Limited) since August 1995, and he ceased to be an independent non-executive director and the chairman of each of the audit committee, remuneration committee and nomination committee of PacMOS with effect from 1 July 2014. He was an independent non-executive director of ENM Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0128) from 17 June 2010 to 9 June 2017. He was also an independent non-executive director of Heng Xin China Holdings Limited (a company listed on GEM of the Stock Exchange with stock code: 8046) from 17 October 2016 to 18 September 2017. He was an independent non-executive director of China Shanshui Cement Group Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0691) from 2 February 2016 to 23 May 2018. He was an independent non-executive director of Nickel Resources International Holdings Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 2889 and subsequently withdrawn from listing from 9:00 a.m. on 14 February 2020) from 2 May 2005 to 21 February 2020.

Mr. Wong is currently an independent non-executive director of Asia Orient Holdings Limited (stock code: 0214), Asia Standard International Group Limited (stock code: 0129), Century City International Holdings Limited (stock code: 0355), China Ting Group Holdings Limited (stock code: 3398), Fortunet e-Commerce Group Limited (stock code: 1039), Golden Eagle Retail Group Limited (stock code: 3308), Paliburg Holdings Limited (stock code: 0617), Regal Hotels International Holdings Limited (stock code: 0078) and Yuan Heng Gas Holdings Limited (stock code: 0332). All of the companies above are listed on the Main Board of the Stock Exchange. Mr. Wong is also an independent non-executive director of TPV Technology Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0903 and subsequently withdrawn from listing from 4:00 p.m. on 14 November 2019). Mr. Wong is also a Responsible Officer for asset management and advising on securities of CASDAQ International Capital Market (HK) Company Limited under the SFO.

Dr. Feng Ke ("Dr. Feng"), aged 48, was appointed as an independent non-executive Director on 17 June 2015. He is also a member of the audit committee of the Company. He graduated from the Guangdong University of Finance* (廣東金融學院) (previously known as Guangdong Academy of Finance* (廣州金融高等專科學校)) majoring in International Finance in July 1993. Dr. Feng obtained a Master's Degree in Economics from the Guangdong Academy of Social Sciences* (廣東省社會科學院) in July 1999. He obtained a Doctor's Degree in Economics from the Peking University* (北京大學) in July 2002. He was the assistant manager of Golden Eagle Asset Management Co., Ltd.* (金鷹基金管理有限公司) from July 2002 to January 2006. Dr. Feng was an independent director of Sichuan Guang'an AAA Public Co., Ltd* (四川廣安愛眾股份有限公司) (a company whose shares are listed on the Shanghai Stock Exchange with stock code: 600979) from November 2011 to September 2014, and an independent director of Nan Hua Bio-medicine Co., Ltd.* (南華生物醫藥股份有限公司) (previously

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known as Beijing CCID Media Investments Co., Ltd.* (北京賽迪傳媒投資股份有限公司)), a company whose shares are listed on the Shenzhen Stock Exchange with stock code: 000504) from December 2013 to December 2014. He had also been an independent director of Guangdong Provincial Expressway Development Co., Ltd.* (廣東省高速公路發展股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 000429) from June 2009 to April 2016, and an independent director of Tande Co., Ltd.* (天地源股份有限公司), a company listed on the Shanghai Stock Exchange with stock code: 600665, from December 2009 to December 2015. Dr. Feng was an independent non-executive director of Yingde Gases Group Company Limited (whose listing of shares on the Main Board of the Stock Exchange with stock code: 2168 was withdrawn on 21 August 2017) from November 2016 to March 2017. He was an independent non-executive director of Asian Capital Resources (Holdings) Limited (a company listed on GEM of the Stock Exchange with stock code: 8025), from October 2008 to August 2013 and has been re-designated as an executive director since 1 September 2013. Dr. Feng was an independent director of China Greatwall Technology Group Co., Ltd.* (中國長城科技集團有限公司) (previously known as China Great Wall Computers Shenzhen Co., Ltd.* (中國長城計算器深圳股份有限公司)) (a company listed on the Shenzhen Stock Exchange with stock code: 000066) from 30 August 2010 to 3 April 2018. Dr. Feng is currently an independent director of each of Shenzhen Success Electronics Co., Ltd. * (深圳市宇順電子股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 002289) and Tianjin Guangyu Development Co., Ltd.* (天津廣宇發展股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 000537). He is also currently an independent non-executive director of China Huirong Financial Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 1290).

SENIOR MANAGEMENT

The six Directors holding executive offices above are directly responsible for the various businesses of the Group. They are regarded as members of the senior management of the Group.

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CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance. The Company firmly believes that a good, solid and sensible framework of corporate governance will allow the Company to run its business in the best interest of its shareholders as a whole. The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Code") as contained in Appendix 10 to the Listing Rules. Specific enquiry has been made of all Directors, who confirmed that they have complied with the required standards set out in the Code for FY2019.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company complied with the applicable code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules during FY2019, other than Code Provision E.1.2 of the CG Code.

Code Provision E.1.2 of the CG Code requires that the chairman of the Board ("Chairman") should attend the annual general meeting of the Company ("AGM"). Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi), the Chairman, did not attend the AGM held on 12 June 2019 ("2019 AGM") due to his prior engagement.

SECURITIES TRANSACTIONS BY MANAGEMENT AND STAFF

The management and staff have been individually notified and advised about the Code by the Company.

Financial Officer

The financial officer ("Financial Officer") of the Company is responsible for preparing the consolidated interim and annual financial statements of the Company based on accounting principles generally accepted in Hong Kong and ensuring that the consolidated financial statements truly reflect the Group's results and financial position, as well as are in compliance with the disclosure requirements under the applicable provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Companies Ordinance"), the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the chairman of the audit committee of the Company and coordinates with external auditors on a regular basis. In addition, the Financial Officer reviews the controls of financial risks of the Group and provides advice thereon to the Board.

Corporate Governance Report

Company Secretary

The company secretary ("Company Secretary") of the Company reports directly to the Chairman. All Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meeting procedures are properly followed and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for providing assistance to the Board with respect to the Directors' obligations on securities interest disclosure, and disclosure requirements on notifiable transactions, connected transactions and inside information. The Company Secretary provides assistance to the Board with respect to the Company's compliance with the laws, regulatory requirements and the Company's bye-laws ("Bye-Laws") as appropriate. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance so as to bring the best long-term value to the shareholders of the Company. In addition, the Company Secretary also assists in the provision of relevant information updates and continuous professional development to the Directors with respect to the legal, supervisory and other continuing obligations of being a director of a listed company as appropriate. The Company Secretary is also responsible for supervising and managing the investors' relations of the Group.

BOARD OF DIRECTORS

A. The Responsibilities of The Board

The principal functions of the Board are to consider, set and approve the strategies, financial objectives, annual budget, investment proposals, appointment and re-appointment of Directors, and accounting policies of the Group. The Board is responsible for performing the corporate governance functions set out in Code Provision D.3.1 of the CG Code. The Board also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems by the Group to manage these risks. The day-to-day operations of the Group are delegated to the management of the Group.

The Board reserves for its decision all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of the Directors and other significant financial and operational matters. The Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's management independently. The daily management, administration and operation of the Group are delegated to the management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

The Board recognises that corporate governance should be the collective responsibility of the Directors and the Board delegates the corporate governance duties to the management which include:

(i) to develop, review and implement the Company's policy and practices on corporate governance and make recommendations to the Board;

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

(iii) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and the Directors; and

(iv) to develop, review and monitor the implementation of the Shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance Shareholders' relationship with the Company.

B. Board Composition and Diversity

During FY2019 and as at the date of this annual report, the Board comprises six executive Directors, namely Mr. Chu Hing Tsung, who is also the Chairman, Mr. Liu Jie, who is also the Chief Executive Director, Mr. Liao Tengjia, who is also a Deputy Chairman, Mr. Huang Jiajue, who is also a Deputy Chairman, Mr. Chu Muk Chi and Ms. Ye Lixia, and three independent non-executive Directors, namely Mr. Leung Wo Ping *JP*, Mr. Wong Chi Keung and Dr. Feng Ke. The independent non-executive Directors are expressly identified in all corporate communications that disclose the names of the Directors. The number of independent non-executive Directors during FY2019 and as at the date of this annual report represents one-third of the Board. The Company seeks to achieve board diversity through consideration of a number of factors, including but not limited to gender, age, skills, knowledge and length of service. The ultimate selection decision will be based on merit and contribution to the Board.

During FY2018, the Company adopted a board diversity policy, which sets out the Company's approach on achieving diversity on the Board. In reviewing and assessing the composition of the Board and the nomination of Directors (as applicable), the Company takes into account a number of factors, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Board may adopt and/or amend from time to time (as applicable) such diversity perspectives and/or measurable objectives that are appropriate to the Company's business and Board succession planning, as applicable.

The Directors have professional background in property development, finance, taxation, investment and management. They have extensive experience and independent views in their respective areas of expertise so that they can provide professional advice to the Board in respect of the long-term development of the Company. The Company has formal letters of appointment with all Directors setting out the key terms and conditions relating to their appointment.

Mr. Chu Hing Tsung, the Chairman and an executive Director, and Mr. Chu Muk Chi, an executive Director, are brothers. The biographical details of the Directors and the relationships between Board members are set out in the section headed "BIOGRAPHY OF DIRECTORS" in this annual report. Save as disclosed above and in the section headed "BIOGRAPHY OF DIRECTORS" in this annual report, none of the Directors has any financial, business, family or other material/relevant relationships with one another and this is true in particular between Mr. Chu Hing Tsung, the Chairman, and Mr. Liu Jie, the Chief Executive Officer.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

C. Chairman and Chief Executive Officer

The roles and duties of the Chairman and the Chief Executive Officer are carried out by different individuals and have been clearly defined in writing.

The Chairman is Mr. Chu Hing Tsung, and the Chief Executive Officer is Mr. Liu Jie. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balanced judgement of views.

With the support of the Company Secretary, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems, internal procedures and processes for the Board's approval.

BOARD MEETINGS AND ANNUAL GENERAL MEETING

The Board meets regularly and as warranted by particular circumstances. Notices and agendas are prepared by the Company Secretary as delegated by the Chairman and distributed to the Board members within reasonable time before the meetings. Relevant meeting papers are also sent to the Directors well before the meetings, informing them of the background and giving explanation on matters to be brought before the Board. All Directors are given the opportunity to include matters in the agendas for Board meetings. Draft and final versions of the minutes of Board meetings are sent to all Directors for their comment and records, respectively, within a reasonable time after the Board meetings and are kept by the Company Secretary.

During FY2019, the Directors made active contribution to the affairs of the Group and five Board meetings were held to consider, among other things, various transactions contemplated by the Group, and to review and approve the interim results and annual results of the Group. To ensure the Directors will make decisions objectively and in the interests of the Company, Bye-Law No. 103(1) of the Bye-Laws provides that any Director shall abstain from voting on any resolutions in which he/she or his/her associate(s) is/are materially interested nor be counted in the quorum of the meeting. Any Board meeting in which a Director has abstained from voting or has not been counted in the quorum of the meeting shall not be taken into account in determining that Director's attendance record.

Except for Mr. Chu Hing Tsung, the Chairman, Mr. Liu Jie, Mr. Huang Jiajue, Mr. Chu Muk Chi and Dr. Feng Ke, the other members of the Board all attended the 2019 AGM and were available to answer questions.

The individual attendance of each Director in the Board meetings held during FY2019, the 2019 AGM and the special general meeting of the Company held during FY 2019 is as follows:

	Attended/Eligible to attend		
	Board meetings	2019 AGM	Special general meeting
Executive Directors			
Mr. Chu Hing Tsung	5/5#	0/1	0/1
Mr. Liu Jie	4/4	0/1	1/1
Mr. Liao Tengjia	4/4	1/1	1/1
Mr. Huang Jiajue	4/4	0/1	0/1
Mr. Chu Muk Chi	4/4	0/1	0/1
Ms. Ye Lixia	4/4	1/1	1/1
Independent non-executive Directors			
Mr. Leung Wo Ping *JP*	5/5#	1/1	1/1
Mr. Wong Chi Keung	5/5#	1/1	1/1
Dr. Feng Ke	5/5#	0/1	0/1

Included a meeting between the Chairman and the independent non-executive Directors held during FY2019.

NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Each of the independent non-executive Directors has been appointed for a term of two years. All of the independent non-executive Directors are subject to retirement by rotation once every three years and should be subject to re-election.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment. A package, which has been compiled and reviewed by the Company's legal advisers, setting out the duties and responsibilities of directors under the Listing Rules, the Companies Ordinance, other related ordinances and relevant regulatory requirements of Hong Kong, is provided to each newly appointed Director.

Pursuant to Code Provision A.6.5 of the CG Code, the Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses to ensure that they are fully aware of their responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

Pursuant to the requirements of the CG Code, all Directors should provide their records of continuous professional development to the Company. According to the records provided by the Directors, the training received by each of them during FY2019 is summarised as follows:

	Training received Notes
Executive Directors	
Mr. Chu Hing Tsung	(1)(2)
Mr. Liu Jie	(1)(2)
Mr. Liao Tengjia	(1)(2)
Mr. Huang Jiajue	(1)(2)
Mr. Chu Muk Chi	(1)(2)
Ms. Ye Lixia	(1)(2)
Independent non-executive Directors	
Mr. Leung Wo Ping *JP*	(1)(2)
Mr. Wong Chi Keung	(1)(2)
Dr. Feng Ke	(1)(2)

Notes:

(1) Reading articles/other materials in relation to legal and regulatory changes which are relevant for the Directors in discharging their duties.

(2) Participation in seminars/conferences/courses/workshops on subjects relating to directors' duties, and financial, legal and corporate governance matters.

All Directors as disclosed above confirmed that they complied with Code Provision A.6.5 of the CG Code on directors' continuous professional development during FY2019.

BOARD COMMITTEES

The Board has set up three specialised committees, namely the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee") to oversee particular aspects of the Company's affairs. The three Board committees were established with defined written terms of reference approved by the Board, which set out the major duties of each Board committee. These terms of reference are posted on the websites of the Stock Exchange and of the Company and are available to the Shareholders. Members of the Board committees are mainly independent non-executive Directors. The list of the chairman and members of each Board committee is set out in each of the following Board committee sections below in this annual report. The meeting procedures of each Board committee follow the procedures of the Board meetings.

The members of the Board committees are provided with sufficient resources to discharge their duties and in appropriate circumstances, the Company can retain external auditors, financial advisers, lawyers and other relevant independent professionals to provide independent professional advice to assist members of the Board committees in fulfilling their responsibilities.

A. Audit Committee

The Company established the Audit Committee in 1999 with specific written terms of reference in accordance with the requirements of the Stock Exchange which deal clearly with its authority and duties.

During FY2019 and as at the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Leung Wo Ping *JP*, Mr. Wong Chi Keung and Dr. Feng Ke. Mr. Leung Wo Ping *JP* is the chairman of the Audit Committee during FY2019 and as at the date of this annual report.

The major roles and functions of the Audit Committee are as follows:

(1) to consider, and to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the audit fee and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(3) to discuss with the external auditor before the audit commences in respect of the nature and scope of the audit and reporting obligations;

(4) to monitor the integrity of the Company's financial statements, annual report, accounts and half-year report, and to review significant financial reporting judgements contained in them;

(5) to review the Company's financial controls and internal control and risk management systems, and to ensure that management has discharged its duty to establish an effective internal control system;

(6) to review the external auditor's management letter, and material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control as well as management's response to the points raised; and

(7) to ensure that the Board responds promptly to the matters raised by the external auditor in the management letter.

The Audit Committee shall meet with the external auditor without the presence of the executive Directors to discuss the Group's financial reporting and any major financial matters arising during the financial year at least twice a year.

The Audit Committee held four meetings during FY2019. Individual attendance of each committee member is set out below:

	Attended/ Eligible to attend
Independent non-executive Directors	
Mr. Leung Wo Ping *JP* *(Chairman)*	4/4
Mr. Wong Chi Keung	4/4
Dr. Feng Ke	4/4

During FY2019, the Audit Committee held four meetings with the external auditor to discuss the general scope of their audit work and the audit findings. The Audit Committee also reviewed the Group's annual audited results for FY2018 and unaudited interim results for the six months ended 30 June 2019, and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made, and submitted them to the Board for approval. In addition, the Audit Committee also made a review of the effectiveness of the financial reporting, internal audit function, and risk management and internal control systems of the Group.

B. Remuneration Committee

The Company established the Remuneration Committee in September 2005 with specific written terms of reference in accordance with the requirements of the Stock Exchange which deal clearly with its authority and duties. The Remuneration Committee has adopted the approach under Code Provision B.1.2(c)(ii) of the CG Code and made recommendations to the Board on the Group's overall policy and structure of the remuneration of Directors and senior management.

During FY2019 and as at the date of this annual report, the Remuneration Committee comprises an executive Director, Mr. Huang Jiajue and two independent non-executive Directors, namely Mr. Wong Chi Keung and Mr. Leung Wo Ping *JP*. Mr. Wong Chi Keung is the chairman of the Remuneration Committee during FY2019 and as at the date of this annual report.

The major roles and functions of the Remuneration Committee are as follows:

(1) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(2) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(3) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payment (including any compensation payable for loss or termination of their office or appointment);

(4) to make recommendations to the Board on the remuneration of the non-executive Directors;

(5) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(6) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and otherwise fair and not excessive;

(7) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and otherwise reasonable and appropriate; and

(8) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee held two meetings during FY2019. Individual attendance of each committee member is set out below:

	Attended/ Eligible to attend
Executive Director	
Mr. Huang Jiajue	2/2
Independent non-executive Directors	
Mr. Wong Chi Keung *(Chairman)*	2/2
Mr. Leung Wo Ping *JP*	2/2

The following is a summary of work performed by the Remuneration Committee during FY2019:

(a) reviewing and recommending the policy and structure of the remuneration of the Directors and senior officers of the Group to the Board;

(b) assessing individual performance of the Directors and senior officers of the Group; and

(c) reviewing specific remuneration packages of the Directors and senior officers of the Group with reference to the Board's corporate goals and objectives as well as individual performances.

Corporate Governance Report

The remuneration of the executive Directors, who are regarded as the senior management of the Group, by band for FY2019 is set out below:

HK$0 to HK$2,000,000	2
HK$2,000,001 to HK$4,000,000	2
Over HK$4,000,001	2
	6

The remuneration of the Directors is determined by reference to their qualifications, experience, duties and responsibilities, the Group's remuneration policy and the prevailing market trends. Neither the Chief Executive Officer nor any of the Directors waived or agreed to waive any emoluments during FY2019.

C. Nomination Committee

The Company established the Nomination Committee in September 2005 with specific written terms of reference in accordance with the requirements of the Stock Exchange which deal clearly with its authority and duties.

During FY2019 and as at the date of this annual report, the Nomination Committee comprises an executive Director, Mr. Huang Jiajue and two independent non-executive Directors, namely Mr. Leung Wo Ping *JP* and Mr. Wong Chi Keung. Mr. Wong Chi Keung is the chairman of the Nomination Committee during FY2019 and as at the date of this annual report.

The major roles and functions of the Nomination Committee are as follows:

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

(2) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorship;

(3) to assess the independence of the independent non-executive Directors; and

(4) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee selects and recommends candidates for directorship based on certain criteria and procedures. The major criteria include (i) the candidates' professional background, especially their experience in the industry in which the Group operates; (ii) their financial management experience and track record with other companies engaged in similar business as the Group's; and (iii) the recommendations from the management team and other knowledgeable individuals. The Nomination Committee will shortlist the candidates and then submit them to the Board for final approval.

The Nomination Committee held one meeting during FY2019. Individual attendance of each committee member is set out as below:

	Attended/ Eligible to attend
Executive Director	
Mr. Huang Jiajue	1/1
Independent non-executive Directors	
Mr. Wong Chi Keung *(Chairman)*	1/1
Mr. Leung Wo Ping *JP*	1/1

During the meeting held in FY2019, the Nomination Committee reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors coupling with the relevant requirements under the Listing Rules, and the suitability of the Directors who were subject to re-election at the AGM.

INTERNAL CONTROL

Risk Management and Internal Control

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the assets of the Group and interests of the Shareholders. The Board is clearly aware of the key role played by the Group's risk management and internal control systems in the Group's risk management and compliance with the laws and regulations on an on-going basis. The Group is aware of the responsibilities of the Board and the management over risk management and internal control systems:

- **The Board** is responsible for evaluating and determining the nature and extent of the risks the Group is willing to take in achieving its strategic business objectives, ensuring the Group establishes and maintains appropriate and effective risk management and internal control systems, and overseeing the management's design, implementation and monitoring of risk management and internal control systems on an ongoing basis.

- **The management** is responsible for the design, implementation and monitoring of the risk management and internal control systems and confirming to the Board whether or not the risk management and internal control systems are effective.

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

The Audit Committee continuously reviews the Group's risk management and internal control systems. The Board also reviews the effectiveness of the Group's risk and management and internal control systems on annual basis. Based on its review, the Audit Committee will provide advice to the Board as to the adequacy of the Group's risk management and internal control systems.

RISK MANAGEMENT

The Group has established a basic risk management structure in 2016 to specify the risk management process, and consciously enhanced the Group's risk management culture internally. For the past three years, the Group also continued to optimise the risk management structure, standardise risk management process, and adopt qualitative and quantitative risk management methodologies to identify, evaluate and mitigate risks, so as to promote sustainable and healthy business growth of the Group by keeping risks under control.

Construction of Risk Management System

- **Construction and update of basic risk management structure:** the Group has established an organisational structure and functions for risk management practices covering different levels, including decision-making level (the Board and the Audit Committee), leadership level (the Group's management) and implementation level (management of each function centre of the Group and the regional subsidiaries) over the past years. The duties and authorities of each level of decision-making, leadership and implementation are specified in writing and the Group's major risks are classified into different categories, including strategy, operation, market, finance and laws so as to create a risk database. During FY2019, the Group reviewed, updated and improved the above-mentioned basic structure based on changes in both internal and external environment. From the perspective of the Group's strategic objective and the management's risk appetite, appropriate risk assessment dimension and criteria as well as qualitative and quantitative approaches of assessment have been established. Meanwhile, approaches and criteria of assessment identified by the management together are used to assess and respond to risks likely to affect the achievement of the corporate target.

- **Establishment and regulation of risk management process:** the Group has established closed-loop procedures in respect of sustainable risk management, covering the identification, assessment, response, monitoring and reporting (see Chart 1: Major Steps of Risk Management Process), in addition to risk management procedures and tools used to support the implementation of such procedures. The Board analyses and prioritises risks identified to determine key risks exposed to the Group and discusses how to manage such key risks. Besides, existing risk mitigation measures are identified and recorded against each significant risk, with improvement suggestions being made based on the management's risk appetite. During FY2019, the Group reviewed, adjusted and improved the risk management process to improve the efficiency and standardisation of its operations.

(Chart 1: Major Steps of Risk Management Process)

Risk Assessment Performed by the Group in FY2019

On the basis of the above construction of risk management systems at the group level, the management of the Group continued to strengthen its risk management with the assistance from an external consultant during FY2019, and updated and assessed the top 10 risks of the Group in FY2019.

- **Updating and assessing the top 10 risks of the Group:** in view of the external market environment, changes in the internal business environment, the business operation and risk appetite of the Group, the management of the Group updated the risk assessment standards and risk database during FY2019. Meanwhile, it reviewed the change in nature and degree of significant risks exposed to the Group by using a systematic approach of assessment, reassessed the top ten risks exposed to the Group and studied the tendency of such change as compared with that of FY2018. The current governance and control measures were reviewed to determine the department responsible for control of the relevant risks as well as the corresponding response measures and improvement plans. Results of the assessment and implementation of the governance and control measures were reported to the Audit Committee, which, on behalf of the Board, reviewed and assessed the change in nature and degree of the significant risks and considered that the risk management systems were effective and adequate upon review of such systems.

In the years to follow, the management of the Group will continue to strengthen the risk management systems through various measures, including on-going risk management training, regular risk alert and risk management reporting, and will perform review and assessment of the responses to significant risks at least annually and report the results to the Audit Committee.

Internal Audit

The Company has established an internal audit function as an independent third line of defence, which is responsible for assisting the Audit Committee in making analysis and independent assessment of the adequacy and effectiveness of the Group's risk management and internal control systems. The Board has reviewed the resources and staff qualifications and experiences of the internal audit function, and considered that the budget and the training received by the internal audit staff were adequate during FY2019.

Internal Control

Construction of Internal Control Management Framework

The Company has established its own internal control framework by reference to the internal control management framework from the COSO (Committee of Sponsoring Organisations of the Treadway Commission) (see Chart 2: Internal Control Management Framework from the COSO). The Group's risk management system consists of five elements, i.e. control environment, risk assessment, control activity, information and communication, and monitoring activity, which are related to, interacting with and relying on each other, and collectively safeguard the performance of the Group's internal control function. An established organisational structure is included in such control systems, clearly defining the power and obligations of each department, in order to protect the Group's assets against improper use, maintain appropriate accounts and ensure compliance with rules and regulations. The scope of review covers significant controls, including controls over operations and risk management. Annual review of the effectiveness of the risk management and internal control systems has been performed with reference to the COSO framework.

(Chart 2: Internal Control Management Framework from the COSO)

Review of Internal Control Performed by the Group in FY2019

On the basis of the above internal control management framework of the Group, the management of the Group engaged an external consultant to support the internal control review in FY2019 to ensure that the operation and management of the Company and its subsidiaries were in compliance with laws and regulations as well as regulatory requirements. Based on the changes in risk conditions and control environment, the management of the Group selected key business processes for review, assessed the adequacy and effectiveness of existing control activities, determined major risks and existing control defects, and identified the key departments responsible for control defects and the following response measures and improvement plans. The results of assessment were reported to the Audit Committee.

Review of Risk Management and Internal Control Systems

The Board has, through the Audit Committee, performed an overall review of the effectiveness of the Group's risk management and internal control systems for FY2019, considering changes in the nature and degree of significant risks exposed to the Group, as well as the Group's capability of responding to changes in its business and external environment. The management has continued monitoring the scope and quality of the risk and internal control systems and the work performed by the internal audit function, and has prepared the reports provided to the Audit Committee. The Board considered the Group complied with the provisions relating to internal control set out in the CG Code and the risk management and internal control systems were effective and adequate during FY2019.

INSIDE INFORMATION

The Company takes every precaution in its handling of inside information. The Company regulates the handling and dissemination of inside information according to the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding inside information. Also, the Company keeps the Directors, management and employees abreast of the latest regulatory updates. Employees who are privy or have access to inside information have also been notified to observe the restrictions regarding the handling and dissemination of inside information from time to time. The Board is generally responsible for ensuring that the Company complies with its disclosure obligations regarding inside information. Inside information should be disclosed by way of an announcement in accordance with the requirements of the SFO and the Listing Rules. Before relevant information is fully disclosed to the public, the Board will ensure that such information is kept strictly confidential.

CORPORATE GOVERNANCE FUNCTIONS

The Company is committed to enhancing its corporate governance practices relevant to the model and growth of its business. In order to achieve a right balance between governance and performance, the Board is responsible for introducing and proposing relevant principles concerning corporate governance so as to enhance the standard of corporate governance of the Company. The Board is responsible for performing the corporate governance functions set out in Code Provision D.3.1 of the CG Code and has established the following corporate governance duties to serve this purpose:

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

(2) to review and monitor the training and continuous professional development of the Directors and management;

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

(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(5) to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual report.

There was no meeting held by the Board in respect of its corporate governance functions during FY2019. However, the Company has from time to time provided updated information to the Directors and management on the relevant rules and regulations relating to corporate governance, ensuring that they have a proper understanding of the latest development of the best corporate governance practice.

AUDITOR'S REMUNERATION

For FY2019, the remuneration paid/payable to the Company's auditor, Ernst & Young, for their audit and non-audit services provided, is set out as follows:

Nature of services	**Fee paid/payable**
	HK$'000
Audit services	4,700
Non-audit services	
— Interim review	1,500
— Internal control services	700
— Professional services in relation to proposed acquisition	1,300
— Agreed-upon procedures	400
— Other reporting services	1,260
Total	9,860

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility of preparing the financial statements for FY2019, which were prepared in accordance with statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgement and estimates made are prudent and reasonable.

In respect of Code Provision C.1.3 of the CG Code, the Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The reporting responsibilities of the external auditor on the consolidated financial statements are set out in the "Independent Auditor's Report" on pages 113 to 120 of this annual report.

SHAREHOLDERS' RIGHTS

DIVIDEND POLICY

The Company has adopted a dividend policy during FY2018.

The Company does not have any pre-determined dividend pay-out ratio. The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Bye-laws, all applicable laws and regulations and the following factors:

1. financial results;
2. cash flow situation;
3. business conditions and earnings;
4. capital requirements and expenditure plans;
5. interests of Shareholders;
6. any restrictions on payment of dividends; and
7. any other factors that the Board may consider relevant.

The dividend policy of the Company will be reviewed by the Board as appropriate from time to time.

The Company treats all Shareholders equally and ensures that Shareholders' rights are protected and every convenience is provided to the Shareholders for them to exercise their rights in ways that they are entitled to. The memorandum of association of the Company ("Memorandum of Association") and the Bye-Laws set out the rights of the Shareholders.

(1) Rights and procedures for Shareholders to convene a special general meeting ("SGM")

Pursuant to Bye-Law No. 58 of the Bye-Laws, Shareholders holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings may request the Company to convene a SGM by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition. The requisition must be signed by the requisitionists and deposited at the Company Secretary at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Before convening the SGM, the request will be verified with the Company's share registrar in Bermuda or the Hong Kong branch share registrar with their confirmation that the request is proper and in order.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, i.e. Shareholders holding not less than one-twentieth of the paid-up capital of the Company, may themselves convene a meeting in accordance with the requirements and procedures set out in Sections 74(3) and 74(4) of the Bermuda Companies Act 1981 (as amended), but any meeting so convened shall not be held after the expiration of three months from the said date.

(2) Rights and procedures for Shareholders to make proposals at general meetings

(i) Rights and procedures for proposing a person for election as a Director at a general meeting are as follows:

Pursuant to Bye-Law No. 88 of the Bye-Laws, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected including that person's biographical details as required by Rule 13.51(2) of the Listing Rules, shall have been lodged at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong, or at the Hong Kong branch share registrar provided that the minimum length of the period, during which such notice is given, shall be at least 7 days before the date of the general meeting.

If the notice is submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notice shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

If the notice is received less than 10 business days prior to the date of such general meeting, the Company will need to consider the adjournment of such general meeting in order to allow Shareholders 14 days' notice (the notice period must include 10 business days) of the proposal.

The procedures for Shareholders to propose a person for election as a Director is posted on the Company's website (www.zhuguang.com.hk).

(ii) Rights and procedures for proposing resolution to be put forward at a general meeting are as follows:

Pursuant to Sections 79 and 80 of the Bermuda Companies Act 1981 (as amended), (i) shareholders holding not less than one-twentieth of the total voting rights; or (ii) not less than 100 shareholders, are entitled to request the company to give shareholders notice of a resolution which is intended to be moved at the next annual general meeting or special general meeting. If any Shareholders wish to propose a resolution to be put forward at a general meeting of the Company, a written notice to that effect signed by the requisitionists with contact information must be deposited at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong (addressed to the Company Secretary). The notice shall contain, inter alia, a description of the proposed resolution desired to be put forward at the meeting, the reasons for such a proposal and any material interest of the proposing Shareholder in such a proposal. The request will be verified with the Company's share registrar in Bermuda or the Hong Kong branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at the AGM or the SGM varies according to the nature of the proposal, the details of which are as follows:

- At least 14 days' notice (the notice period must include 10 business days) in writing if the proposal constitutes an ordinary resolution of the Company in SGM.

- At least 21 days' notice (the notice period must include 20 business days) in writing if the proposal constitutes an ordinary resolution of the Company in AGM or a special resolution of the Company in AGM or SGM.

In the event of failure in serving the notice to the Company by the requisitionist within reasonable time, the Company reserves the right to claim from the requisitionist any expenses incurred by the Company in serving the notice of the resolution and circulating the statement given by that requisitionist to all Shareholders in accordance with the requirements under the Listing Rules (unless the Company otherwise resolves).

The rights and procedures for proposing resolution to be put forward by Shareholders at a general meeting is posted on the Company's website (www.zhuguang.com.hk).

(3) Procedures to send enquiries to the Board

Any enquiry is welcome to be presented to the Board by the Shareholders and any proposal relating to the business, strategy and management of the Company is welcome to be presented at general meeting for review and discussion. Such enquiry or proposal can be submitted in writing with contact information and deposited at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong (addressed to the Company Secretary).

COMPANY SECRETARY

Pursuant to the requirements of Rule 3.29 of the Listing Rules, the Company Secretary, Mr. Chan Chit Ming Joeie confirmed that he had taken no less than 15 hours of relevant professional training during FY2019.

MEMORANDUM OF ASSOCIATION AND BYE-LAWS

During FY2019, the Company has not made any changes to its Memorandum of Association or Bye-Laws. An up-to-date version of the Memorandum of Association and the Bye-Laws is available on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.zhuguang.com.hk).

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with the Shareholders. Information in relation to the Company is disseminated to the Shareholders in a timely manner through a number of formal channels, which include the interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information are also made available on the website of the Company (www.zhuguang.com.hk).

The AGM provides a useful platform for the Shareholders to exchange views with the Board. The Chairman and the chairman of each committee of the Board are available at the AGM to answer questions from the Shareholders in respect of the matters that they are responsible and accountable for. The external auditor is also available at the AGM to assist the Directors in addressing any relevant queries from the Shareholders. To ensure the Board is maintaining an ongoing dialogue with the Shareholders, the Shareholders are encouraged to attend the AGM or other general meetings of the Company. The AGM notice is sent to the Shareholders at least 20 clear business days before the AGM. The notice is also published on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.zhuguang.com.hk). Separate resolutions are proposed at the general meetings on each substantially separate issue. A Shareholder is permitted to appoint any number of proxies to attend and vote on his behalf. All resolutions put forward at shareholders' meetings of the Company will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange and of the Company immediately after the relevant general meetings.

To ensure effective communication with the Shareholders, the Company highly values any opinion from the Shareholders. Comments and suggestions are welcome and can be addressed to the Company by mail to the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

DIRECTORS' REPORT

The Directors herein submit their report together with the audited consolidated financial statements of the Group for FY2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 1.1 to the consolidated financial statements.

Further discussion and analysis of the business review required by Schedule 5 to the Companies Ordinance, including an analysis on the Group's financial key performance indicators, an indication of the likely future developments in the Group's business, employment policy of the Group and important events of the Company occurring after the end of FY2019, can be found in the "Chairman's Statement" and the "Management Discussion and Analysis" set out on pages 5 to 25 of this annual report. These discussions form part of this "Directors' Report".

The financial risk management objectives and policies of the Group are shown in note 45 to the consolidated financial statements.

An analysis of the Group's performance during FY2019 using key financial performance indicators is set out in the Five-Year Financial Summary on page 224 of this annual report.

The Group is committed to building a better environment by adopting an environmentally-friendly approach in its business operations. The Group is also committed to complying with all applicable environmental laws and regulations in conducting its business. The Group aims to reduce emissions and use of resources in its operation through the following measures:

- Enhance the efficiency of the resources used in the Group's business operations;
- Adopt the use of energy-efficient equipment across the Group's properties and offices;
- Encourage employees to minimise their daily use of resources, such as electricity;
- Encourage contractors and/or service providers to adopt environmentally-friendly practices in their design, services and products; and
- Undertake property development projects which are conducive to environmental protection and to obtain environmental certification on such projects.

During FY2019, the Group has made improvements in energy saving and emission reduction by adopting measures, which included regularly upgrading and maintaining air-conditioning systems and equipment, and using recycled papers.

Further information about the Company's environmental policies and performance can be found in the ESG Report on pages 26 to 64 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was incorporated in Bermuda with its shares listed on the Main Board of the Stock Exchange. The Group's subsidiaries were incorporated in the British Virgin Islands, Hong Kong and the PRC. The Group's operations are mainly carried out by the Group's subsidiaries in the PRC while the Group also has a corporate and administrative office in Hong Kong.

The Group's principal business activity is property development in the PRC which is a highly regulated industry. Property developers in the PRC must abide by various laws and regulations in the country, including rules stipulated by the national and local governments. To engage in property development, the Group must apply to the relevant government authorities to obtain and renew various licenses, permits, certificates and approvals, including but not limited to, land use rights certificates, qualification certificates for property developers, construction work commencement permits, construction work planning permits, construction land planning permits and pre-sales permits. Before the government authorities issue or renew any such certificate or permit, the Group must meet the relevant requirements. Set out below is a summary of certain aspects of PRC legal and regulatory provisions relating to the Group's operations and business, which include laws and regulations relating to:

- Establishment and qualification of real estate development, including the City Real Estate Management Regulation*《城市房地產管理法》, the PRC City Planning Regulation*《中華人民共和國城鄉規劃法》, the PRC Construction Regulation*《中華人民共和國建築法》and the City Real Estate Development Operation Management Rules*《城市房地產開發經營管理條例》; and

- Sale of commodity properties, including the City Commodity Properties Pre-Sale Management Regulation*《城市商品房預售管理辦法》.

If there is any non-compliance with the above rules and regulations, it will affect the Group's operations, development and financial performance. During FY2019, the Group complied with all the relevant laws and regulations in Bermuda, the British Virgin Islands, the PRC and Hong Kong that have a significant impact on the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, the summary of which is as follows:

Fierce industry competition

The fierce competition among property developers in China may lead to the increase in acquisition costs of land and construction costs in prime locations in China, oversupply of properties, decrease in price of the properties and slower approval and review of new property development projects by the relevant government authorities as well as the increase in the costs of human resources, all of which have an adverse impact on the business operations and profit of the Group.

Fluctuation of exchange rates

As the focus of the Group's operations is in China, most revenue and expenses of the Group are denominated in RMB. The exchange rates of the RMB against the US$ and other foreign currencies may fluctuate and may be affected by, among other things, the policies of the PRC Government and changes in the PRC's and international political and economic conditions. Fluctuations in the exchange rates will affect the results of operations of the Group. As the 2017 Senior Notes and the 2019 Senior Notes are denominated in US$, the depreciation of RMB, if any, will further increase the finance costs of the Group.

** English name is translated for identification purpose only*

Fluctuation of interest rates

Interest-bearing debts are one of the primary financing sources for the Group to fund its operations. Part of the Group's loans are RMB-denominated and obtained from banks in the PRC, and carry floating interest rates. Thus, any adjustments in the interest rates made by the People's Bank of China will affect the finance costs of the Group.

External contractors and suppliers

In the event that the performance of the external contractors and suppliers entrusted by the Group falls short of the standards of the Group, or they encounter financial, operational or managerial difficulties, there may be disruption to the construction progress of the Group's property developments, and the Group may need to incur additional costs and may be potentially liable for compensation payable to the customers for delay in completion of property development and delivery of the properties.

Government policies and regulations

The real estate market in the PRC is highly subject to government policies and regulations. In order to curb the rapid rise in housing price and control speculative demand, the PRC Government has imposed a series of strict restrictions, including house purchase restrictions (限購), tighter down-payment requirements (限貸), and limiting the selling price of properties (限價). Further, a series of regulations and policies have been issued by the PRC Government to generally control the growth of the property market, including those relating to idle land, house loans to buyers, financing to property developers, etc.. It is uncertain whether the PRC Government will relax or enhance the existing restrictive measures, or will introduce new restrictive measures in the future. The existing and any future restrictive measures may limit the Group's access to capital, reduce market demand for its products and increase the finance costs.

SEGMENT INFORMATION

An analysis of the performance of the Group by reportable segments is set out in note 4 to the consolidated financial statements.

DIVIDENDS

The Directors do not recommend the payment of any dividend for FY2019 (FY2018: nil).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 224.

RESULTS AND APPROPRIATIONS

The results of the Group for FY2019 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 121 and 122, respectively.

RESERVES

Movements in reserves of the Group during FY2019 are set out in the consolidated statement of changes in equity on page 125.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves available for distribution, computed in accordance with the Companies Act 1981 of Bermuda (as amended) were nil (31 December 2018: nil). However, the Company's share premium account in the amount of approximately HK$5,564,286,000 (31 December 2018: HK$4,640,287,000) may be distributed in the form of fully paid bonus shares.

DONATIONS

No donations were made to charities by the Group during FY2019 (FY2018: nil).

PROPERTY AND EQUIPMENT

Movements in property and equipment of the Group during FY2019 are set out in note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

Movements in investment properties of the Group during FY2019 are set out in note 14 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is in force as at the date of this annual report and was in force throughout FY2019.

INVENTORIES

As at 31 December 2019, inventories consisted of properties under development and completed properties held for sale. Details of inventories of the Group during FY2019 are set out in notes 20 and 21 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during FY2019 are set out in note 34 to the consolidated financial statements.

BORROWINGS

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

INTEREST CAPITALISED

Interest capitalised by the Group during FY2019 amounted to approximately HK$316,382,000 (FY2018: HK$109,536,000), details of which are set out in note 6 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEME

The Group contributes to defined contribution retirement schemes which are available to all its employees. With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules of the scheme. The employees of the Company's subsidiaries established in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to these schemes is to make the required contributions under the schemes. During FY2019, total contribution of approximately HK$6,853,000 was made by the Group in respect of the above-mentioned schemes, which are both defined contribution schemes. No forfeited contribution under these schemes is available to reduce the contribution payable in future years.

EQUITY-LINKED AGREEMENT

2019 Senior Notes and 2019 Warrants

The conditional note purchase agreement ("2019 Note Purchase Agreement") dated 22 September 2019 was entered into among (a) the Company as the issuer; (b) Rong De as the controlling shareholder of the Company; (c) Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi (collectively as the "Ultimate Shareholders") as personal guarantors; and (d) Blooming Rose Enterprises Corp. ("Blooming Rose"), Heroic Day Limited ("Heroic Day"), CCB International Overseas Limited ("CCB") and China Cinda (HK) Asset Management Co., Limited ("Cinda", together with Blooming Rose, Heroic Day and CCB, collectively as "Investors") as investors, pursuant to which (aa) the Company shall conditionally issue to the Investors the senior secured guaranteed notes ("2019 Senior Notes") of an aggregate principal amount of US$410,000,000 (equivalent to approximately HK$3,198,000,000); and (bb) in consideration of the agreement to subscribe for the 2019 Senior Notes by the Investors and entering into other transactions contemplated under the relevant transaction documents, the Company shall issue warrants ("2019 Warrants") to the Investors pursuant to a warrant instrument dated 27 November 2019 executed by the Company, representing an aggregate amount of the exercise moneys of US$61,500,000 (equivalent to approximately HK$479,700,000), under the specific mandate granted to the Directors by the Shareholders at the special general meeting of the Company held on 21 November 2019, further details of which are set out in the announcements of the Company dated 22 September 2019 and 21 November 2019, and the circular of the Company dated 5 November 2019.

Pursuant to the 2019 Note Purchase Agreement, Rong De was required to create a charge ("2019 Share Charge") over 3,361,112,000 Shares that it held in the Company in favour of The Bank of New York Mellon, Hong Kong Branch ("BNY HK") and each of the Ultimate Shareholders has entered into a personal guarantee (collectively, the "2019 Guarantees") in favour of BNY HK in relation to the 2019 Senior Notes. The 2019 Share Charge, which subsisted during FY2019 and as at the date of this annual report, is discloseable pursuant to Rule 13.17 of the Listing Rules. The 2019 Guarantees subsisted during FY2019 and as at the date of this annual report.

DIRECTORS' REPORT

The conditions of the 2019 Senior Notes, which subsisted during FY2019 and as at the date of this annual report, also contain certain conditions imposing specific performance obligations on Rong De (the controlling Shareholder) and the Ultimate Shareholders, which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

It is an event of default under the conditions of the 2019 Senior Notes, if amongst others:

(i) Rong De ceases to beneficially own at least 3,670,000,000 Shares;

(ii) Rong De ceases to (a) control the Company, or (b) beneficially own at least 51% of the total issued share capital of the Company on a fully-diluted basis;

(iii) the Ultimate Shareholders cease to (a) control the Company, or (b) effectively and beneficially own in aggregate at least 51% of the total issued share capital of the Company on a fully-diluted basis;

(iv) the Ultimate Shareholders cease to (a) control Rong De, or (b) legally and beneficially own in aggregate at least 76.03% of the total issued share capital of Rong De on a fully-diluted basis; and

(v) any of the Ultimate Shareholders ceases to be a Director.

Upon the occurrence of an event of default, the 2019 Senior Notes shall become immediately due and repayable in accordance with the conditions of the 2019 Senior Notes.

The 2019 Senior Notes constituted direct, unconditional, secured, guaranteed, unsubordinated and general obligations of the Company and ranked equally and without any preference amongst themselves, and the payment obligations of the Company under the 2019 Senior Notes would (subject to any obligations preferred by mandatory provision of applicable laws and regulations) rank at least pari passu with all other present and future direct, unconditional, unsecured, unsubordinated and general obligations issued, created or assumed by the Company. On 22 September 2019, the Company issued the 2019 Senior Notes in the aggregate principal amount of US$410,000,000 (equivalent to approximately HK$3,198,000,000) due on 21 September 2022.

On 27 November 2019, the 2019 Warrants representing aggregate exercise moneys of US$61,500,000 were issued to the Investors.

If the subscription rights attached to the 2019 Warrants are exercised in full at the initial strike price of HK$1.6148, the 2019 Warrants will entitle the holders thereof ("2019 Warrantholders") to subscribe for up to 297,064,651 Shares ("Warrant Shares", each a "Warrant Share") (of an aggregate nominal value of HK$29,706,465.1). The initial strike price of HK$1.6148 per Warrant Share represents a premium of approximately 46.8% over the closing price per Share of HK$1.1 as quoted on the Stock Exchange on 20 September 2019, being the last trading day immediately before the entering into of the 2019 Note Purchase Agreement. The Warrant Shares to be allotted and issued upon the exercise of the subscription rights attached to the 2019 Warrants, when allotted and issued, will rank pari passu with the existing issued Shares as at the date of allotment, and they will be allotted and issued pursuant to the specific mandate granted to the Directors by the Shareholders at the special general meeting of the Company held on 21 November 2019. The subscription rights attached to the 2019 Warrants will expire on the date falling 36 months from the issue date of the 2019 Warrants. Further details of the 2019 Warrants are set out in the announcements of the Company dated 22 September 2019 and 21 November 2019, and the circular of the Company dated 5 November 2019.

The subscription money payable by a 2019 Warrantholder upon the exercise of the subscription rights, may be satisfied in the following manner at such 2019 Warrantholder's election:

(1) by setting off an amount of the exercise moneys equal to the aggregate strike price against the outstanding principal amount of any 2019 Senior Notes held by such 2019 Warrantholder ("Set-off");

(2) by payment in cash to such bank account as designated by the Company as notified in writing to the 2019 Warrantholder three business days in advance;

(3) by a combination of payment in cash and by way of Set-off as set forth in the foregoing (1) and (2); or

(4) by such other method of payment as the Company and such 2019 Warrantholder may reasonably agree.

Assuming the 2019 Warrants with an aggregate amount of exercise moneys of US$61,500,000 are issued and all exercise moneys of the subscription rights attached to the 2019 Warrants will be settled by the 2019 Warrantholders with the Company in cash, the Company will receive gross proceeds of approximately HK$479.7 million, and the net proceeds of approximately HK$478 million in this regard. The Company currently intends to use the net proceeds from the issue of the 2019 Warrants to repay the 2019 Senior Notes. Assuming the full exercise of the subscription rights attached to the 2019 Warrants, the net price to the Company of each Warrant Share, which is calculated by dividing the aggregate net proceeds from the issue of the Warrant Shares and the exercise of the subscription rights by the 2019 Warrantholders by the total number of the Warrant Shares, is approximately HK$1.6091. None of these 2019 Warrants have been exercised as at 31 December 2019.

The Board considered that the issue of the 2019 Senior Notes and the 2019 Warrants represented an opportunity to raise funds for the Company to repay the 2016 Indebtedness (as defined below).

As intended, the Company has used the entire amount of the proceeds received from the issue of the 2019 Senior Notes, to repay the principal amount of the loan (to the extent such principal amount has not been set-off or settled as contemplated under the 2019 Note Purchase Agreement) payable to the 2016 Creditors (as defined below) in relation to the 2016 Indebtedness.

For the purpose of the paragraph headed "EQUITY-LINKED AGREEMENT" above and the paragraphs headed "REDEMPTION OF 2016 SENIOR NOTES" and "ISSUE OF SUBSCRIPTION SHARES" below, the defined terms used therein shall have the following meanings:

"2016 Creditors"	means all creditors who are entitled to any payment under the transaction documents in connection with the issue by the Company of the 2016 Senior Notes and the 2016 Warrants, including the 2016 Noteholders;
"2016 Indebtedness"	means all outstanding indebtedness incurred by the 2016 Obligors under the transaction documents in connection with the issue by the Company of the 2016 Senior Notes and the 2016 Warrants (including the 2016 Note Indebtedness but excluding the 2016 Warrants Indebtedness) as at 22 September 2019;
"2016 Noteholders"	means all registered holders of the outstanding 2016 Senior Notes as at 22 September 2019;

"2016 Note Indebtedness"	means all outstanding indebtedness incurred by the 2016 Obligors under the 2016 Senior Notes as at 22 September 2019;
"2016 Obligors"	means the parties to the transaction documents in connection with the issue by the Company of the 2016 Senior Notes and the 2016 Warrants, other than the 2016 Noteholders, BNY HK, the other 2016 Creditors and ABCI Securities Company Limited;
"2016 Senior Notes"	the senior secured guaranteed notes in the aggregate principal amount of up to US$500,000,000 due 2019 issued by the Company as constituted by the note certificates and the terms and conditions in relation thereto (as amended and supplemented from time to time), further details of which are set out in the announcements of the Company dated 3 August 2016, 23 September 2016, 11 October 2016 and 2 August 2019, and the circular of the Company dated 23 September 2016;
"2016 Warrant Instrument"	the warrant instrument dated 14 October 2016 executed by way of a deed poll by the Company in relation to the 2016 Warrants;
"2016 Warrants"	the warrants with an aggregate amount of exercise moneys of up to US$75,000,000 of the Company which entitle holders thereof to subscribe for Shares at the initial strike price of HK$1.9995 (as adjusted from time to time in accordance with the 2016 Warrant Instrument) with the current adjusted strike price of HK$1.79, as constituted by the 2016 Warrant Instrument and warrant certificates issued to all registered holders of the outstanding 2016 Warrants as at 22 September 2019, further details of which are set out in the announcements of the Company dated 3 August 2016, 22 August 2016, 23 September 2016, 11 October 2016, 14 November 2016 and 9 January 2019 and the circular of the Company dated 23 September 2016; and
"2016 Warrants Indebtedness"	all amounts payable to all registered holders of the outstanding 2016 Warrants as at 22 September 2019 under the 2016 Warrant Instrument as at 22 September 2019.

Save as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during FY2019 or subsisted at the end of FY2019.

REDEMPTION OF 2016 SENIOR NOTES

On 2 August 2019, the Company, Rong De, the Ultimate Shareholders, the 2016 Obligors (as defined above), Blooming Rose, Heroic Day and CCB (together with Blooming Rose and Heroic Day, collectively constituting the 2016 Noteholders (as defined above) holding at least 85% of the 2016 Senior Notes (as defined above)), entered into an amendment deed to amend and supplement the terms and conditions attached to the certificates of the 2016 Senior Notes (as defined above), to the effect that with effect from 3 August 2019, (i) the maturity date of the first tranche of the 2016 Senior Notes issued by the Company has been extended from 3 August 2019 to 22 September 2019, so that the entire 2016 Senior Notes issued (consisting of two tranches in aggregate) will mature on 22 September 2019; and (ii) the Company may effect the voluntary redemption of the 2016 Senior Notes in full on giving three business days' notice (instead of giving not less than three months' notice) to the 2016 Noteholders.

On 22 September 2019, the Company fully redeemed the 2016 Senior Notes after having repaid the entire outstanding principal amount of the 2016 Senior Notes of US$410,000,000 (equivalent to approximately HK$3,198,000,000) with the proceeds from the issue of the 2019 Senior Notes. The 2016 Senior Notes were cancelled after their full redemption by the Company on 22 September 2019. As at 31 December 2019, none of the 2016 Senior Notes remained outstanding and all of the share charges and guarantees created to secure the payment obligations under the 2016 Senior Notes had been released. None of the 2016 Warrants was exercised during FY2019 and all of them have expired as at 31 December 2019.

ISSUE OF SUBSCRIPTION SHARES

On 26 November 2018, the Company entered into a subscription agreement ("Subscription Agreement") with Rong De (the controlling shareholder of the Company). In particular. Mr. Chu Hing Tsung, being the Chairman and an executive Director, is the beneficial owner of 34.06% equity interest in Rong De. Mr. Liao Tengjia, being the Deputy Chairman and an executive Director, is the sole director of Rong De and the beneficial owner of 36.00% equity interest in Rong De. Mr. Chu Muk Chi, being an executive Director, is the beneficial owner of 29.94% equity interest in Rong De. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and Rong De has conditionally agreed to subscribe for, 770,000,000 new Shares ("Subscription Shares", each a "Subscription Share") at the price ("Subscription Price") of HK$1.30 per Subscription Share ("Subscription"). The aggregate nominal value of the Subscription Shares is approximately HK$77 million. The Subscription Price represents: (i) a discount of approximately 6.5% over the closing price of HK$1.39 per Share as quoted on the Stock Exchange on 23 November 2018 ("Last Trading Day"); (ii) a discount of approximately 7.8% over the average closing price per Share of HK$1.41 for the last five consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 9.1% over the average closing price per Share of HK$1.43 for the last 10 consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 60.5% over the audited net asset value per Share of the Company of approximately HK$0.81 as at 31 December 2017.

Completion of the Subscription was conditional upon the following conditions precedent:

(i) the passing of the resolution(s) at the special general meeting of the Company by the independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the specific mandate for the allotment and issue of the Subscription Shares to the Directors;

(ii) the holders of the 2016 Senior Notes (as defined above) and the 2017 Senior Notes having provided their written consent to the Subscription Agreement;

(iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Subscription Shares; and

(iv) in addition to conditions (ii) and (iii) above, the Company having obtained each necessary consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver (including but not limited to those provided by the Hong Kong Securities and Futures Commission, the Stock Exchange or any other third party (if applicable)) in relation to the Subscription Agreement and/or the transactions contemplated hereunder, and such consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver not having been revoked or withdrawn.

The Subscription represents a good opportunity for the Group to raise funds to strengthen its capital base and financial position and to support the development of its existing property development business which is a capital-intensive business.

After all the conditions precedent as set out above have been fulfilled, completion of the Subscription took place on 2 January 2019, upon which 770,000,000 Shares have been successfully subscribed by Rong De at the Subscription Price of HK$1.30 per Subscription Share. The Company received total consideration of HK$1,001 million and total net proceeds of approximately HK$1,000.5 million, which were intended to be used by the Group for repaying its bank and other borrowings. The net subscription price of each Subscription Share is approximately HK$1.30. During FY2019, the Company utilised the total net proceeds in the amount of HK$1,000.5 million to settle its bank and other borrowings as intended.

Details of the Subscription are set out in the announcements of the Company dated 26 November 2018 and 2 January 2019 and the circular of the Company dated 12 December 2018.

2017 SENIOR NOTES

The conditional note purchase agreement dated 30 November 2017 ("2017 Note Purchase Agreement") (as amended and supplemented by a consent letter dated 22 January 2020 ("Consent Letter") entered into among the Company, Rong De, China Huarong Macau (HK) Investment Holdings Limited ("China Huarong Macau") and the Ultimate Shareholders) was entered into among (a) the Company as the issuer; (b) Rong De as the controlling Shareholder; (c) China Huarong Macau as first tranche investor; and (d) the Ultimate Shareholders as personal guarantors, pursuant to which the Company shall conditionally agree to issue to China Huarong Macau (as the first tranche investor) and any other person(s) (including if agreed by China Huarong Macau) being persons not connected persons of the Company who shall purchase the second tranche of the 2017 Senior Notes (as defined below) at the closing of the issue and purchase of the second tranche of the 2017 Senior Notes (as the second tranche investor), in two tranches, the senior secured guaranteed notes ("2017 Senior Notes") of an aggregate principal amount of up to US$80,000,000 (equivalent to approximately HK$624,000,000), further details of which are set out in the announcements of the Company dated 30 November 2017 and 22 January 2020.

Pursuant to the 2017 Note Purchase Agreement, Rong De was required to execute a share charge in favour of China Huarong Macau in respect of 100,000,000 Shares beneficially held by Rong De ("2017 Share Charge"), and each of the Ultimate Shareholders was required to enter into a personal guarantee in favour of China Huarong Macau in relation to the 2017 Senior Notes (collectively, the "2017 Guarantees"). The 2017 Share Charge, which subsisted during FY2019 and as at the date of this annual report, is discloseable pursuant to Rule 13.17 of the Listing Rules. The 2017 Guarantees subsisted during FY2019 and as at the date of this annual report.

The conditions of the 2017 Senior Notes, which subsisted during FY2019 and as at the date of this annual report, also contain certain specific performance obligations on Rong De (the controlling Shareholder) and the Ultimate Shareholders, which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

It is an event of default under the conditions of the 2017 Senior Notes, if, amongst others:

(i) the Ultimate Shareholders cease to (a) control the Company; or (b) legally and beneficially own in aggregate at least 51% of the total issued share capital of the Company on a fully-diluted basis;

(ii) the Ultimate Shareholders cease to (a) control Rong De; or (b) legally and beneficially own in aggregate at least 70% of the total issued share capital of Rong De on a fully-diluted basis;

(iii) Rong De ceases to (a) control the Company; or (b) beneficially own at least 51% of the total issued share capital of the Company on a fully-diluted basis; and

(iv) any of the Ultimate Shareholders:

(a) dies or is incapacitated or prevented by reason of mental or physical ill health, injury or accident from performing his duties as a Director;

(b) becomes of unsound mind, or is or becomes a patient for any purpose of any law relating to mental health;

(c) becomes bankrupt or has a receiving order made against him or makes any arrangement or composition with his creditors generally; or

(d) ceases to be a Director.

Upon the occurrence of an event of default, the 2017 Senior Notes shall become immediately due and repayable in accordance with the conditions of the 2017 Senior Notes.

The 2017 Senior Notes rank at least pari passu with all other present and future direct, secured, unconditional and unsubordinated obligations, issued, created or assumed by the Company. On 13 December 2017, the Company issued the first tranche of the 2017 Senior Notes to China Huarong Macau in the aggregate principal amount of US$50,000,000 (equivalent to approximately HK$384,900,000) due on 12 December 2019. The net proceeds, after deducting issuance costs, received by the Company from the issue of the first tranche of the 2017 Senior Notes amounted to approximately US$48,474,000 (equivalent to approximately HK$378,319,000).

The Company intended to use the proceeds from the issue of the 2017 Senior Notes for funding real estate development projects, and paying operation and construction costs of the following projects: (i) Project Zhuguang Xincheng Yujing* (珠光新城御景項目); and (ii) Project Zhuguang Tianying Junyuan* (珠光天鷹君苑項目). The Board considered that the issue of the 2017 Senior Notes represented an opportunity for the Group to raise funds for funding the above construction projects of the Group.

As at 31 December 2019, the outstanding principal amount of the first tranche of the 2017 Senior Notes amounted to US$42,000,000 (equivalent to approximately HK$327,600,000). As amended by the Consent Letter, the maturity date of the outstanding principal amount of the 2017 Senior Notes of an aggregate principal amount of US$42,000,000 (equivalent to approximately HK$327,600,000) has been extended to 12 December 2020.

As at the date of this report, all outstanding 2017 Senior Notes in the principal amount of US$42,000,000 (equivalent to approximately HK$327,600,000) have been redeemed.

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CCBIS MARGIN LOAN

On 25 October 2018, Splendid Reach Limited ("Splendid"), a wholly-owned subsidiary of the Company, as borrower, and CCB International Securities Limited (建銀國際證券有限公司) ("CCBIS"), as lender, entered into a margin loan confirmation ("CCBIS Margin Loan Confirmation") (as amended and supplemented by an amendment and restatement deed dated 24 April 2019 entered into between Splendid and CCBIS and a second amendment and restatement deed dated 1 November 2019 entered into between Splendid and CCBIS), under which CCBIS agreed to make available to Splendid a margin loan ("CCBIS Margin Loan") over the term ("Term") commencing from (and including) the first drawdown date of the CCBIS Margin Loan ("First Drawdown Date") and maturing on 30 October 2020 (provided that if such date does not fall on a business day, then the next business day) ("Maturity Date"), in the principal amount of up to HK$750,000,000 (for the first five business days of the Term), HK$550,000,000 (from and including the sixth (6th) business day of the Term to 29 April 2019), HK$510,000,000 (from and including 30 April 2019 to 30 May 2019), HK$490,000,000 (from and including 31 May 2019 to 30 July 2019), HK$450,000,000 (from and including 31 July 2019 to 30 October 2019), HK$430,000,000 (from and including 31 October 2019 to 30 January 2020), HK$400,000,000 (from and including 31 January 2020 to 29 April 2020) and HK$360,000,000 (from and including 30 April 2020 to the Maturity Date). The interest of the CCBIS Margin Loan which is payable quarterly, shall accrue (i) from and including the First Drawdown Date to 31 March 2019 at a simple interest rate of 7.75% per annum on the relevant outstanding principal amount of the CCBIS Margin Loan; (ii) from and including 1 April 2019 to 30 October 2019 at a simple interest rate of 9% per annum on the relevant outstanding principal amount of the CCBIS Margin Loan; and (iii) from and including 31 October 2019 up to and including the date of full principal repayment at a simple interest rate of 10% per annum on the relevant outstanding principal amount of the CCBIS Margin Loan. Further details of the CCBIS Margin Loan are set out in the announcements of the Company dated 25 October 2018 and 1 November 2019. As at 31 December 2019, the amount of HK$430,000,000 was outstanding under the CCBIS Margin Loan.

Pursuant to the CCBIS Margin Loan Confirmation, (a) Rong De (the controlling Shareholder) was required to enter into a charge dated 25 October 2018 ("SL Rong De Charge"), in favour of CCBIS, over a margin securities trading account opened by Rong De with CCBIS ("SL Rong De Account"), into which Rong De shall deposit, among other assets, no less than 100,000,000 Shares held by Rong De before the First Drawdown Date ("SL Rong De Charged Shares First Batch") and no less than 150,000,000 Shares held by Rong De on or before the 60th day of the Term ("SL Rong De Charged Shares Second Batch", together with the SL Rong De Charged Shares First Batch, collectively as the "Aggregate SL Rong De Charged Shares"); and (b) the Company, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi were required to enter into a continuing guarantee dated 25 October 2018 ("CCBIS Continuing Guarantee"), in favour of CCBIS, to guarantee the settlement of all liabilities and obligations of Splendid under the CCBIS Margin Loan. The SL Rong De Charge, which subsisted during FY2019 and as at the date of this annual report, is disclosable pursuant to Rule 13.17 of the Listing Rules. As at 31 December 2019, out of the Shares deposited by Rong De into the SL Rong De Account, 425,000,000 Shares were in relation to the CCBIS Margin Loan. The CCBIS Continuing Guarantee subsisted during FY2019 and as at the date of this annual report.

The conditions of the CCBIS Margin Loan which subsisted during FY2019 and as at the date of this annual report, also contain certain specific performance obligations on Rong De (the controlling Shareholder), which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

Under the CCBIS Margin Loan Confirmation, Splendid shall procure Rong De to:

(i) deposit the SL Rong De Charged Shares First Batch into the SL Rong De Account prior to the First Drawdown Date;

(ii) deliver the SL Rong De Charge prior to the First Drawdown Date;

(iii) deposit the SL Rong De Charged Shares Second Batch into the SL Rong De Account on or before the 60th day of the Term;

(iv) maintain its deposit of the Aggregate SL Rong De Charged Shares in the SL Rong De Account, and shall procure Rong De not to charge, mortgage, pledge, or otherwise permit any encumbrance to be created over the Aggregate SL Rong De Charged Shares (other than the encumbrance created pursuant to the SL Rong De Charge or otherwise agreed by CCBIS);

(v) not to apply for registration as a non-Hong Kong company pursuant to Part 16 of the Companies Ordinance without having obtained the prior written consent of CCBIS;

(vi) in the event that Rong De has obtained the prior written consent to apply for registration as a non-Hong Kong Company as set out in (v) above, Rong De shall procure that the prescribed particular of the SL Rong De Account together with the SL Rong De Charge be delivered to the Companies Registry of Hong Kong for the registration of the SL Rong De Charge and promptly deliver the certificate of such registration of the SL Rong De Charge to CCBIS;

(vii) promptly after execution of the SL Rong De Charge, instruct its registered agent to enter particulars as required by the BVI Business Companies Act 2004 of the British Virgin Islands ("BVI Act"), as amended, of the security created pursuant to the SL Rong De Charge in the Rong De's Register of Charges ("Rong De Register of Charges");

(viii) enter particulars as required by the BVI Act of the security created pursuant to the SL Rong De Charge in the Rong De Register of Charges and, immediately after entry of such particulars have been made, provide CCBIS with a certified true copy of the updated Rong De Register of Charges;

(ix) effect registration, or assist CCBIS in effecting registration, of the SL Rong De Charge with the Registrar of Corporate Affairs pursuant to the BVI Act; and

(x) immediately on receipt, deliver or procure to be delivered to CCBIS, the certificate of registration of charge issued by the Registrar of Corporate Affairs evidencing that the requirements of Part VIII of the BVI Act as to registration have been complied with and the filed stamped copy of the application containing the relevant particulars of charge.

A breach of any of the above acts by Rong De shall constitute an event of default, which shall cause the CCBIS Margin Loan to become immediately due and repayable in accordance with the conditions of the CCBIS Margin Loan.

REPAYMENT OF CINDA TERM LOAN FACILITY

During FY2019, Splendid, a wholly-owned subsidiary of the Company, fully repaid all the principal and interest outstanding under the term loan facility in the aggregate amount of HK$500,000,000, at the interest rate of 12% per annum ("Cinda Term Loan Facility") to Cinda. As at 31 December 2019, all of the share charges and guarantees created to secure the payment obligations under the Cinda Term Loan Facility had been released.

MAJOR CUSTOMERS AND SUPPLIERS

For FY2019, the Group's revenue attributable to the Group's largest and five largest customers was approximately 26% and 36%, respectively. For FY2019, purchases from the Group's five largest suppliers accounted for less than 30% of total purchases of the Group.

Save as disclosed in note 42 to the consolidated financial statements, none of the Directors and their close associates or any Shareholder (who, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had interest in the above customers and suppliers at any time during FY2019.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employees are one of the significant assets of the Group. The Group aims to continue establishing a caring environment for its employees and emphasises the personal development of its employees. The Group organises various social and recreational activities, including annual dinner and birthday parties, to strengthen the bonding among its employees and promote their sense of belonging. During FY2019, there was no material non-compliance with relevant laws and regulations that had a significant impact on the Group relating to the compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare with respect to its employees.

The Group understands that it is important to maintain good relationships with its customers and provide its products in a way that satisfies the needs and requirements of its customers. The Group enhances its customer relationships by continuous interaction with its customers to gain an insight on the changing market demand so that the Group can respond proactively. The Group has also established procedures for handling customers' complaints to ensure complaints from customers are dealt with in a prompt and timely manner. Because of its business nature, the Group does not rely on any major customers and no credit terms are granted to them.

The Group is also dedicated to developing good relationships with its suppliers and contractors as long-term business partners to ensure stability of its business. The Group reinforces business partnerships with its suppliers and contractors by ongoing communication with them in a proactive and effective manner so as to ensure the quality and timely delivery of their products and services.

DIRECTORS

During FY2019 and as at the date of this annual report, the Board comprises six executive Directors, namely Mr. Chu Hing Tsung, who is also the Chairman, Mr. Liu Jie, who is also the Chief Executive Director, Mr. Liao Tengjia, who is also a Deputy Chairman, Mr. Huang Jiajue, who is also a Deputy Chairman, Mr. Chu Muk Chi and Ms. Ye Lixia, and three independent non-executive Directors, namely Mr. Leung Wo Ping *JP*, Mr. Wong Chi Keung and Dr. Feng Ke.

Mr. Liu Jie, Mr. Chu Muk Chi and Mr. Leung Wo Ping *JP* will retire from office by rotation at the forthcoming annual general meeting in accordance with Bye-Law No. 87 of the Bye-Laws and, being eligible, will offer themselves for re-election.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, there were changes in the information required to be disclosed in accordance with paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules in the course of the Directors' term of office.

Mr. Huang Jiajue, a Deputy Chairman and an executive Director, has been appointed as the chief executive officer of Silver Grant with effect from 2 September 2019.

Mr. Wong Chi Keung, an independent non-executive Director, ceased to act as an independent non-executive director of Nickel Resources International Holdings Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 2889 and subsequently withdrawn from listing from 9:00 a.m. on 14 February 2020) with effect from 21 February 2020. Mr. Wong Chi Keung continues to be an independent non-executive director of TPV Technology Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0903 and subsequently withdrawn from listing from 4:00 p.m. on 14 November 2019).

Save as aforesaid, the Company has not been advised by the Directors of any change in the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since its last update to the Shareholders.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or subsisted during FY2019.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a letter of appointment with no fixed term of service with the Company. Such letter of appointment can be terminated by either party giving three months' written notice.

None of the Directors who are being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and those of the five highest paid individuals of the Group for FY2019 are set out in notes 8 and 9 to the consolidated financial statements respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(a) As at 31 December 2019, the interests and short positions of each Director and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (ii) were required, pursuant to the Code, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares

Name of Director/ chief executive of the Company	Nature of interest	Number of Shares	Approximate percentage of total issued share capital of the Company (Note 2)
Chu Hing Tsung (alias Zhu Qing Yi)	Interest of a controlled corporation (Note 1)	4,825,791,289	67.08%
Liao Tengjia	Interest of a controlled corporation (Note 1)	4,825,791,289	67.08%
Huang Jiajue	Beneficial ownership	13,330,000	0.19%

Notes:

1. 4,825,791,289 Shares were held by Rong De, which was owned as to 34.06% by Mr. Chu Hing Tsung and as to 36.00% by Mr. Liao Tengjia. Mr. Chu Hing Tsung and Mr. Liao Tengjia were deemed to be interested in the Shares held by Rong De under the SFO. To the best knowledge of the Directors, out of the aforesaid 4,825,791,289 Shares, 425,000,000 Shares, 3,361,112,000 Shares and 100,000,000 Shares have been pledged by Rong De to CCBIS, BNY HK and China Huarong Macau respectively. Mr. Liao Tengjia is a director of Rong De.

2. The total number of the issued Shares as at 31 December 2019 (i.e. 7,194,417,247 Shares) had been used for the calculation of the approximate percentage shareholdings in the Company.

Interest in shares of the Company's associated corporation

Name of Director/ chief executive of the Company	Name of associated corporation	Capacity	Total number of ordinary shares	Approximate percentage of interest
Chu Hing Tsung (alias Zhu Qing Yi)	Rong De	Beneficial owner	68,120	34.06%
Chu Muk Chi (alias Zhu La Yi)	Rong De	Beneficial owner	59,888	29.94%
Liao Tengjia	Rong De	Beneficial owner	71,992	36.00%

(b) Save as disclosed in this annual report, as at 31 December 2019, none of the Directors or the chief executive of the Company had any interest and short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (ii) were required, pursuant to the Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

(a) On 17 December 2014, 廣州愉捷貿易有限公司 (Guangzhou Yujie Trading Company Limited*), a wholly-owned subsidiary of the Company as purchaser, conditionally entered into 50 preliminary sale and purchase agreements ("SP Agreements") with 廣州黃沙鐵路房地產開發有限公司 (Guangzhou Huangsha Railway Real Property Development Company Limited*), an independent third party, as vendor ("Vendor"), in relation to the acquisition of 50 properties ("Acquired Properties") in Guangzhou, the PRC, jointly developed by 廣州珠光投資有限公司 (Guangzhou Zhuguang Investment Company Limited*) ("GZ Investment"), a related party of the Group and an independent third party, at the consideration of RMB1,106,820,000 (equivalent to approximately HK$1,403,881,000) which shall be settled by cash ("Project"). GZ Investment is entitled to 75% of the distributable interests ("Right") under the Project and the income derived therefrom. In November 2014, Mr. Chu Hing Tsung, the Chairman and an executive Director, has acquired from GZ Investment, at the consideration of RMB760,000,000 (equivalent to approximately HK$963,978,000), part of the Right ("Acquired Right"), pursuant to which he is entitled to request the Vendor to transfer three of the buildings ("Phase I Buildings") in relation to phase I of the Project to him, or alternatively he is entitled to the sale proceeds of the Phase I Buildings if he requests the Vendor to sell the Phase I Buildings for him. The Acquired Properties are part of the underlying interest in the Acquired Right. The SP Agreements subsisted during FY2019. For details of the SP Agreements, please refer to the circular of the Company dated 5 March 2015.

(b) On 29 October 2018, the Company issued perpetual capital securities ("Perpetual Securities") in the aggregate principal of HK$800,000,000 at a distribution rate of 6% per annum to Rong De (the controlling shareholder of the Company), which is beneficially owned as to 36.00% by Mr. Liao Tengjia, 34.06% by Mr. Chu Hing Tsung and 29.94% by Mr. Chu Muk Chi, each being an executive Director. The Perpetual Securities have no fixed redemption date and are redeemable at the option of the Company at any time and from time to time, whether in whole or in part, at any time after its issue. While distribution is payable by the Company every six months, the Company may, at its sole discretion, elect to defer, in whole or in part, any distribution (including any arrears of distribution) to the next distribution payment date. The proceeds from the issue of the Perpetual Securities were used for financing the corporate funding requirement of the Group. The Perpetual Securities subsisted during FY2019.

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Save as disclosed above and under the paragraphs headed "EQUITY-LINKED AGREEMENT", "ISSUE OF SUBSCRIPTION SHARES", "2017 SENIOR NOTES", "CCBIS MARGIN LOAN" and "CONNECTED TRANSACTION" in this directors' report and in note 42 to the consolidated financial statements, no other transactions, arrangements and contracts of significance to which the Company or any of its subsidiaries or its holding company was a party and in which a Director or any entity connected with a Director had a material interest, either directly or indirectly, subsisted at the end of FY2019 or at any time during FY2019.

Save as disclosed under the paragraph headed "ISSUE OF SUBSCRIPTION SHARES" in this directors' report, no other arrangements to which the Company or any of its subsidiaries or its holding company was a party and whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, subsisted at the end of FY2019 or at any time during FY2019.

COMPETING INTERESTS

Pursuant to Rule 8.10 of the Listing Rules, during FY2019 and as at 31 December 2019, Mr. Liao Tengjia and Mr. Huang Jiajue, both being executive Directors, were interested as directors in companies that are engaged in the businesses of property development, investment and property rental in the PRC ("Competing Businesses"). As such, they were regarded as being interested in such Competing Businesses, which competed or might compete with the Group. However, as the above Directors cannot control the Board, and a Director who has material interest in a subject matter to be resolved will abstain from voting in the Board meeting concerned, the interests of the above Directors in the Competing Businesses will not prejudice their capacity as Directors nor compromise the interests of the Group and the Shareholders.

Other than as disclosed above, none of the Directors or any of their respective associates of the Company was interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the Company's business.

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

(a) As at 31 December 2019, so far as it is known to the Directors or the chief executive of the Company, the following persons, other than a Director or the chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and were required to be kept under section 336 of the SFO:

Interests of substantial Shareholders

Name of Shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
Rong De (Note 1)	Beneficial owner	4,825,791,289 (L)	67.08%	—	—

Interests of other persons

Name of Shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
CCBIS (Note 1)	Security interest	425,000,000 (L)	5.91%	–	–
China Great Wall Asset Management Corporation ("CGWAMC") (Note 2)	Interest of controlled corporations	1,200,000,000 (L)	16.68%	–	–
Central Huijin Investment Limited ("Central Huijin") (Notes 3 and 4)	Interest of controlled corporations	–	–	50,718,355 (L)	0.70%
	Security interest	3,361,112,000 (L)	46.72%	–	–
Agricultural Bank of China Limited ("ABCL") (Note 3)	Interest of controlled corporations	–	–	50,718,355 (L)	0.70%
	Security interest	3,361,112,000 (L)	46.72%	–	–
Ministry of Finance of the People's Republic of China ("MOF") (Note 3)	Interest of controlled corporations	–	–	50,718,355 (L)	0.70%
	Security interest	3,361,112,000 (L)	46.72%	–	–
China Construction Bank Corporation ("CCB") (Note 4)	Interest of controlled corporations	–	–	19,608,938 (L)	0.27%
	Security interest	3,361,112,000 (L)	46.72%	–	–

DIRECTORS' REPORT

Name of Shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
The Bank of New York Mellon Corporation ("BNY") (Note 5)	Interest of a controlled corporation	3,361,788,000 (L)	46.73%	–	–
China Orient Asset Management Co., Ltd. ("COAM") (Note 6)	Interest of controlled corporations	3,361,112,000 (L)	46.72%	144,909,586 (S)	2.01%
Cheung Fong Wing (Note 7)	Interest of a controlled corporation	418,500,000 (L)	5.82%	–	–
Quan Xing Holdings Limited ("Quan Xing") (Note 7)	Beneficial owner	418,500,000 (L)	5.82%	–	–
中國華融資產管理股份有限公司 ("CHAMCL") (Note 8)	Interest of controlled corporations	320,216,000 (L)	4.45%	–	–
	Security interest	1,321,000,000 (L)	18.36%	–	–
China Cinda Asset Management Co., Ltd. ("CCAM") (Note 9)	Interest of controlled corporations	3,361,112,000(L)	46.72%	86,221,203 (L)	1.20%

(L) Long position
(S) Short position

Notes:

1. The Shares comprised the 4,825,791,289 Shares beneficially owned by Rong De as stated under "Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures — Long position in the Shares". To the best knowledge of the Directors, out of the aforesaid 4,825,791,289 Shares, 425,000,000 Shares, 3,361,112,000 Shares and 100,000,000 Shares have been pledged by Rong De to CCBIS, BNY HK and China Huarong Macau respectively. Mr. Liao Tengjia is a director of Rong De.

2. According to the disclosure of interest notice filed by CGWAMC on 17 July 2014, Evergreat Prosper Limited held direct interest in the Shares and is a wholly-owned subsidiary of Great Wall Pan Asia International Investment Company Limited ("GWPAIICL"). GWPAIICL is a wholly-owned subsidiary of CGWAMC. Accordingly, GWPAIICL and CGWAMC are deemed to be interested in the Shares held by Evergreat Prosper Limited by virtue of the provisions of the SFO.

3. According to the disclosure of interest notices filed by ABCL and Heroic Day on 15 October 2019, Heroic Day held direct interest in 3,361,112,000 Shares and 50,718,355 underlying Shares. Heroic Day is a wholly-owned subsidiary of ABCI Investment Management Limited ("ABCIIM"). ABCIIM is a wholly-owned subsidiary of ABC International Holdings Limited ("ABCIH"). ABCIH is a wholly-owned subsidiary of ABCL. According to the disclosure of interest notice filed by Central Huijin on 16 October 2019 and MOF on 15 October 2019, ABCL is in turn owned as to 40.03% by Central Huijin and as to 35.29% by MOF. Accordingly, ABCIIM, ABCIH, ABCL, Central Huijin and MOF are deemed to be interested in the Shares and the underlying Shares held by Heroic Day by virtue of the provisions of the SFO.

4. According to the disclosure of interest notice filed by CCB on 27 September 2019, CCB International Overseas Limited ("CCBIO") held direct interest in 3,361,112,000 Shares and 19,608,938 underlying Shares, and is a wholly-owned subsidiary of CCB International (Holdings) Limited ("CCBIH"). CCBIH is a wholly-owned subsidiary of CCB Financial Holdings Limited ("CCBFH"). CCBFH is a wholly-owned subsidiary of CCB International Group Holdings Limited ("CCBIG"). CCBIG is a wholly-owned subsidiary of CCB. According to the disclosure of interest notice filed by Central Huijin on 16 October 2019, CCB is owned as to 57.11% by Central Huijin. Accordingly, CCBIH, CCBFH, CCBIG, CCB and Central Huijin are deemed to be interested in the Shares and the underlying Shares held by CCBIO by virtue of the provisions of the SFO.

5. According to the disclosure of interest notice filed by BNY on 24 September 2019, the Bank of New York Mellon held direct interest in 3,361,788,000 Shares and a lending pool of 588,000 Shares, and is wholly-owned by BNY. Accordingly, BNY is deemed to be interested in the Shares held by the Bank of New York Mellon by virtue of the provisions of the SFO.

6. According to the disclosure of interest notice filed by COAM on 28 November 2019, Blooming Rose held direct interest in 3,361,112,000 Shares and short positions in 144,909,586 underlying Shares, and is a wholly-owned subsidiary of China Orient Asset Management (International) Holding Limited ("COAM International"). COAM International is held as to 50% by Wise Leader Assets Ltd ("Wise Leader") and as to 50% by Dong Yin Development (Holdings) Limited ("Dong Yin"). Wise Leader is held as to 100% by Dong Yin and Dong Yin is a wholly-owned subsidiary of COAM. Accordingly, COAM International, Wise Leader, Dong Yin and COAM are deemed to be interested in the Shares and the underlying Shares held by Blooming Rose by virtue of the provisions of the SFO.

7. According to the disclosure of interest notice filed by Quan Xing on 25 April 2019, Quan Xing, which is wholly-owned by Mr. Cheung Fong Wing, was the beneficial owner of 418,500,000 Shares. Accordingly, Mr. Cheung Fong Wing is deemed to be interested in the Shares held by Quan Xing by virtue of the provisions of the SFO.

8. According to the disclosure of interest notice filed by CHAMCL on 6 December 2019 ("CHAMCL Notice"), CHAMCL held direct interest in 1,321,000,000 Shares. In addition, Beyond Steady Limited ("Beyond Steady"), a wholly-owned subsidiary of Linewear Assets Limited ("Linewear"), held direct interest in 220,216,000 Shares. Linewear is a wholly-owned subsidiary of Huarong International Financial Holdings Limited ("Huarong International"). Huarong International is held as to 51% by Camellia Pacific Investment Holding Limited ("Camellia Pacific"), which in turn is a wholly-owned subsidiary of China Huarong International Holdings Limited ("CHIH"). CHIH is held as to 11.90% by Huarong Zhiyuan Investment & Management Co., Ltd. ("HZY") and as to 88.10% by Huarong Real Estate Co., Ltd. ("HRE"). Each of HZY and HRE is a wholly-owned subsidiary of CHAMCL. Accordingly, Linewear, Huarong International, Camellia Pacific, CHIH, HZY, HRE and CHAMCL are deemed to be interested in the Shares held by Beyond Steady by virtue of the provisions of the SFO. According to the CHAMCL Notice, China Huarong Macau held direct interest in 100,000,000 Shares and is a wholly-owned subsidiary of 中國華融(澳門)國際股份有限公司 ("Huarong Macau"). Huarong Macau is owned as to 51% by Huarong (HK) Industrial and Financial Investment Limited ("Huarong HK"), which is a wholly-owned subsidiary of HRE. Accordingly, Huarong Macau, Huarong HK, HRE and CHAMCL are deemed to be interested in the Shares held by China Huarong Macau by virtue of the provisions of the SFO.

9. According to the disclosure of interest notice filed by CCAM on 29 November 2019, Cinda held direct interest in 3,361,112,000 Shares and 86,221,203 underlying Shares, and is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited ("CCHK"), which is in turn wholly-owned by CCAM. Accordingly, CCHK and CCAM are deemed to be interested in the Shares and the underlying Shares held by Cinda by virtue of the provisions of the SFO.

10. The total number of issued Shares as at 31 December 2019 (i.e. 7,194,417,247 Shares) had been used for the calculation of the approximate percentage shareholdings in the Company.

(b) Save as disclosed above, the Directors and the chief executive officer of the Company are not aware of any other persons (not being Directors or chief executive of the Company) as at 31 December 2019, who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and were required to be kept under section 336 of the SFO.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

CONNECTED TRANSACTION

On 26 November 2018, the Company entered into the Subscription Agreement with Rong De, being the controlling shareholder of the Company. In particular. Mr. Chu Hing Tsung, being the Chairman and an executive Director, is the beneficial owner of 34.06% equity interest in Rong De. Mr. Liao Tengjia, being the Deputy Chairman and an executive Director, is the sole director of Rong De and the beneficial owner of 36.00% equity interest in Rong De. Mr. Chu Muk Chi, being an executive Director, is the beneficial owner of 29.94% equity interest in Rong De. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and Rong De has conditionally agreed to subscribe for, 770,000,000 new Shares at HK$1.30 per Subscription Share. The Company received total consideration of HK$1,001 million and total net proceeds of approximately HK$1,000.5 million from the Subscription. Taking into consideration that Rong De is the controlling shareholder of the Company which is a connected person of the Company, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The Subscription has been approved by the independent Shareholders at a special general meeting of the Company held on 31 December 2018. Completion of the Subscription took place on 2 January 2019 and 770,000,000 Shares were issued to Rong De at the Subscription Price of HK$1.30 per Subscription Share.

The Subscription represents a good opportunity for the Group to raise funds to strengthen its capital base and financial position and to support the development of its existing property development business which is a capital-intensive business.

Save for the connected transaction disclosed above, and the execution of guarantees by certain Directors and the execution of share charges by Rong De as mentioned in the paragraphs headed "EQUITY-LINKED AGREEMENT", "2017 SENIOR NOTES" and "CCBIS MARGIN LOAN" in this directors' report, none of the related party transactions as set out in note 42 to the consolidated financial statements falls under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company confirms that it complied with the disclosure requirements (if any) in accordance with Chapter 14A of the Listing Rules during FY2019.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-Laws or the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during FY2019.

MANAGEMENT DISCUSSION AND ANALYSIS

A management discussion and analysis of the Group's annual results is shown on pages 8 to 25.

CORPORATE GOVERNANCE REPORT

A corporate governance report of the Group is shown on pages 69 to 88.

AUDIT COMMITTEE

During FY2019 and as at the date of this annual report, the Audit Committee comprises three independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Company's audited results for FY2019, and discussed with the management regarding audit, internal control and financial reporting matters.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules during FY2019 and up to the date of this annual report.

AUDITOR

PricewaterhouseCoopers has resigned as the auditor of the Company with effect from 23 November 2018. At the special general meeting of the Company held on 21 December 2018, Ernst & Young was appointed as the auditor of the Company.

Ernst & Young will retire, and being eligible, offer itself for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Ernst & Young as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board
Chu Hing Tsung
Chairman

Hong Kong, 8 May 2020

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Zhuguang Holdings Group Company Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Zhuguang Holdings Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 121 to 223, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 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"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment assessment on deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects</td></tr>
<tr><td>As at 31 December 2019, the Group had deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects with an aggregate carrying amount of approximately HK$11,889 million.

Management assessed the feasibility of these property development projects and recoverability of these balances by considering a number of factors, including but not limited to (i) the possibility of obtaining land titles of the entire property development areas for the intended purposes; (ii) creditworthiness of the counterparties, majority of which are related parties of the Group; and (iii) past collection history. Impairment arises where events or changes in circumstances indicate that the balance may not be collectible.

Management judgements and estimates were made in relation to the recoverability of the Group's deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects.

We identified this as a key audit matter due to the materiality of the balance of the deposits and other receivables to the consolidated financial statements of the Group and there was critical judgement involved in determining the assumptions and estimates used in the impairment assessment and provision for expected credit losses.

Related disclosures are included in notes 2.4, 3 and 23 to the consolidated financial statements.</td><td>We understood, evaluated and tested the internal control over management's assessment procedures over impairment on deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects.

We evaluated management's assessment on recoverability or expected credit losses of the balances by performing the following procedures:

• We assessed the likelihood of obtaining commercial or residential land titles by enquiring management on the status of these projects. We obtained and examined the relevant supporting documents, including but not limited to the sale and purchase agreements, bank remittance advices, bank statements, original certificates of land use rights owned by the counterparties, development plans, correspondence with the counterparties and the relevant documentation of internal meetings, if applicable;

• We performed background research of these counterparties, and tested on a sample basis the accuracy of the ageing profile of these deposits and other receivables by checking to the underlying payment correspondence;

• We reviewed the past collection history from these counterparties to the Group by checking the supporting documents, including bank remittance advices and bank statements, on a sample basis;

• We reviewed the profitability analysis prepared by management for these projects to assess the recoverability of the deposits and other receivables;

• We involved our internal specialists to assist us to assess the provision for expected credit losses on the deposits and other receivables recognised by the Group; and

• We assessed the adequacy of the disclosures regarding the provision for expected credit losses in the consolidated financial statements.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of other receivables at fair value through profit or loss	
As at 31 December 2019, the Group had other receivables of approximately HK$3,871 million (the "Other Receivables"), representing 11% of the total assets of the Group, in respect of the funds provided for property project development in the People's Republic of China. Pursuant to the relevant project management service agreements, the Group agreed to provide funds and management services to certain property development projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funds provided and a variable bonus which is determined with reference to the operating performance of the projects. The Group has measured the Other Receivables at fair value through profit or loss under Hong Kong Financial Reporting Standard 9 *Financial Instruments* ("HKFRS 9"). Significant estimates were required by management in relation to the fair value measurement of the Other Receivables. We identified this as a key audit matter because the carrying amount of the Other Receivables was significant to the Group, and significant estimations were involved in determining the fair values of the Other Receivables. Related disclosures are included in notes 2.4, 3 and 24 to the consolidated financial statements.	We discussed with management to understand the nature and background of the projects involved. We obtained profitability assessment of projects and evaluated the underlying assumptions, methodologies and inputs used in the estimation. We examined the title documents of land and other project development documents of the underlying projects. We performed site visits to evaluate the status of work and the existence of the projects. We evaluated the objectivity, independence and competence of the external valuer engaged by the management of the Group and we also involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions and parameters adopted in the valuation.

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
As at 31 December 2019, the Group held investment properties with an aggregate carrying amount of approximately HK$4,710 million. The carrying amount of the investment properties represented 13% of the total assets of the Group as at 31 December 2019. The Group engaged an external valuer to determine the fair value of the investment properties at the end of the reporting period. We identified this as a key audit matter because the carrying amount of the investment properties was significant to the Group and significant estimations were involved in determining the fair value of the investment properties. The determination of the valuation models adopted also involved significant judgements. Related disclosures are included in notes 2.4, 3 and 14 to the consolidated financial statements.	We evaluated the objectivity, independence and competency of the external valuer engaged by management. We also involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions, methodologies and parameters adopted in the valuation, on a sample basis. Our internal valuation specialists independently re-performed the valuation based on the market price, market rents, term yields, reversion yields and development profit of the properties located in the adjacent locations. We reviewed management's development plans and budgets with reference to statistics for estimated construction costs and signed construction contracts. We compared the valuations performed by the external valuer to the range of valuations provided by our internal valuation specialists. We further assessed the correctness of the property-related data used as inputs for the valuation. We conducted site visits to investment properties under construction to observe the development. We also assessed the adequacy of the disclosures of the valuation of the investment properties in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Purchase price allocation for acquisition of an associate	
During the year ended 31 December 2018, the Group acquired 29.56% of equity interest in an associate, Silver Grant International Holdings Group Limited ("Silver Grant"), for an aggregate cash consideration of approximately HK$2,058 million. In the prior year, the fair values of the identifiable assets and liabilities of Silver Grant and its subsidiaries (collectively the "Silver Grant Group") at the completion date for initial accounting purposes were determined on a provisional basis as the Group was in the process of completing the valuations. In the current year, the fair values of the identifiable assets and liabilities of the Silver Grant Group at the completion date of the acquisition were adjusted retrospectively upon the completion of the valuations. Goodwill amounting to HK$268 million has arisen from the acquisition. Management accounted for the associate using the equity method of accounting and has exercised significant judgement in the estimation of the fair values of the identifiable assets and liabilities. The Group engaged an external valuer to assist in the valuation of the identifiable assets and liabilities of the Silver Grant Group at the completion date of the acquisition. We identified this as a key audit matter because the aggregate consideration for acquisition of the equity interest in Silver Grant was significant to the Group and significant estimations were involved in determining the fair values of the identifiable assets and liabilities of the Silver Grant Group at the completion date of the acquisition. The determination of the valuation models adopted also involved significant judgements. Related disclosures are included in notes 2.4, 3 and 19 to the consolidated financial statements.	We obtained and reviewed the purchase price allocation schedule prepared by management. We evaluated the objectivity, independence and competency of the external valuer engaged by management. We also involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions, methodologies and parameters adopted in the valuation, on a sample basis. We compared the valuations performed by the external valuer to the range of valuations provided by our internal valuation specialists. We further assessed the correctness of the data used as inputs for the valuation. We also assessed the adequacy of the disclosures of the acquisition of the associate in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent auditor's report

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 Chow Chi Chung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
8 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**4,074,814**	2,704,796
Cost of sales		**(1,987,553)**	(1,617,009)
Gross profit		**2,087,261**	1,087,787
Fair value gain on investment properties, net	14	**384,868**	279,009
Other income and gains	5	**435,979**	468,528
Selling and marketing expenses		**(90,882)**	(84,038)
Administrative expenses		**(302,536)**	(254,078)
Other expenses		**(473,273)**	(172,087)
Change in fair value of financial assets at fair value through profit or loss		**662,507**	459,600
Share of profit/(loss) of an associate	19	**144,797**	(12,760)
PROFIT FROM OPERATIONS		**2,848,721**	1,771,961
Finance costs	6	**(1,503,924)**	(1,248,810)
PROFIT BEFORE TAX	7	**1,344,797**	523,151
Income tax expense	10	**(625,300)**	(445,299)
PROFIT FOR THE YEAR		**719,497**	77,852
Attributable to:			
Equity holders of the parent		**747,225**	4,717
Non-controlling interests		**(27,728)**	73,135
		719,497	77,852
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (HK cents per share)	12	**9.72**	(0.06)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
PROFIT FOR THE YEAR	**719,497**	77,852
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**38,512**	(379,037)
Share of other comprehensive loss of an associate	**(40,244)**	—
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(1,732)**	(379,037)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive (loss)/income of an associate	**(1,978)**	34,555
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(3,710)**	(344,482)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**715,787**	(266,630)
Attributable to:		
Equity holders of the parent	**743,070**	(337,588)
Non-controlling interests	**(27,283)**	70,958
	715,787	(266,630)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property and equipment	13	**348,513**	227,288
Investment properties	14	**4,709,808**	4,010,984
Intangible assets	15	**11,583**	54,425
Goodwill	17	**207,571**	212,218
Investment in a joint venture	18	**2,739**	2,739
Investment in an associate	19	**2,182,785**	2,080,210
Prepayments, deposits and other assets	23	**7,884,171**	—
Financial assets at fair value through profit or loss	24	**1,654,097**	3,260,545
Deferred tax assets	33	**82,736**	66,088
Total non-current assets		**17,084,003**	9,914,497
CURRENT ASSETS			
Properties under development	20	**1,704,873**	4,165,756
Completed properties held for sale	21	**5,011,693**	3,405,772
Trade and other receivables	22	**1,581,007**	1,495,739
Prepayments, deposits and other assets	23	**4,086,657**	7,571,489
Prepaid income tax		**200,644**	202,567
Financial assets at fair value through profit or loss	24	**2,284,993**	2,059,530
Restricted cash	25	**994,217**	822,606
Term deposits with initial terms of over three months	26	**2,541,890**	5,625,869
Cash and cash equivalents	27	**353,708**	544,610
Total current assets		**18,759,682**	25,893,938
CURRENT LIABILITIES			
Contract liabilities	28	**2,573,047**	2,845,669
Trade and other payables	29	**3,392,904**	3,682,758
Interest-bearing bank and other borrowings	31	**4,037,192**	9,485,319
Amounts due to the ultimate holding company	42(c)	**351,550**	24,030
Current income tax payables	32	**2,125,764**	1,919,124
Derivative financial instruments	30	**40,134**	17,964
Total current liabilities		**12,520,591**	17,974,864
NET CURRENT ASSETS		**6,239,091**	7,919,074
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,323,094**	17,833,571

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables	29	**33,239**	—
Interest-bearing bank and other borrowings	31	**14,168,825**	9,659,836
Deferred tax liabilities	33	**1,556,936**	1,325,428
Total non-current liabilities		**15,759,000**	10,985,264
Net assets		**7,564,094**	6,848,307
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	34	**719,442**	642,441
Perpetual capital securities	36	**856,416**	800,000
Reserves	35	**5,889,716**	4,279,063
Subscription monies received	34	**—**	1,001,000
		7,465,574	6,722,504
Non-controlling interests		**98,520**	125,803
Total equity		**7,564,094**	6,848,307

Chu Hing Tsung
Director

Ye Lixia
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

		Attributable to equity holders of the parent													
	Notes	Share capital HK$'000 (note 34)	Share premium HK$'000	Merger reserve HK$'000 (note 35(i))	Exchange fluctuation reserve HK$'000	Contributed surplus HK$'000 (note 35(ii))	Statutory reserve HK$'000 (note 35(iii))	Capital reserve HK$'000 (note 35(iv))	Asset revaluation reserve HK$'000	Retained profits HK$'000	Perpetual capital securities HK$'000 (note 36)	Subscription monies received HK$'000 (note 34)	Total HK$'000	Non–controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		642,441	4,640,287	(101,922)	(269,574)	239,404	6,668	–	–	127,526	–	–	5,284,830	324,442	5,609,272
Profit for the year		–	–	–	–	–	–	–	–	4,717	–	–	4,717	73,135	77,852
Other comprehensive income/(loss) for the year:															
Exchange differences on translation of foreign operations		–	–	–	(376,860)	–	–	–	–	–	–	–	(376,860)	(2,177)	(379,037)
Share of other comprehensive income of an associate		–	–	–	28,906	–	–	–	5,649	–	–	–	34,555	–	34,555
Total comprehensive income/(loss) for the year		–	–	–	(347,954)	–	–	–	5,649	4,717	–	–	(337,588)	70,958	(266,630)
Acquisition of non-controlling interests		–	–	–	–	–	–	(25,738)	–	–	–	–	(25,738)	(248,180)	(273,918)
Issuance of perpetual capital securities	36	–	–	–	–	–	–	–	–	–	800,000	–	800,000	–	800,000
Subscription monies received	34	–	–	–	–	–	–	–	–	–	–	1,001,000	1,001,000	–	1,001,000
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(21,417)	(21,417)
At 31 December 2018 and 1 January 2019		642,441	4,640,287*	(101,922)*	(617,528)*	239,404*	6,668*	(25,738)*	5,649*	132,243*	800,000	1,001,000	6,722,504	125,803	6,848,307
Profit for the year		–	–	–	–	–	–	–	–	747,225	–	–	747,225	(27,728)	719,497
Other comprehensive income/(loss) for the year:															
Exchange differences on translation of foreign operations		–	–	–	38,067	–	–	–	–	–	–	–	38,067	445	38,512
Share of other comprehensive income of an associate		–	–	–	(40,244)	–	–	–	(1,978)	–	–	–	(42,222)	–	(42,222)
Total comprehensive income/(loss) for the year		–	–	–	(2,177)	–	–	–	(1,978)	747,225	–	–	743,070	(27,283)	715,787
Issuance of shares		77,001	923,999	–	–	–	–	–	–	–	–	(1,001,000)	–	–	–
Distribution to holders of perpetual capital securities		–	–	–	–	–	–	–	–	(56,416)	56,416	–	–	–	–
At 31 December 2019		**719,442**	**5,564,286***	**(101,922)***	**(619,705)***	**239,404***	**6,668***	**(25,738)***	**3,671***	**823,052***	**856,416**	**–**	**7,465,574**	**98,520**	**7,564,094**

* These reserve accounts comprise the consolidated reserves of HK$5,889,716,000 (2018: HK$4,279,063,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,344,797**	523,151
Adjustments for:			
Finance costs	6	**1,503,924**	1,248,810
Interest income	5	**(351,264)**	(411,194)
Depreciation of property and equipment	7	**2,569**	2,717
Depreciation of right-of-use assets	7	**2,069**	—
Amortisation	7	**1,629**	4,222
Fair value gain on derivative financial instruments, net	7	**(29,137)**	(2,258)
Impairment of financial assets	7	**200,296**	45,978
Reversal of provision for claims and administrative penalties	5	**—**	(49,777)
Share of (profit)/loss of an associate		**(144,797)**	12,760
Fair value gain on investment properties, net	14	**(384,868)**	(279,009)
Change in fair value of financial assets at fair value through profit or loss		**(662,507)**	(459,600)
		1,482,711	635,800
Decrease in properties under development and completed properties held for sale		**505,005**	134,510
Increase in trade and other receivables		**(1,397,961)**	(668,062)
Increase in prepayment and other assets		**(25,073)**	(502)
Decrease in contract liabilities		**(205,051)**	(177,163)
Increase/(decrease) in trade and other payables		**527**	(142,772)
Increase in amount due to the ultimate holding company		**—**	23,150
(Increase)/decrease in restricted cash		**(22,865)**	150,933
Cash from/(used in) operations		**337,293**	(44,106)
Interest paid		**(1,494,970)**	(1,240,541)
Corporate income tax paid		**(138,522)**	(188,151)
Net cash flows used in operating activities		**(1,296,199)**	(1,472,798)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits paid for acquisition of equity interests in property development projects		**(5,079,048)**	(5,718,114)
Refund of deposits for acquisition of equity interests in property development projects		**2,510,838**	3,356,780
Repayment from related parties		**160,781**	3,744,309
Interest received		**407,281**	177,356
Acquisition of subsidiaries	37	**–**	62,078
Acquisition of an associate		**–**	(2,058,415)
Acquisition of a joint venture		**–**	(2,739)
Purchases of items of property and equipment		**(58,346)**	(113,179)
Proceeds from disposal of property and equipment		**–**	8
Additions of intangible assets	15	**(11,722)**	(458)
Additions of investment properties	14	**(244,287)**	(45,841)
Decrease/(increase) in financial assets at fair value through profit or loss		**966,374**	(1,595,266)
Decrease/(increase) in term deposits with initial terms of over three months		**2,982,127**	(2,186,679)
Increase in restricted cash		**(148,746)**	(615,954)
Net cash flows from/(used in) investing activities		**1,485,252**	(4,996,114)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other borrowings		**4,456,370**	7,310,539
Repayment of bank and other borrowings		**(4,967,699)**	(2,543,349)
Redemption of warrants		**–**	(61,743)
Principal portion of lease payments/repayment of finance lease payables		**(772)**	(658)
(Repayment to)/advances from related parties		**(177,448)**	300,444
Increase in amount due to the ultimate holding company		**327,520**	–
Acquisition of non-controlling interests		**–**	(273,918)
Proceeds from issuance of perpetual capital securities	36	**–**	800,000
Subscription monies received	34	**–**	1,001,000
Dividend paid to non-controlling shareholders		**–**	(21,417)
Net cash flows (used in)/from financing activities		**(362,029)**	6,510,898
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(172,976)**	41,986
Cash and cash equivalents at beginning of year		**544,610**	778,542
Effect of foreign exchange rate changes, net		**(17,926)**	(275,918)
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**353,708**	544,610

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1.1 CORPORATE AND GROUP INFORMATION

Zhuguang Holdings Group Company Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 1996.

During the year, the Company's principal activity was investment holding and the Company and its subsidiaries (collectively the "Group") were principally engaged in property development, property investment, property management and other property development related services in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

In the opinion of the Company's directors (the "Directors"), the holding company and the ultimate holding company of the Company is Rong De Investment Limited ("Rong De"), which is incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Equity interest attributable to the Company Direct	Equity interest attributable to the Company Indirect	Principal activities
Graceful Link Limited (愉興有限公司)	Hong Kong	HK$2	–	100%	Property investment
Diamond Crown Limited (毅冠有限公司)	Hong Kong	HK$2	–	100%	Property investment
Speedy Full Limited (速溢有限公司)	Hong Kong	HK$2	–	100%	Property investment
Xianghe County Yijing Property Development Company Limited @ ^ (香河縣逸景房地產開發有限公司)	PRC/ Mainland China	RMB148,410,100	–	100%	Property development
Guangzhou City Runfa Property Company Limited @ ^ (廣州市潤發房地產有限公司)	PRC/ Mainland China	RMB132,880,000	–	100%	Property development

1.1 CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
Guangdong Hailian Building Company Limited *^ (廣東海聯大廈有限公司)	PRC/ Mainland China	US$99,000,000	–	80%	Property development and property investment
Guangzhou Dong Gang He Zhong Property Company Limited @^ (廣州東港合眾房地產有限公司)	PRC/ Mainland China	RMB100,000,000	–	100%	Property development
Guangzhou Zhuguang Industrial Group Company Limited ("Zhuguang Industrial") *^ (note (b)) (廣州珠光實業集團有限公司)	PRC/ Mainland China	RMB160,000,000	–	100%	Property development and property investment
Guangzhou City Runqi Property Company Limited @^ (廣州市潤啟房地產有限公司)	PRC/ Mainland China	RMB99,652,457	–	100%	Property development
Feng Shun Jia Rong Trading Company Limited #^ ("Jia Rong") (note (a) and (b)) (豐順佳榮貿易有限公司)	PRC/ Mainland China	RMB1,000,000	–	100%	Investment holding
Guangdong Xilong Industrial Investment Company Limited #^ ("Guangdong Xilong") (notes (a) and (c)) (廣東喜龍實業投資有限公司)	PRC/ Mainland China	RMB120,000,000	–	100%	Property development and property investment
Guangzhou Yujie Trading Company Limited @^ (廣州愉捷貿易有限公司)	PRC/ Mainland China	RMB500,000	–	100%	Project management and property trading

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1.1 CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Equity interest attributable to the Company Direct	Equity interest attributable to the Company Indirect	Principal activities
Fengshun Yujing Property Company Limited @ ^ (豐順御景房地產有限公司)	PRC/ Mainland China	RMB200,000,000	–	100%	Property development
Meizhou Yujing Property Company Limited @ ^ (梅州御景房地產有限公司)	PRC/ Mainland China	RMB1	–	100%	Property development
Zhongshan Zhuguang Property Company Limited @ ^ (中山市珠光房地產有限公司)	PRC/ Mainland China	RMB1	–	50%	Property development
Guangzhou Zhenchao Property Development Company Limited @ ^ (廣州振超房地產開發有限公司)	PRC/ Mainland China	RMB50,000,000	–	100%	Property development
Guangzhou Zhuguang Urban Renewal Group Company Limited @ ^ ("GZ Zhuguang Urban Renewal Group") (notes (d)) (廣州珠光城市更新集團有限公司)	PRC/ Mainland China	RMB30,000,000	–	100%	Investment holding
Guangzhou Shunji Industry Company Limited @ ^ (廣州舜吉實業有限公司)	PRC/ Mainland China	RMB12,500,000	–	100%	Property development

Registered as domestic limited liability companies under PRC law

@ Registered as wholly-foreign-owned enterprises under PRC law

* Registered as Sino-foreign equity entities under PRC law

^ Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

1.1 CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Notes:

(a) The English names of these companies represent the best effort made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

(b) The Directors are of the opinion that, notwithstanding the lack of equity ownership, in substance, based on certain contractual agreements, the Group has control over Jia Rong and Guangdong Xilong so as to obtain benefits from their activities. Accordingly, Jia Rong and Guangdong Xilong are accounted for as the Company's indirect wholly-owned subsidiaries for accounting purposes.

(c) The company was formerly known as Guangzhou Yu Ying Property Company Limited (廣州御盈房地產有限公司).

(d) The company was formerly known as Guangdong Xilong Property Development Company Limited (廣東喜龍房地產開發有限公司).

(e) The company was formerly known as Guangzhou Zhuguang Real Estate Company Limited (廣州珠光置業有限公司).

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

1.2 BASIS OF PRESENTATION

As at 31 December 2019, the Group had cash and cash equivalents and term deposits (with initial terms of over three months) with an aggregate carrying amount of approximately HK$3,661 million, the majority of which are kept by the Group's subsidiaries in Mainland China. As at the same date, the Group had outstanding interest-bearing bank and other borrowings with an aggregate carrying amount of approximately HK$4,037 million which are due to be repaid within one year from the end of the reporting period, comprising offshore borrowings of approximately HK$1,388 million and onshore borrowings in Mainland China of approximately HK$2,649 million.

In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that as at 31 December 2019, the Group had interest-bearing bank and other borrowings with an aggregate carrying amount of approximately HK$4,037 million which are due to be repaid within one year from the end of the reporting period. Furthermore, the Group had capital and other commitments contracted but not provided for in the consolidated financial statements of approximately HK$1,907 million as set out in note 41 to the financial statements.

1.2 BASIS OF PRESENTATION *(continued)*

Nevertheless, the financial statements were prepared based on the assumption that the Group can be operated as a going concern and the Directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 31 December 2019, after taking into consideration of the following:

(i) the available credit facilities of the Group;

(ii) the refinancing plan for the bank and other loans of the Group; and

(iii) the estimated cash flows of the Group for the next twelve months from the end of the reporting period, in particular, with (a) the consideration of the upcoming plan for realisation of assets, sales of its completed properties held for sale and pre-sale of its properties under development; and (b) the Group's plan to obtain alternative funding, including offshore loans under cross-border guarantee arrangements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through profit or loss and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements* to *HKFRSs 2015-2017 Cycle,* which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for an elective exemption for leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee — Leases previously classified as operating leases *(continued)*

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to include the right-of-use assets in property and equipment as appropriate. This includes the lease assets recognised previously of HK$52,211,000 that were reclassified from intangible assets.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedient when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Accordingly, the Group recognised property and equipment of HK$52,211,000 and derecognised intangible assets of HK$52,211,000 as at 1 January 2019.

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions. The interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] No mandatory effective date yet determined but available for early adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material of omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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

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

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

Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its investment properties, derivative financial instruments and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Motor vehicles	5 years
Furniture, fittings and office equipment	3 to 5 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

Land use rights (applicable before 1 January 2019)

Land use rights are stated at cost and subsequently amortised on a straight line basis over the operating lease period of 36 years.

Software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Properties under development

Properties under development for sale are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Property under construction or development for future use as an investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined or construction is completed.

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

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the period of the retirement or disposal.

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the statement of profit or loss.

For a transfer from inventories to investment properties, any difference between the fair value of the property at the date of change in use and its then carrying amount is recognised in the statement of profit or loss.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Land use rights	36 years
Office properties	over the lease terms
Motor vehicles	over the lease terms

The Group's right-of-use assets are included in property and equipment. If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "Properties under development". When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "Investment properties".

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee (continued)

(b) Lease liabilities *(continued)*

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. 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. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable before 1 January 2019)

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

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

(a) Financial assets at amortised cost (debt instruments)

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

(b) Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired, or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Impairment of financial assets

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

General approach

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

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

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings, amounts due to the ultimate holding company, finance lease payables and derivative financial instruments.

Subsequent measurement

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

(a) Financial liabilities at amortised cost (loans and borrowings)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement (continued)

(b) Senior notes

Senior notes issued by the Company that contain both liability and early redemption option components (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability components and amortised over the period of the senior notes using the effective interest method.

(c) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Cash and cash equivalents

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

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

Perpetual capital securities

Perpetual capital securities with no contractual obligation to repay the principal or to pay any distribution are classified as part of equity.

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

*Revenue from contracts with customers **(continued)***

(a) Sale of properties

Revenue from sales of properties is recognised over time when the Group's performance under the sale contract does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise, revenue from sales of property is recognised at a point in time.

For a property sales contract for which the control of the property is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation which is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the construction costs incurred up to the end of reporting period as a percentage of the total estimated construction costs for each contract.

For a property sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the purchaser obtains the physical possession or the legal title of the completed property and the Group has a present right to payment and the collection of the consideration is probable.

(b) Provision of project management services

Revenue from the provision of project management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. 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 incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract cost

Other than the costs which are capitalised as properties under development and property and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Cost of obtaining contracts

Incremental costs of obtaining a contract were those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g., commission to sales agents. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions cannot be used to reduce the contributions payable by the Group.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Pension Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they have been approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in HK$ which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries and a joint venture operating outside Hong Kong are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK$ at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into HK$ at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Property lease classification — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES
(continued)

Judgements *(continued)*

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for these portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development for sale included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

Allocation of construction cost on properties under development

When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project. The cost of the unit sold is determined by the floor area in square metres sold during the year multiplied by the average cost per square metre of that particular phase of the project.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(continued)

Estimation uncertainty

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

Impairment assessment on deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects

The Group uses a probability of default approach to calculate ECLs for deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects. Impairment losses on deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects were measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The probability of default approach was the estimation of the likelihood of default over a given time horizon. It is defined as the probability of default of a counterparty over a one-year period or over the remaining time to maturity depending on either 12-month expected credit losses or lifetime expected credit losses. Probability of default is initially estimated based on the credit rating of the borrower provided by external ratings agencies. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the counterparties. The Group will adjust the historical credit loss experience with an economic adjustment. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the property development sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's deposits for acquisition of equity interests in property development projects and other receivables for urban redevelopment projects is disclosed in note 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Fair value of financial assets at fair value through profit or loss

The Group had other receivables in respect of the funds provided for property project development in the PRC which are classified as financial assets at fair value through profit or loss. Pursuant to the relevant project management service agreements, the Group agreed to provide funds and management services to certain property development projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funding provided and a variable bonus which is determined with reference to the operating performance of the projects. The fair values of these other receivables are determined based on the discounted cash flow projections which require the Group to make an estimate of the expected future cash flows from the property development projects and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the other receivables stated at fair value through profit or loss at 31 December 2019 was HK$3,870,580,000 (2018: HK$5,250,034,000). Further details are included in note 24 to the financial statements.

Estimation of fair value of investment properties

Investment properties were revalued at each reporting date based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each reporting date. The valuations of investment properties under construction were based on the residual approach, and have taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development on the basis that the properties will be developed and completed in accordance with the Group's latest development plan. The carrying amount of investment properties at 31 December 2019 was HK$4,709,808,000 (2018: HK$4,010,984,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Estimation of net realisable value of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(continued)

Estimation uncertainty *(continued)*

PRC corporate income tax ("CIT")

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the tax authorities, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for certain of its property development projects. The final outcome could be different from the amounts that were initially recorded.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was HK$207,571,000 (2018: HK$212,218,000). Further details are given in note 17.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Estimation of the fair values of identifiable assets and liabilities of an associate acquired

As further detailed in note 19 to the financial statements, the Group acquired an associate during the year ended 31 December 2018. The associate is accounted for using the equity method in the financial statements. The Group engaged an external valuer to perform the valuation of the identifiable assets and liabilities of the associate at the completion date of the acquisition. In the prior year, the fair values of the identifiable assets and liabilities of the associate at the completion date of the acquisition for initial accounting purposes were determined on a provisional basis as the Group was in the process of completing the valuations. In the current year, the fair values of the identifiable assets and liabilities of the associate at the completion date of the acquisition were adjusted retrospectively upon the completion of the valuations. Significant estimations were involved in determining the fair values of the identifiable assets and liabilities of the associate at the completion date of the acquisition. Significant judgements were also involved in the determination of the valuation models adopted.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the property development segment engages in the development and sale of properties;

(b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation; and

(c) the project management services segment engages in the provision of project management services to property development projects and urban redevelopment projects.

The Group's revenue from external customers from each operating segment is also set out in note 5 to the financial statements.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that the change in fair value of derivative financial instruments, share of profit/loss of an associate, finance costs and income tax expenses are excluded from such measurement.

Segment assets exclude investments in a joint venture and an associate, deferred tax assets and unlisted investments classified as financial assets at fair value through profit or loss as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings (other than lease liabilities), current income tax payables, deferred tax liabilities and derivative financial instruments as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2019

	Property development HK$'000	Property investment HK$'000	Project management services HK$'000	Total HK$'000
Segment revenue: (note 5)				
Sales to external customers	2,540,074	164,248	1,370,492	4,074,814
Segment results	540,247	526,236	1,608,304	2,674,787
Reconciliation:				
Fair value gain on derivative financial instruments, net				29,137
Share of profit of an associate				144,797
Finance costs				(1,503,924)
Profit before tax				1,344,797
Income tax expense				(625,300)
Profit for the year				719,497
Segment assets	13,990,336	4,763,946	14,752,633	33,506,915
Reconciliation:				
Corporate and other unallocated assets				2,336,770
Total assets				35,843,685
Segment liabilities	6,182,561	188,421	–	6,370,982
Reconciliation:				
Corporate and other unallocated liabilities				21,908,609
Total liabilities				28,279,591
Other segment information:				
Depreciation	4,638	–	–	4,638
Amortisation	1,629	–	–	1,629
Capital expenditure*	91,082	244,287	–	335,369
Fair value gain on investment properties, net	–	384,868	–	384,868

* Capital expenditure consists of additions to property and equipment, investment properties and intangible assets.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018

	Property development HK$'000	Property investment HK$'000	Project management services HK$'000	Total HK$'000
Segment revenue: (note 5)				
Sales to external customers	2,527,991	164,690	12,115	2,704,796
Segment results	935,283	375,465	471,715	1,782,463
Reconciliation:				
Fair value gain on derivative financial instruments, net				2,258
Share of loss of an associate				(12,760)
Finance costs				(1,248,810)
Profit before tax				523,151
Income tax expense				(445,299)
Profit for the year				77,852
Segment assets	24,286,387	4,043,754	5,259,216	33,589,357
Reconciliation:				
Corporate and other unallocated assets				2,219,078
Total assets				35,808,435
Segment liabilities	6,458,379	94,078	—	6,552,457
Reconciliation:				
Corporate and other unallocated liabilities				22,407,671
Total liabilities				28,960,128
Other segment information:				
Depreciation	2,717	—	—	2,717
Amortisation	4,222	—	—	4,222
Capital expenditure*	113,179	45,841	—	159,020
Fair value gain on investment properties, net	—	279,009	—	279,009

* Capital expenditure consists of additions to property and equipment and investment properties, excluding those arising from acquisition of a subsidiary.

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the segment assets of the Group are located in Mainland China. Accordingly, in the opinion of the Directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about a major customer

For the year ended 31 December 2019, revenue of approximately HK$1,045,058,000 (2018: Nil) was derived from a single related party customer, which was attributable to the project management services segment (note 5).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	2019 **HK$'000**	2018 HK$'000
Revenue from contracts with customers		
Sale of properties	**2,540,074**	2,527,991
Project management services	**—**	12,115
Revenue from other sources		
Rental income from investment property operating leases:		
– fixed lease payments	**164,248**	164,690
Finance component of income from urban redevelopment projects	**1,370,492**	—
	4,074,814	2,704,796

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	**Property development HK$'000**
Type of goods or services	
Sale of properties	**2,540,074**
Timing of revenue recognition	
Goods transferred at a point in time	**2,472,889**
Goods transferred over time	**67,185**
Total revenue from contracts with customers	**2,540,074**

For the year ended 31 December 2018

Segments	**Property development** HK$'000	**Project management services** HK$'000	**Total** HK$'000
Type of goods or services			
Sale of properties	2,527,991	—	2,527,991
Project management services	—	12,115	12,115
Total revenue from contracts with customers	2,527,991	12,115	2,540,106
Timing of revenue recognition			
Goods transferred at a point in time	2,511,878	—	2,511,878
Goods transferred over time	16,113	—	16,113
Services transferred over time	—	12,115	12,115
Total revenue from contracts with customers	2,527,991	12,115	2,540,106

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31 December 2019

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 **HK$'000**	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of properties	**2,381,552**	2,302,506

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of properties

For a property sales contract for which the control of the property is transferred over time, the performance obligation is satisfied over time by reference to the construction costs incurred up to the end of reporting period as a percentage of total estimated construction costs for each contract. For a property sales contract for which the control of the property is transferred at a point in time, the performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser.

Project management services

The performance obligation is satisfied over time as services are rendered and the consideration amount is linked to the operating performance of the project of the counterparty which gives rise to variable consideration subject to constraint.

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Other income and gains

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

	2019 HK$'000	2018 HK$'000
Interest income	**351,264**	411,194
Management service income	**53,555**	—
Fair value gain on derivative financial instruments	**29,137**	2,258
Reversal of provision for claims and administrative penalties	**—**	49,777
Others	**2,023**	5,299
	435,979	468,528

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 HK$'000	2018 HK$'000
Interest on bank and other borrowings and senior notes	**1,743,840**	1,344,283
Interest expense arising from revenue contracts	**76,466**	14,063
Total interest expense	**1,820,306**	1,358,346
Less: interest capitalised	**(316,382)**	(109,536)
	1,503,924	1,248,810

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 HK$'000	2018 HK$'000
Cost of properties sold		**1,987,553**	1,617,009
Depreciation of property and equipment	13	**2,569**	2,717
Depreciation of right-of-use assets	13	**2,069**	—
Amortisation*	15	**1,629**	4,222
Fair value gain on derivative financial instruments, net		**(29,137)**	(2,258)
Minimum lease payments under operating leases		**—**	8,999
Lease payments not included in the measurement of lease liabilities		**7,902**	—
Auditor's remuneration		**4,700**	4,500
Foreign exchange differences, net**		**254,697**	60,376
Employee benefit expense (including directors' remuneration (note 8))			
Wages and salaries		**147,785**	99,324
Retirement benefit scheme contributions		**6,853**	4,528
		154,638	103,852
Impairment of financial assets**			
Impairment of other receivables, net	22	**20,542**	16,697
Impairment of deposits and other receivables for urban redevelopment projects	23	**179,754**	29,281
		200,296	45,978
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**33,065**	23,996

* The amortisation is included in "Administrative expenses" in the consolidated statement of profit or loss.

** These items are included in "Other expenses" in the consolidated statement of profit or loss.

8. DIRECTORS' REMUNERATION

Directors' and chief executive officer's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 HK$'000	2018 HK$'000
Fees	1,440	1,440
Other emoluments:		
Salaries, allowances and benefits in kind	20,831	19,836
Pension scheme contributions	192	219
	21,023	20,055
	22,463	21,495

The remuneration of each of the Directors is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2019				
Executive directors:				
Mr. Chu Hing Tsung	–	3,000	18	3,018
Mr. Liao Tengjia	–	4,553	56	4,609
Mr. Huang Jiajue	–	1,894	43	1,937
Mr. Liu Jie*	–	7,658	57	7,715
Mr. Chu Muk Chi	–	960	18	978
Ms. Ye Lixia	–	2,766	–	2,766
	–	20,831	192	21,023
Independent non-executive directors:				
Mr. Leung Wo Ping	480	–	–	480
Mr. Wong Chi Keung	480	–	–	480
Dr. Feng Ke	480	–	–	480
	1,440	–	–	1,440
	1,440	20,831	192	22,463

8. DIRECTORS' REMUNERATION *(continued)*

The remuneration of each of the Directors is set out below: (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2018				
Executive directors:				
Mr. Chu Hing Tsung	—	3,000	18	3,018
Mr. Liao Tengjia	—	3,641	61	3,702
Mr. Huang Jiajue	—	2,360	61	2,421
Mr. Liu Jie*	—	7,216	61	7,277
Mr. Chu Muk Chi	—	960	18	978
Ms. Ye Lixia	—	2,659	—	2,659
	—	19,836	219	20,055
Independent non-executive directors:				
Mr. Leung Wo Ping	480	—	—	480
Mr. Wong Chi Keung	480	—	—	480
Dr. Feng Ke	480	—	—	480
	1,440	—	—	1,440
	1,440	19,836	219	21,495

* Mr. Liu Jie is also the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the current and prior years were all directors, details of whose remuneration are set out in note 8 above.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the majority of the Group's subsidiaries operate.

	2019 HK$'000	2018 HK$'000
Current:		
PRC CIT	**233,985**	214,696
PRC LAT	**153,149**	105,680
	387,134	320,376
Deferred (note 33)	**238,166**	124,923
Total tax charge for the year	**625,300**	445,299

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for Mainland China in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate for the year, are as follows:

	2019		2018	
	HK$'000	**%**	HK$'000	%
Profit before tax	**1,344,797**		523,151	
Tax charge at the statutory income tax rate	**336,200**	**25.0**	130,788	25.0
Lower tax rate for specific provinces or enacted by local authority	**(119,974)**	**(8.9)**	28,687	5.5
Profits and losses attributable to an associate	**(23,892)**	**(1.8)**	2,105	0.4
Adjustment in respect of deferred tax of previous periods	**156,871**	**11.7**	—	—
Expenses not deductible for tax	**68,776**	**5.1**	21,324	4.1
Tax losses utilised from previous period	**(35,026)**	**(2.6)**	—	—
Tax losses not recognised	**127,483**	**9.5**	183,135	35.0
PRC LAT	**153,149**	**11.4**	105,680	20.2
Tax effect on PRC LAT	**(38,287)**	**(2.8)**	(26,420)	(5.1)
Tax charge at the Group's effective rate	**625,300**	**46.5**	445,299	85.1

The share of tax expense attributable to an associate amounting to HK$39,278,000 (2018: HK$788,000) was included in "Share of profit/(loss) of an associate" in the consolidated statement of profit or loss.

11. DIVIDENDS

No dividend in respect of the year ended 31 December 2019 (2018: Nil) was proposed by the board of directors of the Company.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted for the distribution related to perpetual capital securities, and the weighted average number of ordinary shares of 7,192,307,411 (2018: 6,424,417,247) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the impact of the warrants had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

The calculations of the basic and diluted earnings/(loss) per share are based on:

	2019	2018
Profit attributable to equity holders of the parent (HK$'000)	**747,225**	4,717
Distribution related to perpetual capital securities (HK$'000)	**(48,000)**	(8,416)
Profit/(loss) used in the basic and diluted earnings/(loss) per share calculations (HK$'000)	**699,225**	(3,699)
Weighted average number of ordinary shares in issue during the year (thousand shares)	**7,192,307**	6,424,417

13. PROPERTY AND EQUIPMENT

	Right-of-use assets				Owned assets				
	Office properties HK$'000 (note 16)	Land use rights HK$'000 (note 16)	Motor vehicles HK$'000	Sub-total HK$'000	Assets under construction HK$'000	Motor vehicles HK$'000	Furniture, fittings and equipment HK$'000	Sub-total HK$'000	Total HK$'000
31 December 2019									
At 1 January 2019:									
Cost	–	–	–	–	219,697	16,886	7,915	244,498	244,498
Accumulated depreciation	–	–	–	–	–	(10,308)	(6,902)	(17,210)	(17,210)
Net carrying amount	–	–	–	–	219,697	6,578	1,013	227,288	227,288
At 31 December 2018, net of accumulated depreciation	–	–	–	–	219,697	6,578	1,013	227,288	227,288
Effect of adoption of HKFRS 16	–	52,211	–	52,211	–	–	–	–	52,211
At 1 January 2019 (restated)	–	52,211	–	52,211	219,697	6,578	1,013	227,288	279,499
Additions	20,420	–	594	21,014	57,692	–	654	58,346	79,360
Depreciation provided during the year	(284)	(1,726)	(59)	(2,069)	–	(1,953)	(616)	(2,569)	(4,638)
Exchange realignment	–	(840)	–	(840)	(4,725)	(81)	(62)	(4,868)	(5,708)
At 31 December 2019, net of accumulated depreciation	20,136	49,645	535	70,316	272,664	4,544	989	278,197	348,513
At 31 December 2019:									
Cost	20,420	52,211	594	73,225	272,664	15,598	8,496	296,758	369,983
Accumulated depreciation	(284)	(2,566)	(59)	(2,909)	–	(11,054)	(7,507)	(18,561)	(21,470)
Net carrying amount	20,136	49,645	535	70,316	272,664	4,544	989	278,197	348,513

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31 December 2019

13. PROPERTY AND EQUIPMENT *(continued)*

	Assets under construction HK$'000	Motor vehicles HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
31 December 2018				
At 1 January 2018:				
Cost	112,437	17,211	6,868	136,516
Accumulated depreciation	—	(8,878)	(5,615)	(14,493)
Net carrying amount	112,437	8,333	1,253	122,023
At 1 January 2018, net of accumulated depreciation	112,437	8,333	1,253	122,023
Acquisition of a subsidiary (note 37)	—	—	154	154
Additions	112,270	—	909	113,179
Disposals	—	(8)	—	(8)
Depreciation provided during the year	—	(1,430)	(1,287)	(2,717)
Exchange realignment	(5,010)	(317)	(16)	(5,343)
At 31 December 2018, net of accumulated depreciation	219,697	6,578	1,013	227,288
At 31 December 2018:				
Cost	219,697	16,886	7,915	244,498
Accumulated depreciation	—	(10,308)	(6,902)	(17,210)
Net carrying amount	219,697	6,578	1,013	227,288

At 31 December 2019, the Group's property and equipment with an aggregate carrying amount of HK$322,309,000 (2018: HK$219,697,000) were pledged to banks to secure certain of the bank and other borrowings granted to the Group (note 31).

14. INVESTMENT PROPERTIES

	Completed HK$'000	Under construction HK$'000	Total HK$'000
Carrying amount at 1 January 2018	2,412,183	—	2,412,183
Additions	—	45,841	45,841
Acquisition of a subsidiary (note 37)	325,940	970,230	1,296,170
Transfer from completed properties held for sale	147,591	—	147,591
Net gains from fair value adjustments	234,239	44,770	279,009
Exchange realignment	(131,565)	(38,245)	(169,810)
Carrying amount at 31 December 2018 and 1 January 2019	**2,988,388**	**1,022,596**	**4,010,984**
Additions	**—**	**244,287**	**244,287**
Transfer upon completion	**1,266,883**	**(1,266,883)**	**—**
Transfer from completed properties held for sale	**171,784**	**—**	**171,784**
Net gains from fair value adjustments	**384,868**	**—**	**384,868**
Exchange realignment	**(102,115)**	**—**	**(102,115)**
Carrying amount at 31 December 2019	**4,709,808**	**—**	**4,709,808**

The Group's investment properties were revalued on 31 December 2019 and 2018 based on valuations performed by Greater China Appraisal Limited, an independent professionally qualified valuer.

At 31 December 2019, certain of the Group's investment properties with an aggregate carrying amount of HK$3,304,217,000 (2018: HK$3,167,983,000) were pledged to banks to secure certain of the bank and other borrowings granted to the Group (note 31).

The Group's completed investment properties are leased to third parties under operating leases, further summary details of which are included in note 16.

Fair value hierarchy

At 31 December 2019 and 2018, the fair value measurement of all of the Group's investment properties used significant unobservable inputs (Level 3) as defined in HKFRS 13.

In the opinion of the Directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use.

During the year, there were no transfers of fair value measurements between Level 1 (quoted prices in active markets) and Level 2 (significant observable inputs) and no transfers into or out of Level 3 (2018: Nil).

14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports to the senior management of the Group. Discussions of valuation processes and results are held between management and the valuer at least once every six months, in line with the Group's annual reporting dates.

At each financial year end, the finance department:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

			Range or weighted average	
	Valuation technique	**Significant unobservable inputs**	**2019**	2018
Completed				
Office	Term and reversionary method	Term yields	**3.5%-4.0%**	3.5%
		Reversion yields	**4.0%-4.5%**	4.0%
		Market rents (RMB/sq m/month)	**135-165**	145-160
	Direct comparison method	Market price (RMB/sq m)	**50,000**	N/A
Retail	Term and reversionary method	Term yields	**2.6%-5.0%**	3.0%
		Reversion yields	**3.5%-6.0%**	3.5%
		Market rents (RMB/sq m/month)	**40-490**	120-455
	Direct comparison method	Market price (RMB/sq m)	**10,500-75,000**	N/A
Hotel	Direct comparison method	Market price (RMB/sq m)	**10,600-32,000**	36,000-36,700
Under construction				
Office	Residual approach	Market price (RMB/sq m)	**N/A**	46,000-75,000
		Capitalisation rate	**N/A**	5.75%
		Development profit	**N/A**	6.0%

The valuations of completed investment properties were based on either (i) the term and reversionary approach by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties, which is positively correlated to the market rental growth rate, and negatively correlated to term yields and reversion yields; or (ii) the direct comparison method by reference to comparable market transactions, which is positively correlated to the market unit sale rate.

The valuations of investment properties under construction were based on the residual approach, which is positively correlated to the estimated annual rental value per square meter and the development profit, and negatively correlated to the capitalisation rate.

15. INTANGIBLE ASSETS

	Land use rights HK$'000	Computer software HK$'000	Total HK$'000
31 December 2019			
Cost at 31 December 2018, net of accumulated amortisation	**52,211**	**2,214**	**54,425**
Effect of adoption of HKFRS 16	**(52,211)**	**—**	**(52,211)**
At 1 January 2019 (restated)	**—**	**2,214**	**2,214**
Additions	**—**	**11,722**	**11,722**
Amortisation during the year	**—**	**(1,629)**	**(1,629)**
Exchange realignment	**—**	**(724)**	**(724)**
At 31 December 2019	**—**	**11,583**	**11,583**
At 31 December 2019:			
Cost	**—**	**26,505**	**26,505**
Accumulated amortisation	**—**	**(14,922)**	**(14,922)**
Net carrying amount	**—**	**11,583**	**11,583**
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	55,910	4,036	59,946
Additions	—	458	458
Acquisition of a subsidiary (note 37)	—	273	273
Amortisation during the year	(1,779)	(2,443)	(4,222)
Exchange realignment	(1,920)	(110)	(2,030)
At 31 December 2018	52,211	2,214	54,425
At 31 December 2018:			
Cost	88,518	15,983	104,501
Accumulated amortisation	(36,307)	(13,769)	(50,076)
Net carrying amount	52,211	2,214	54,425

The Group's intangible assets related to land use rights comprise cost of acquiring rights to use certain land, which is all located in the PRC, mainly for hotel buildings and other self-use buildings over fixed periods.

At 31 December 2018, the Group's intangible assets with an aggregate carrying amount of HK$52,211,000 was pledged to banks to secure certain of the bank borrowings granted to the Group (note 31).

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, office properties and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 36 years, and no ongoing payments will be made under the terms of these land leases. Leases of office properties generally have lease terms of 3 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are disclosed in note 13 to the financial statements.

(b) Lease liabilities

The carrying amount of lease liabilities (included under bank and other borrowings) and the movements during the year are as follows:

	2019 Lease liabilities HK$'000	2018 Finance lease payables HK$'000
Carrying amount at 1 January	**—**	658
New leases	**21,014**	—
Payments	**(772)**	(658)
Carrying amount at 31 December	**20,242**	—
Analysed into:		
Current portion	**6,392**	—
Non-current portion	**13,850**	—

The maturity analysis of lease liabilities is disclosed in note 31 to the financial statements.

16. LEASES *(continued)*

The Group as a lessee *(continued)*

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK$'000
Depreciation charge of right-of-use assets	2,069
Expense relating to short-term lease with remaining lease term ended on or before 31 December 2019	7,902
Total amount recognised in profit or loss	9,971

(d) The total cash outflow for leases is disclosed in note 38(c) to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 14) under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$164,248,000 (2018: HK$164,690,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 HK$'000	2018 HK$'000
Within one year	168,418	176,780
After one year but within two years	202,463	141,150
After two years but within three years	150,035	122,300
After three years but within four years	168,128	114,120
After four years but within five years	36,027	73,565
After five years	118,166	158,405
	843,237	786,320

17. GOODWILL

	HK$'000
Cost at 1 January 2018, net of accumulated impairment	17,010
Acquisition of a subsidiary (note 37)	196,010
Exchange realignment	(802)
At 31 December 2018	212,218
At 31 December 2018:	
Cost	233,373
Accumulated impairment	(21,155)
Net carrying amount	212,218
Cost at 1 January 2019, net of accumulated impairment	212,218
Exchange realignment	(4,647)
At 31 December 2019	207,571
At 31 December 2019:	
Cost	228,726
Accumulated impairment	(21,155)
Net carrying amount	207,571

Impairment testing of goodwill

The Group's goodwill acquired through a business combination prior to 2018 was allocated to a cash-generating unit for the property development segment, which was principally engaged in the property development in the PRC, for impairment testing. The recoverable amount of the cash-generating unit of the property development segment was determined based on a value-in-use calculation using a cash flow projections based on the expected future cash flows estimated by management. The discount rate applied to the cash flow projections is 12.96% (2018: 12.96%).

The Group's goodwill acquired through a business combination in 2018 was allocated to another cash-generating unit for the property development segment, which was principally engaged in the property development in the PRC, for impairment testing. The recoverable amount of the related cash-generating unit of the property development segment was determined based on a value-in-use calculation using a cash flow projection based on a financial budget covering a two-year period approved by senior management.

17. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*

The development project acquired in 2018 comprises 2 phases. As at 31 December 2019, Phases I and II were completed and management estimated that the properties of both phases shall be completely sold to and handed over to the buyers by the end of 2021. In view of the expected tenure of the business, the financial budget only covered a two-year period and no perpetual growth rate was applied in the calculation of value-in-use. The discount rate applied to the cash flow projection of the cash-generating unit was 9.5% (2018: 9.5%).

Assumptions were used in the value-in-use calculation of the above-mentioned property development segment's cash-generating units for 31 December 2019 and 2018. The following describes each key assumption on which management had based its cash flow projections to undertake impairment testing of goodwill:

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

Business environment — There was no major change in the existing political, legal and economic conditions in the PRC in which the cash-generating unit carried on its business.

18. INVESTMENT IN A JOINT VENTURE

	2019 HK$'000	2018 HK$'000
Share of net assets	**2,739**	2,739

Particulars of the Group's joint venture are as follows:

Company name	**Registered and paid-up capital**	**Place of registration and business**	**Percentage of Ownership interest**	**Percentage of Voting power**	**Percentage of Profit sharing**	**Principal activity**
Guangzhou Kezhu Real Estate Investment Company Limited @ (廣州科珠置業投資有限公司)	RMB18,000,000	PRC/ Mainland China	40%	50%	40%	Property investment

@ Registered as a domestic limited liability company under PRC law

The English name of the entity represents the best effort made by the management of the Company to directly translate its Chinese name as it did not register any official English name.

The above joint venture is indirectly held by the Company and is not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

19. INVESTMENT IN AN ASSOCIATE

	2019 HK$'000	2018 HK$'000 (Restated)
Share of net assets	**1,915,113**	1,812,538
Goodwill on acquisition	**267,672**	267,672
	2,182,785	2,080,210

Particulars of the Group's associate are as follows:

Company name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activities
Silver Grant International Holdings Group Limited ("Silver Grant") (formerly known as Silver Grant International Industries Limited)	Ordinary shares of 681,240,022	Hong Kong	29.56%	Investment holding and property leasing

The Group's shareholding in the associate comprises equity shares held by a wholly-owned subsidiary of the Company.

During the year ended 31 December 2018, the Group acquired 29.56% of equity interest in Silver Grant for an aggregate cash consideration of approximately HK$2,058,415,000. The Directors consider that the Group can only exercise significant influence over Silver Grant based on its board composition and current shareholding, and accordingly it is classified as an associate of the Group. The associate is accounted for using the equity method in the financial statements. In the prior year, the fair values of the identifiable assets and liabilities of Silver Grant and its subsidiaries (collectively the ("Silver Grant Group") at the completion date of the acquisition for initial accounting purpose were determined on a provisional basis as the Group was in the process of completing the independent valuations. In the current year, the fair values of the identifiable assets and liabilities of the Silver Grant Group at the completion date of the acquisition were adjusted retrospectively upon the completion of the independent valuations.

19. INVESTMENT IN AN ASSOCIATE *(continued)*

During the year, in July 2019, the Silver Grant Group completed the restructuring of its petrochemical business, pursuant to which Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited ("ZHYQ") (a former 33%-owned associate of the Silver Grant Group) absorbed and merged with an indirect non-wholly-owned subsidiary of Silver Grant and an independent third party, and became the surviving entity after the merger, and thereafter became a 51%-owned joint venture of the Silver Grant Group. The gain on bargain purchase of HK$242,689,000 arising from the acquisition of additional interest in ZHYQ in connection with the merger recorded by the Silver Grant Group is determined on a provisional basis as at 31 December 2019 as the Silver Grant Group is in the process of completing the independent valuations to assess the fair value of the identifiable assets and liabilities of ZHYQ. The provisional gain on bargain purchase may be adjusted retrospectively by the Silver Grant Group upon the completion of the initial accounting for the acquisition of additional interest in ZHYQ during the measurement period, which shall not exceed one year from the acquisition date.

At 31 December 2019, the Group's investment in an associate with an aggregate carrying amount of HK$2,182,785,000 (2018: HK$2,080,210,000) was pledged to secure certain of the bank and other borrowings granted to the Group (note 31).

The following table illustrates the summarised financial information in respect of the Silver Grant Group adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 **HK$'000**	2018 HK$'000 (Restated)
Current assets	**2,938,593**	2,979,633
Non-current assets, excluding goodwill	**7,152,094**	7,508,410
Current liabilities	**(669,925)**	(2,288,450)
Non-current liabilities	**(2,100,734)**	(1,468,047)
Net assets	**7,320,028**	6,731,546
Non-controlling interests	**(841,298)**	(599,821)
Total equity	**6,478,730**	6,131,725
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**29.56%**	29.56%
Group's share of net assets of the associate, excluding goodwill	**1,915,113**	1,812,538
Goodwill on acquisition (less cumulative impairment)	**267,672**	267,672
Carrying amount of the investment	**2,182,785**	2,080,210
Revenue	**395,949**	511,746
Profit/(loss) for the year	**151,101**	(166,167)
Other comprehensive loss for the year	**(151,606)**	(322,925)
Total comprehensive loss for the year	**(505)**	(489,092)
Fair value of the Group's investment as at year end based on the market price of the associate's shares	**858,362**	1,042,297
Profit/(post-acquisition loss) for the year of the associate	**489,841**	(43,167)
Proportion of the Group's ownership	**29.56%**	29.56%
Group's share of profit/(loss) of the associate	**144,797**	(12,760)

20. PROPERTIES UNDER DEVELOPMENT

	2019 HK$'000	2018 HK$'000
Properties under development expected to be completed within normal operating cycle and classified as current assets are expected to be recoverable:		
Within one year	**1,426,046**	2,394,005
After one year	**278,827**	1,771,751
	1,704,873	4,165,756

At 31 December 2019, certain of the Group's properties under development with an aggregate carrying amount of HK$1,054,227,000 (2018: HK$1,319,733,000) were pledged to secure certain of the bank and other borrowings granted to the Group (note 31).

21. COMPLETED PROPERTIES HELD FOR SALE

At 31 December 2019, certain of the Group's completed properties held for sale with an aggregate carrying amount of HK$1,746,219,000 (2018: HK$640,613,000) were pledged to secure certain of the bank and other borrowings granted to the Group (note 31).

22. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables		
Related parties	**8,981**	9,182
Third parties	**53,228**	38,263
	62,209	47,445
Other receivables		
Related parties	**978,258**	160,781
Third parties	**565,170**	1,307,963
	1,543,428	1,468,744
	1,605,637	1,516,189
Impairment allowance	**(24,630)**	(20,450)
	1,581,007	1,495,739

22. TRADE AND OTHER RECEIVABLES *(continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date or invoice date and net of loss allowance, is as follows:

	2019 HK$'000	2018 HK$'000
Current to 180 days	**38,617**	27,118
181 to 365 days	**9,642**	14,311
Over 365 days	**13,950**	6,016
	62,209	47,445

The movements in the loss allowance for impairment of other receivables are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	**20,450**	4,556
Transfer to prepayment and deposits in the current year	**(15,453)**	—
Impairment losses (note 7)		
New receivables	**24,714**	20,113
Receivables settled during the year	**(4,089)**	(4,454)
Changes in risk parameters	**(83)**	1,038
	20,542	16,697
Exchange realignment	**(909)**	(803)
At end of year	**24,630**	20,450

Where applicable, an impairment analysis is performed on the Group's other receivables at each reporting date by considering the probability of default of the counterparties or comparable companies with published credit ratings. As at 31 December 2019, the probability of default applied ranged from 0.7% to 8.6% (2018: from 0.8% to 4.4%) and the loss given default was estimated from 55.4% to 62.3% (2018: from 55.4% to 61.4%). In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there are no comparable companies as at 31 December 2018 was 0.08%.

As at 31 December 2019, HK$348,089,000 (2018: HK$337,631,000) of other receivables from third parties represented project deposits to a contractor of the Group, which was unsecured, with an interest rate of 12% per annum and repayable on demand.

For trade receivables, there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

23. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Notes	2019 HK$'000	2018 HK$'000
Other receivables with related parties for urban redevelopment projects	(a)	**8,011,938**	—
Other receivables with third parties for urban development projects	(a)	**3,096,005**	—
Prepayments or deposits to related parties for acquisition of equity interests in property development projects	(b), (c)	**781,445**	4,724,941
Prepayments or deposits to third parties:			
For acquisition of equity interests in property development projects	(b)	**—**	2,596,365
Prepaid construction costs and others		**199,047**	184,515
Prepaid business taxes and other levies		**94,484**	88,107
Cost of obtaining contracts		**28,226**	31,908
Others		**18,978**	17,119
		12,230,123	7,642,955
Impairment allowance		**(259,295)**	(71,466)
		11,970,828	7,571,489
Portion classified as non-current assets		**(7,884,171)**	—
Current portion		**4,086,657**	7,571,489

Notes:

(a) The Group has entered into project management agreements with related parties and third parties for urban redevelopment projects. According to the project management agreements, the Group agreed to provide funds and project management services to the urban redevelopment projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funds provided and a variable income for certain projects which is determined with reference to the performance of the underlying projects subject to constraint.

(b) As at 31 December 2019, the Group had paid deposits with an aggregate amount of HK$781,445,000 (2018: HK$7,321,306,000) to invest in private project companies in the PRC. The deposits were to acquire equity interests in certain PRC entities, which own land use rights or property development projects in the PRC.

(c) As at 31 December 2019, deposits of HK$781,445,000 (2018: HK$4,724,941,000) were paid to Guangdong Zhuguang Group Company Limited and its subsidiaries (related parties of the Group), as authorised agents of the Group for the proposed acquisitions of equity interests of certain entities which own certain land use rights or property development projects in the PRC.

23. PREPAYMENTS, DEPOSITS AND OTHER ASSETS *(continued)*

The movements in the loss allowance for impairment of financial assets included in prepayments, deposits and other assets are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	**71,466**	45,308
Transfer from trade and other receivables in the current year	**15,453**	—
Impairment losses (note 7)		
New receivables	**102,512**	54,269
Receivables settled during the year	**(2,303)**	(32,384)
Changes in risk parameters	**79,545**	7,396
	179,754	29,281
Amount written off as uncollectible	**(2,274)**	—
Exchange realignment	**(5,104)**	(3,123)
At end of year	**259,295**	71,466

Where applicable, an impairment analysis is performed on the Group's prepayments, deposits and other assets at each reporting date by considering the probability of default of the counterparties or comparable companies with published credit ratings. As at 31 December 2019, the probability of default applied ranged from 0% to 8.6% (2018: from 0.3% to 4.4%) and the loss given default was estimated from 61.4% to 62.8% (2018: from 55.4% to 62.3%). In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there are no comparable companies as at 31 December 2018 was 0.08%.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2019 HK$'000	2018 HK$'000
Other receivables, at fair value	(a)	**3,870,580**	5,250,034
Other unlisted investments, at fair value	(b)	**68,510**	70,041
		3,939,090	5,320,075
Portion classified as current assets		**(2,284,993)**	(2,059,530)
Non-current portion		**1,654,097**	3,260,545

Notes:

(a) As at 31 December 2019, the other receivables of HK$3,870,580,000 (2018: HK$5,250,034,000) at fair value represented funds provided to certain related parties for property project development in the PRC which are classified as financial assets at fair value through profit or loss. Pursuant to the relevant project management service agreements, the Group agreed to provide funds and management services to certain property development projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funds provided and a variable bonus which is determined with reference to the operating performance of the projects. The fair value of the other receivables is determined based on the discounted cash flow projections based on the expected future cash flows from the property development projects estimated by management. The discount rate applied to the cash flow projections ranged from 12.7% to 12.9% (2018: ranged from 13.5% to 13.7%). During the year, one of the project management service agreements was terminated and the other receivables of HK$948,898,000 at fair value were reclassified to other receivables stated at amortised cost.

(b) At 31 December 2019, the Group subscribed for certain unlisted PRC investment funds for an aggregate amount of HK$68,510,000 (2018: HK$70,041,000). The investment funds are managed with expected return equal to one-year prevailing saving interest rate quoted by the People's Bank of China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

25. RESTRICTED CASH

	2019 HK$'000	2018 HK$'000
Guarantee deposits for construction projects	**229,517**	203,565
Guarantee deposits for payment of wages	**–**	3,087
Term deposits with initial terms of over three months pledged for bank borrowings granted to the Group (note 31(a)(vi))	**764,700**	615,954
	994,217	822,606

25. RESTRICTED CASH *(continued)*

Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sale proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees for the relevant property projects. The deposits will be released after completion of related pre-sold properties or issuance of the real estate ownership certificate of the properties, whichever is the earlier. As at 31 December 2019, such guarantee deposits amounted to HK$229,517,000 (2018: HK$203,565,000).

The Group is required to place deposits in designated bank accounts solely for settlement of the Group's payable to construction workers. The deposits will only be released after completion of the relevant property development project. As at 31 December 2018, such guarantee deposits amounted to HK$3,087,000.

26. TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS

At 31 December 2019, the Group had term deposits with initial terms of over three months denominated in RMB with an aggregate amount of HK$2,541,890,000 (2018: HK$5,625,869,000). The weighted average effective interest rate of the Group's term deposits with initial terms of over three months as at 31 December 2019 is 1.96% per annum (2018: 1.84% per annum).

At 31 December 2019, certain of the Group's term deposits with initial terms of over three months with an aggregate carrying amount of HK$764,700,000 (2018: HK$615,954,000) were pledged to secure certain of the bank and other borrowings granted to the Group (note 31).

27. CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	HK$'000
Cash and bank balances:		
Denominated in RMB	**312,063**	536,636
Denominated in HK$	**41,560**	6,811
Denominated in US$	**85**	1,163
	353,708	544,610

Notes:

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. All the bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

(b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28. CONTRACT LIABILITIES

Contract liabilities represent sales proceeds received from buyers in connection with the Group's pre-sales of properties.

The decrease in the balance of contract liabilities was mainly due to the sales recognised and partially offset by the pre-sales of properties during the year.

29. TRADE AND OTHER PAYABLES

	Notes	**2019** **HK$'000**	2018 HK$'000
Trade payables	(a)	**2,107,060**	2,421,382
Amounts due to related parties	(b)	**205,800**	390,686
Other payables and accruals	(c)	**629,580**	541,340
Other taxes payables	(c)	**483,703**	329,350
		3,426,143	3,682,758
Portion classified as current liabilities		**(3,392,904)**	(3,682,758)
Non-current portion		**33,239**	—

Notes:

(a) An ageing analysis of the trade payables as at the end of the reporting period, based on the due date, is as follows:

	2019 **HK$'000**	2018 HK$'000
Within 1 year	**2,077,350**	2,387,649
Over 1 year	**29,710**	33,733
	2,107,060	2,421,382

The trade payables are non-interest-bearing and unsecured.

(b) The amounts due to related companies are unsecured, interest-free and repayable on demand.

(c) Other payables and accruals and other tax payables are non-interest-bearing and are expected to be settled within one year.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2019 HK$'000	2018 HK$'000
2016 Warrants	31(b)	**—**	17,964
2019 Warrants	31(d)	**40,134**	—
		40,134	17,964

The above warrants were measured at their fair values on 31 December 2019 and 2018. The fair values (categorised as level 3 measurement under HKFRS 13) of the warrants were based on a valuation, using trinomial tree method, carried out by an independent qualified professional valuer and approved by the Directors. The significant unobservable inputs used in the fair value measurement are expected volatility and effective interest rate.

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31 December 2019

31. BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Lease liabilities (note 16(b))	9.23%	2020	6,392			—
Bank borrowings — secured	2.97%-13.33%	2020	1,401,733	3.23%-11.50%	2019	3,182,717
Other borrowings — secured	6.19%-13.10%	2020	1,816,786	7.51%-12.40%	2019	2,531,409
Other borrowings — unsecured	12%	2020	220,000	12%	2019	220,000
2016 Senior Notes			–	11.00%	2019	3,170,969
2017 Senior Notes	10.40%	2020	320,892	10.40%	2019	380,224
2019 Senior Notes	12.71%-14.71%	2020	271,389			—
			4,037,192			9,485,319
Non-current						
Lease liabilities (note 16(b))	9.23%	2021-2022	13,850			—
Bank borrowings — secured	4.15%-10.08%	2021-2022	3,736,273	5.27%-11.50%	2020-2021	2,478,661
Other borrowings — secured	6.19%-13.10%	2021-2026	7,629,948	7.51%-12.40%	2020-2022	7,181,175
2019 Senior Notes	12.71%-14.71%	2021-2022	2,788,754			—
			14,168,825			9,659,836
			18,206,017			19,145,155

31. BANK AND OTHER BORROWINGS *(continued)*

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank borrowings repayable:		
Within one year or on demand	**1,401,733**	3,182,717
In the second year	**3,735,156**	1,315,144
In the third to fifth years, inclusive	**1,117**	1,163,517
	5,138,006	5,661,378
Other borrowings repayable:		
Within one year or on demand	**2,036,786**	2,751,409
In the second year	**4,428,068**	3,010,008
In the third to fifth years, inclusive	**2,634,683**	4,171,167
Over five years	**567,197**	—
	9,666,734	9,932,584
Senior notes:		
Within one year or on demand	**592,281**	3,551,193
In the second year	**239,361**	—
In the third to fifth years, inclusive	**2,549,393**	—
	3,381,035	3,551,193
Lease liabilities repayable:		
Within one year or on demand	**6,392**	—
In the second year	**7,000**	—
In the third to fifth years, inclusive	**6,850**	—
	20,242	—
	18,206,017	19,145,155

31. BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) Certain of the Group's bank and other borrowings are secured or guaranteed by:

(i) pledges over the Group's property and equipment with an aggregate carrying amount at the end of the reporting period of approximately HK$322,309,000 (2018: HK$219,697,000) (note 13);

(ii) pledges over the Group's investment properties with an aggregate carrying amount at the end of the reporting period of approximately HK$3,304,217,000 (2018: HK$3,167,983,000) (note 14);

(iii) pledges over the Group's intangible assets with an aggregate carrying amount at 31 December 2018 of approximately HK$52,211,000 (note 15);

(iv) pledges over the Group's properties under development with an aggregate carrying amount at the end of the reporting period of approximately HK$1,054,227,000 (2018: HK$1,319,733,000) (note 20);

(v) pledges over the Group's completed properties held for sale with an aggregate carrying amount at the end of the reporting period of approximately HK$1,746,219,000 (2018: HK$640,613,000) (note 21);

(vi) pledges over the Group's term deposits with initial terms of over three months with an aggregate carrying amount at the end of the reporting period of approximately HK$764,700,000 (2018: HK$615,954,000) (note 26);

(vii) pledges over the Group's investment in an associate with an aggregate carrying amount at the end of the reporting period of approximately HK$2,182,785,000 (2018: HK$2,080,210,000) (note 19);

(viii) pledges over the Company's equity interest executed by the Company's ultimate holding company for borrowings of the Group amounting to HK$433,691,000 (2018: HK$471,977,000) as at the end of the reporting period;

(ix) pledges over the equity interests of the Group's certain subsidiaries for borrowings of the Group amounting to HK$6,869,061,000 (2018: HK$6,809,775,000) as at the end of the reporting period;

(x) corporate guarantees executed or security provided by the Company's ultimate holding company for the senior notes of the Group amounting to HK$3,381,035,000 (2018: HK$3,551,193,000) as at the end of the reporting period;

(xi) corporate guarantees executed by the Company for borrowings of the Group amounting to HK$10,338,600,000 (2018: HK$11,626,845,000) as at the end of the reporting period; and

(xii) personal guarantee executed by certain directors for borrowings of the Group amounting to HK$10,520,403,000 (2018: HK$11,338,808,000) as at the end of the reporting period.

31. BANK AND OTHER BORROWINGS *(continued)*

Notes: *(continued)*

(b) On 4 August 2016 and 23 September 2016, respectively, the Company issued 3-year secured and guaranteed senior notes ("2016 Senior Notes"), with an aggregate principal amount of US$190,000,000 and US$220,000,000, respectively. The net proceeds, after deducting the issuance costs, amounted to US$389,552,000 (equivalent to approximately HK$3,021,818,000). The 2016 Senior Notes are denominated in US$, due on 3 August 2019 and 22 September 2019, and with an interest rate at 11% per annum.

Concurrent with the issuance of the 2016 Senior Notes, nil-paid warrants (the "2016 Warrants") representing a total amount of exercise moneys of US$61,500,000 (the exchange rate to be used for the purchase of HK$ with US$ shall be HK$7.8 per US$1.0) were granted to these investors to subscribe for 239,909,977 ordinary shares of the Company at an initial exercise price of HK$1.9995 per ordinary share of the Company, which are subject to certain anti-dilutive adjustments. The 2016 Warrants are exercisable at any time up to 36 months from the issue date of such warrants. Pursuant to the rights issue in 2016, the exercise price of 2016 Warrants was adjusted downward to HK$1.8049 per ordinary share of the Company. The subscription rights attached to the 2016 Warrants were expired during the year and none of them were exercised.

(c) On 13 December 2017, the Company issued 2-year secured and guaranteed senior notes ("2017 Senior Notes"), with an aggregate principal amount of US$50,000,000. The net proceeds, after deducting the issuance costs, amounted to US$48,474,000 (equivalent to approximately HK$378,412,000). The 2017 Senior Notes are denominated in US$, due on 12 December 2019, and with an interest rate at 8% per annum. The maturity date of the outstanding 2017 Senior Notes with an aggregate principal amount of US$42,000,000 was extended to 12 December 2020 pursuant to a consent letter signed on 22 January 2020.

(d) On 22 September 2019, the Company issued 3-year secured guaranteed senior notes ("the 2019 Senior Notes") with an aggregate principal amount of US$410,000,000 for settlement of the 2016 Senior Notes. The Company, at its option, can redeem all or a portion of the 2019 Senior Notes at any time after twelve months from the issue date and from time to time prior to the maturity date at the redemption price plus accrued and unpaid interest up to the redemption date. The Company shall, on the date falling twelve months after the issue date, redeem 10% of the then outstanding principal amount, and shall, on the date falling twenty four months after the issue date, redeem 10% of the then outstanding principal amount. The remaining outstanding principal amount of the 2019 Senior Notes is due on 21 September 2022. The 2019 Senior Notes are denominated in US$ with an interest rate at 11% per annum.

Concurrent with the issuance of the 2019 Senior Notes, nil-paid warrants (the "2019 Warrants") representing a total amount of exercise moneys of US$61,500,000 (the exchange rate to be used for the purchase of HK$ with US$ shall be HK$7.8 per US$1.0) were granted by the Company to these investors to subscribe for 297,064,651 ordinary shares of the Company at an initial exercise price of HK$1.6148 per ordinary share of the Company, which are subject to certain anti-dilutive adjustments. The 2019 Warrants are exercisable at any time up to 36 months from the issue date of such warrants.

(e) The Group's bank and other borrowings with carrying amounts of HK$1,270,974,000 (2018: HK$1,569,398,000), HK$13,467,953,000 (2018: HK$13,773,675,000) and HK$3,467,090,000 (2018: HK$3,802,082,000) are denominated in HK$, RMB and US$, respectively.

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31 December 2019

32. CURRENT INCOME TAX PAYABLES

	2019 HK$'000	2018 HK$'000
PRC corporate income tax payable	**1,237,946**	1,098,081
PRC land appreciation tax payable	**887,818**	821,043
	2,125,764	1,919,124

33. DEFERRED TAX

Net deferred tax assets and liabilities recognised in the consolidated statement of financial position are as follows:

	2019 HK$'000	2018 HK$'000
Deferred tax assets recognised in the consolidated statement of financial position	**82,736**	66,088
Deferred tax liabilities recognised in the consolidated statement of financial position	**(1,556,936)**	(1,325,428)
	(1,474,200)	(1,259,340)

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Impairment of other receivables and deposits HK$'000	Temporary difference on LAT HK$'000	Total HK$'000
At 1 January 2018	6,795	55,655	62,450
Credited to profit or loss during the year (note 10)	5,405	—	5,405
Exchange realignment	(227)	(1,540)	(1,767)
At 31 December 2018 and 1 January 2019	**11,973**	**54,115**	**66,088**
Credited/(charged) to profit or loss during the year (note 10)	**30,517**	**(12,044)**	**18,473**
Exchange realignment	**(1,125)**	**(700)**	**(1,825)**
At 31 December 2019	**41,365**	**41,371**	**82,736**

33. DEFERRED TAX *(continued)*

Deferred tax liabilities

	Fair value adjustments of financial assets at fair value through profit or loss HK$'000	Temporary difference on revaluation gains of investment properties HK$'000	Fair value adjustments on business combinations HK$'000	Undistributed profits of PRC subsidiaries HK$'000	Temporary difference on LAT HK$'000	Total HK$'000
At 1 January 2018	156,728	440,223	280,271	9,906	843	887,971
Charged/(credited) to profit or loss during the year (note 10)	74,828	106,215	(50,715)	–	–	130,328
Exchange realignment	(12,514)	(23,904)	(21,348)	(455)	(40)	(58,261)
Acquisition of subsidiaries	–	–	365,390	–	–	365,390
At 31 December 2018 and 1 January 2019	**219,042**	**522,534**	**573,598**	**9,451**	**803**	**1,325,428**
Charged/(credited) to profit or loss during the year (note 10)	**108,688**	**218,666**	**(70,715)**	**–**	**–**	**256,639**
Exchange realignment	**(6,627)**	**(15,183)**	**(3,096)**	**(207)**	**(18)**	**(25,131)**
At 31 December 2019	**321,103**	**726,017**	**499,787**	**9,244**	**785**	**1,556,936**

The Group had unutilised tax losses of approximately HK$1,383,055,000 as at 31 December 2019 (2018: HK$1,127,671,000) for offsetting against future taxable profits of the tax entity in which the losses arose. Deferred tax assets have not been recognised for these tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised (2018: Nil).

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

33. DEFERRED TAX *(continued)*

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on certain unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$309,529,000 at 31 December 2019 (2018: HK$250,639,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

	2019 **HK$'000**	2018 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.1 each	**1,000,000**	1,000,000
Issued and fully paid:		
7,194,417,247 (2018: 6,424,417,247) ordinary shares of HK$0.1 each	**719,442**	642,441

On 2 January 2019, an aggregate of 770,000,000 ordinary shares were issued to Rong De at the subscription price of HK$1.30 per share for a cash consideration of HK$1,001 million, which was received and recorded by the Group as subscription monies received as at 31 December 2018, before deducting share issue expenses of approximately HK$1 million.

35. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Merger reserve

The merger reserve was set up upon the share swap for the Company to acquire its subsidiaries.

(ii) Contributed surplus

The contributed surplus was credited from the share premium cancellation in prior years. The application of the contributed surplus is governed by the Companies Act of Bermuda.

(iii) Statutory reserve

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Group's subsidiaries established in the PRC, and were approved by the respective boards of directors.

(iv) Capital reserve

Gain or loss arising on the acquisition of non-controlling interests and disposal of partial interests of the Group's subsidiaries without loss of control was recognised as capital reserve.

36. PERPETUAL CAPITAL SECURITIES

On 29 October 2018, the Company issued perpetual capital securities with a principal amount of HK$800,000,000 to Rong De.

The securities confer the holders a right to receive distributions at the applicable distribution rate of 6% per annum from and including 29 October 2018, payable semi-annually on 20 June and 20 December of each year. The Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the securities. Unless and until the Company satisfies in full all outstanding arrears of distribution and any additional distribution amount, the Company shall not declare or pay any dividends or distributions, or make payment on, and will procure that no dividend or other payment is made on or redeem, reduce, cancel, buy back or acquire for any consideration of any share capital thereof. The securities may be redeemed at the option of the Company, in whole but not in part.

In the opinion of the Directors, the Company is able to control the delivery of cash or other financial assets to the holders of the perpetual capital securities due to redemption other than an unforeseen liquidation of the Company. Accordingly, the perpetual capital securities are classified as equity instruments of the Company.

37. ACQUISITION OF SUBSIDIARIES

On 24 June 2018, the Group entered into an equity transfer agreement with Guangdong Zhuguang Group Company Limited, a related party, pursuant to which the Group has agreed to acquire 100% equity interests in GZ Zhuguang Urban Renewal Group. GZ Zhuguang Urban Renewal Group held 100% of the equity interests of Guangzhou Shunji Industry Company Limited (廣州舜吉實業有限公司) ("GZ Shunji") which is principally engaged in property development in the PRC.

The fair values of the identifiable assets and liabilities of GZ Zhuguang Urban Renewal Group and GZ Shunji as at the date of acquisition were as follows:

	Notes	2018 HK$'000
Property and equipment	13	154
Investment properties	14	1,296,170
Intangible assets	15	273
Completed properties held for sale		950,066
Properties under development		1,009,371
Trade and other receivables		160,781
Amount due from related parties		2,539,720
Prepayments, deposits and other assets		76,139
Cash and cash equivalents		62,078
Trade and other payables		(1,187,973)
Contract liabilities		(321,324)
Interest-bearing bank and other borrowings		(3,456,462)
Current income tax payables		(129,343)
Deferred tax liabilities	33	(365,390)
Net assets acquired		634,260
Goodwill	17	196,010
Total consideration		830,270
Consideration satisfied by cash paid in prior year		830,270
An analysis of the cash flows in respect of the acquisitions of GZ Zhuguang Urban Renewal Group and GZ Shunji were as follows:		
Cash consideration paid in 2018		—
Cash and cash equivalents acquired		62,078
Net inflow of cash and cash equivalents included in cash flows from investing activities		62,078

37. ACQUISITION OF SUBSIDIARIES *(continued)*

Since the acquisition, GZ Zhuguang Urban Renewal Group and GZ Shunji contributed HK$98,574,000 to the Group's revenue and HK$75,382,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the prior year, there would have been no significant impact to the revenue and the profit of the Group for the prior year.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group issued the 2019 Senior Notes with an aggregate principal amount of US$410,000,000 for settlement of the 2016 Senior Notes with the same principal amount (note 31(d)) and had non-cash additions to right-of-use assets and lease liabilities of HK$21,014,000, in respect of lease arrangements for office properties and motor vehicles (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings	Derivative financial instruments	Finance lease payables	Amounts due to the ultimate holding company	Amounts due to related parties included in trade and other payables
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	11,162,303	81,944	658	880	105,780
Changes from financing cash flows	4,767,190	(61,743)	(658)	–	300,444
Changes from operating cash flows	–	–	–	23,150	–
Acquisition of a subsidiary	3,456,462	–	–	–	–
Foreign exchange movement	(240,800)	21	–	–	(15,538)
Net change in fair value	–	(2,258)	–	–	–
At 31 December 2018 and 1 January 2019	**19,145,155**	**17,964**	**–**	**24,030**	**390,686**
Changes from financing cash flows	**(512,101)**	**–**	**–**	**327,520**	**(177,448)**
New issue of warrants	**(51,307)**	**51,307**	**–**	**–**	**–**
New leases	**21,014**	**–**	**–**	**–**	**–**
Foreign exchange movement	**(396,744)**	**–**	**–**	**–**	**(7,438)**
Net change in fair value	**–**	**(29,137)**	**–**	**–**	**–**
At 31 December 2019	**18,206,017**	**40,134**	**–**	**351,550**	**205,800**

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 HK$'000
Within operating activities	**7,902**
Within financing activities	**772**
	8,674

39. FINANCIAL GUARANTEES

The Group had the following financial guarantees as at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Guarantees in respect of the mortgage facilities provided to certain purchasers of the Group's properties	**3,671,035**	3,313,578

As at 31 December 2019, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any auction proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees at initial recognition and the expected credit loss allowance are not significant as the Directors consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalties.

40. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings are included in note 31 to the financial statements.

41. COMMITMENTS

(a) The Group had the following capital and other commitments as at the end of the reporting period:

	2019 **HK$'000**	2018 HK$'000
Contracted, but not provided for:		
Properties under development	**734,768**	1,323,811
Acquisition of land use right	**1,172,168**	4,014,306
	1,906,936	5,338,117

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office properties under operating lease arrangements. Leases for properties were negotiated for terms ranging from one to ten years.

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 one year	7,255
In the second to fifth years, inclusive	63
	7,318

42. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
Rong De	Ultimate holding company of the Company
Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi)	Major shareholder of Rong De, the chairman of the Company's board of directors (the "Board"), the Company's executive director, and a member of key management personnel of the Company
Mr. Liao Tengjia	Major shareholder of Rong De, deputy chairman of the Board, the Company's executive director and a member of key management personnel of the Company
Mr. Huang Jiajue	Deputy chairman of the Board, the Company's executive director, and a member of key management personnel of the Company
Guangdong Zhuguang Group Company Limited ("GD Zhuguang Group")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Zhuguang Investment Company Limited ("GZ Zhuguang Investment")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Conghua Zhuguang Investment Company Limited ("GZ Conghua Zhuguang Investment")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Zhuguang Property Development Company Limited ("GZ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Shenzhen Zhuguang Property Company Limited ("SZ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Beijing Zhuguang Property Development Company Limited ("BJ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Yifa Industrial Development Co., Ltd ("Yifa Industrial")	Mr. Liao Tengjia has significant influence in this company
Qingyuan Qingxin District Huilihao Real Estate Company Limited ("Qingyuan Huilihao")	Mr. Liao Tengjia has significant influence in this company
Sanya Lantian Investment Co., Ltd ("Sanya Lantian")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Development Automobile Town Limited ("Automobile Town")	Mr. Liao Tengjia has significant influence in this company
Beijing Quan Ying Property Development Company Limited ("BJ Quan Ying")	Mr. Liao Tengjia has significant influence in this company
Guangdong Deer Lake Spa Holiday Hotel Company Limited ("GD Deer Lake Hotel")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Zhuguang Royal Star Apartment Company Limited ("Royal Star Apartment")	Mr. Liao Tengjia has significant influence in this company

42. RELATED PARTY TRANSACTIONS *(continued)*

(a) Name and relationship with related parties *(continued)*

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2019 HK$'000**	2018 HK$'000
Sales of properties to key management	(i)	**–**	26,120
Project management service income received from Qingyuan Huilihao	(i)	**–**	12,115
Finance component of income from GD Zhuguang Group and its subsidiaries	(ii)	**1,045,058**	—
Interest income from GD Zhuguang Group	(iii)	**96,528**	157,268
Service income received from GD Zhuguang Group and its subsidiaries	(i)	**34,643**	—

Notes:

(i) The above transactions were conducted in accordance with the terms of the underlying agreements.

(ii) The finance component of income was derived from the other receivables related to urban redevelopment projects in accordance with the terms of the underlying agreements.

(iii) The interest income was derived from the deposit for acquisition of equity interests in a property development project at a mutually agreed rate.

(iv) GZ Zhuguang Group has provided pledges and guarantees for the Group's bank and other borrowings of HK$10,203,971,000 at 31 December 2019 (2018: HK$11,910,267,000).

(v) Rong De has provided pledges and guarantees for the Group's senior notes of HK$3,381,035,000 (2018: HK$3,551,193,000) and warrants of HK$40,134,000 (2018: HK$17,964,000) at 31 December 2019.

(vi) During the years ended 31 December 2019 and 2018, the Group's principal place of business in the PRC was provided by GD Zhuguang Group for which no charge was made.

(vii) In the opinion of the Directors, the related party transactions were conducted in the ordinary course of business.

(b) Compensation of key management personnel of the Group

In the opinion of the Directors, the directors and the chief executive officer of the Company represented the key management personnel of the Group and details of the compensation of the key management personnel are set out in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

42. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

As at 31 December 2019 and 2018, the Group had the following material balances with related parties:

	Notes	**2019** **HK$'000**	2018 HK$'000
Amounts due from related parties included in trade receivables:			
— Qingyuan Huilihao	42(c)(iii)	**8,981**	9,182
Amounts due from related parties included in other receivables			
— GD Zhuguang Group	42(c)(iv)	**—**	160,781
— GZ Conghua Zhuguang Investment	42(c)(vi)	**948,898**	—
— BJ Quan Ying	42(c)(v)	**7,442**	—
— Yifa Industrial	42(c)(v)	**17,452**	—
— GD Deer Lake Hotel	42(c)(v)	**1,786**	—
— Royal Star Apartment	42(c)(v)	**2,680**	—
		978,258	160,781
Other receivables with related parties included in prepayments, deposits and other assets			
— GD Zhuguang Group	23	**1,356,292**	—
— GZ Zhuguang Property	23	**3,701,072**	—
— GZ Conghua Zhuguang Investment	23	**2,571,663**	—
— SZ Zhuguang Property	23	**382,911**	—
		8,011,938	—

42. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties: *(continued)*

	Notes	**2019 HK$'000**	2018 HK$'000
Amounts due from related parties included in prepayments and deposits			
— GD Zhuguang Group	23	**781,445**	1,154,985
— GZ Zhuguang Property	23	**–**	2,841,812
— GZ Conghua Zhuguang Investment	23	**–**	728,144
		781,445	4,724,941
Amounts due from related parties included in financial assets at fair value through profit or loss			
— GZ Zhuguang Investment	24(a)	**–**	1,314,856
— BJ Zhuguang Property	24(a)	**1,985,333**	2,035,753
— Yifa Industrial	24(a)	**1,885,247**	1,899,425
		3,870,580	5,250,034
Amounts due to related parties included in other payables			
— GD Zhuguang Group	42(c)(i)	**205,543**	390,347
— GZ Zhuguang Investment	42(c)(i)	**–**	11
— SZ Zhuguang Property	42(c)(i)	**–**	66
— GZ Conghua Zhuguang Investment	42(c)(i)	**257**	262
		205,800	390,686
Amounts due to the ultimate holding company (Rong De)	42(c)(ii)	**351,550**	24,030

42. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties: *(continued)*

Notes:

(i) Amounts due to related parties included in other payables are unsecured, interest-free and repayable on demand.

(ii) Amounts due to the ultimate holding company are unsecured, interest-free and repayable on demand.

(iii) An amount due from Qingyuan Huilihao included in trade receivables was derived from the provision of project management services, which would be settled in accordance with mutually agreed terms.

(iv) Amounts due from GD Zhuguang Group included in other receivables were interest receivable, which would be settled in accordance with mutually agreed terms.

(v) Amounts due from related parties included in other receivables were derived from the provision of management services, which would be settled in accordance with mutually agreed terms.

(vi) Amounts due from GZ Conghua Zhuguang Investment included in other receivables are unsecured, interest-free and repayable on demand.

43. FINANCIAL INSTRUMENTS BY CATEGORY

Other than unlisted PRC investment funds and financial assets at fair value through profit or loss and derivative financial instruments as disclosed in note 24 and note 30 to the financial statements, respectively, all financial assets and financial liabilities of the Group as at 31 December 2019 and 2018 were financial assets at amortised cost and financial liabilities at amortised cost, respectively.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments as at 31 December 2019 and 2018 approximated to their fair values.

Management has assessed that the fair values of trade and other receivables, deposits, restricted cash, cash and cash equivalents, term deposits, trade and other payables and the current portion of bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The carrying amounts of the non-current portion of bank and other borrowings approximate to their fair values. The fair values of the non-current portion of bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes of fair value as a result of the Group's own non-performance risk for bank and other borrowings as at 31 December 2019 and 2018 were assessed to be insignificant.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The Group has estimated the fair value of unlisted PRC investment funds by using a discounted cash flow valuation model based on the market interest rate of instruments with similar terms and risks.

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of derivative financial instruments are the same as their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets				
Financial assets at fair value through profit or loss	–	–	3,939,090	3,939,090
Financial liabilities				
Derivative financial instruments	–	–	40,134	40,134

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets				
Financial assets at fair value through profit or loss	—	—	5,320,075	5,320,075
Financial liabilities				
Derivative financial instruments	—	—	17,964	17,964

The movements in fair value measurements of financial assets within Level 3 are as follows:

	2019 **HK$'000**	2018 HK$'000
Financial assets at fair value through profit or loss:		
At 1 January	**5,320,075**	3,412,257
Change in fair value during the year	**662,507**	459,600
Addition/(disposal) during the year	**(966,374)**	1,595,266
Transfer to financial assets at amortised cost	**(948,898)**	—
Exchange realignment	**(128,220)**	(147,048)
At 31 December	**3,939,090**	5,320,075

The movements in fair value measurements of financial liabilities within Level 3 is set out in note 38(b) to the financial statements.

The details of the valuation technique and the inputs used in the fair value measurement of financial assets at fair value through profit or loss and derivative financial instruments have been disclosed in note 24 and note 30 to the financial statements, respectively.

Save as disclosed above, during the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other borrowings, amounts due from/to related parties, and cash and term deposits with initial terms of over three months. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are market risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Market risk

The Group's assets are predominantly in the form of investment properties, properties under development and completed properties held for sale in the PRC. In the event of a severe downturn in the property market in the PRC, these assets may not be readily realised.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than term deposits held at banks, the Group does not have significant interest-bearing assets. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other borrowings with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) on profit before tax** HK$'000
2019		
RMB	**0.5%**	**(3,058)**
RMB	**(0.5%)**	**3,058**
HK$	**0.5%**	**(247)**
HK$	**(0.5%)**	**247**
2018		
RMB	0.5%	(8,392)
RMB	(0.5%)	8,392
HK$	0.5%	(1,683)
HK$	(0.5%)	1,683

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Foreign currency risk

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other borrowings denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of borrowings or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong and the BVI, in which bank and other borrowings were denominated either in HK$ or US$.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate against RMB and US$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) on profit before tax HK$'000
2019		
If HK$ weakens against RMB	**5%**	**451,981**
If HK$ strengthens against RMB	**(5%)**	**(451,981)**
If HK$ weakens against US$	**5%**	**(191,866)**
If HK$ strengthens against US$	**(5%)**	**191,866**
2018		
If HK$ weakens against RMB	5%	374,101
If HK$ strengthens against RMB	(5%)	(374,101)
If HK$ weakens against US$	5%	(190,944)
If HK$ strengthens against US$	(5%)	190,944

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 39.

The Group was exposed to concentration of credit risk through its term deposits with initial terms of over three months, other receivables from related parties and deposits for acquisition of equity interests in property development projects.

The credit risk of the Group's other financial assets, which mainly comprise term deposits with initial terms of over three months, other receivables, deposits for acquisition of equity interests in property development projects and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk *(continued)*

Maximum exposure and year-end staging (continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets included in prepayments, deposits and other assets	**11,889,388**	**—**	**—**	**—**	**11,889,388**
Trade and other receivables*	**1,543,428**	**—**	**—**	**62,209**	**1,605,637**
Term deposits with initial terms of over three months	**2,541,890**	**—**	**—**	**—**	**2,541,890**
Restricted cash	**994,217**	**—**	**—**	**—**	**994,217**
Cash and cash equivalents	**353,708**	**—**	**—**	**—**	**353,708**
Financial guarantees issued	**3,671,035**	**—**	**—**	**—**	**3,671,035**
	20,993,666	**—**	**—**	**62,209**	**21,055,875**

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets included in prepayments, deposits and other assets	7,321,306	—	—	—	7,321,306
Trade and other receivables*	1,131,113	337,631	—	47,445	1,516,189
Term deposits with initial terms of over three months	5,625,869	—	—	—	5,625,869
Restricted cash	822,606	—	—	—	822,606
Cash and cash equivalents	544,610	—	—	—	544,610
Financial guarantees issued	3,313,578	—	—	—	3,313,578
	18,759,082	337,631	—	47,445	19,144,158

* The credit quality of the financial assets included in trade and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including proceeds from the pre-sale of properties, committed credit facilities, and short-term and long-term borrowings. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining an adequate amount of cash and cash equivalents and flexibility in funding through available sources of financing. The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include control on investment in land bank, adjusting project development timetable to adapt to the changing local real estate market environment, implementing cost control measures, promotion of sales of completed properties, and accelerating sales with more flexible pricing. The Group will pursue such options based on its assessment of relevant future costs and benefits.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within one year or on demand HK$'000	In the second year HK$'000	In the third to fifth years, inclusive HK$'000	Over five years HK$'000	Total HK$'000
2019					
Bank and other borrowings (excluding lease liabilities)	5,603,838	9,504,461	5,827,984	639,503	21,575,786
Lease liabilities	8,243	8,268	7,452	–	23,963
Trade and other payables	3,392,904	–	–	–	3,392,904
Amounts due to the ultimate holding company	351,550	–	–	–	351,550
Derivative financial instruments	40,134	–	–	–	40,134
	9,396,669	9,512,729	5,835,436	639,503	25,384,337
Financial guarantees issued:					
Maximum amount guaranteed	3,671,035	–	–	–	3,671,035

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Liquidity risk *(continued)*

	Within one year or on demand HK$'000	In the second year HK$'000	In the third to fifth years, inclusive HK$'000	Over five years HK$'000	Total HK$'000
2018					
Bank and other borrowings	10,959,353	4,766,804	5,273,764	–	20,999,921
Trade and other payables	3,682,758	–	–	–	3,682,758
Amount due to the ultimate holding company	24,030	–	–	–	24,030
Derivative financial instruments	17,964	–	–	–	17,964
	14,684,105	4,766,804	5,273,764	–	24,724,673
Financial guarantees issued: Maximum amount guaranteed	3,313,578	–	–	–	3,313,578

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. Net debt includes total bank and other borrowings less cash and cash equivalents, restricted cash and term deposits with initial terms of over three months. Total capital comprises total equity plus net debt. The Group aims to maintain a healthy and stable gearing ratio.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Capital management *(continued)*

The gearing ratios as at the end of the reporting periods were as follows:

	2019	2018
	HK$'000	HK$'000
Bank and other borrowings	**18,206,017**	19,145,155
Less: Cash and cash equivalents	**(353,708)**	(544,610)
Term deposits with initial terms of over three months	**(2,541,890)**	(5,625,869)
Restricted cash	**(994,217)**	(822,606)
Net debt	**14,316,202**	12,152,070
Total equity	**7,564,094**	6,848,307
Total capital	**21,880,296**	19,000,377
Gearing ratio	**65%**	64%

46. EVENTS AFTER THE REPORTING PERIOD

(a) On 18 December 2019, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement to acquire 100% of the issued share capital of a target company at the consideration of RMB1,050 million (approximately HK$1,165.7 million), which indirectly holds 51% interest in a project company engaged in the development of a commercial property project in Guangzhou, the PRC. The acquisition was completed in March 2020. Further details of the acquisition are set out in the Company's announcement dated 18 December 2019.

(b) On 22 April 2020, the Company, certain subsidiaries of the Company and an independent third party (as the "Purchaser") entered into an agreement, pursuant to which a subsidiary of the Company (as the "Vendor") has conditionally agreed to sell, and the Purchaser has conditionally to purchase, the 100% equity interest in a target company (a subsidiary of the Company established in the PRC with limited liability) at the consideration of RMB1,500 million (equivalent to approximately HK$1,665 million) and the sale loan amounting to approximately RMB1,818 million (equivalent to approximately HK$2,018 million) as at 31 December 2019 advanced by the Vendor and/or the subsidiaries of the Company to the target company at the face value of the sale loan, upon and subject to the terms and conditions of the agreement. Up to the date of approval of these financial statements, the Vendor has received a deposit of RMB1,405 million (approximately HK$1,560 million) from the Purchaser, and the transaction has not been completed. Further details of the transaction are set out in the Company's announcement dated 22 April 2020.

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Property and equipment	**20,155**	10
Investments in subsidiaries	**580,881**	580,881
Prepayments	**5,582**	—
Deferred tax assets	**1,040**	—
Total non-current assets	**607,658**	580,891
CURRENT ASSETS		
Amounts due from subsidiaries	**15,665,679**	13,723,707
Other receivables	**417,476**	111,708
Cash and cash equivalents	**40,444**	6,837
Total current assets	**16,123,599**	13,842,252
CURRENT LIABILITIES		
Amounts due to subsidiaries	**5,720,630**	4,831,000
Other payables and accruals	**506,401**	31,526
Interest-bearing bank and other borrowings	**935,872**	4,338,581
Current income tax payables	**32,903**	1,204
Derivative financial instruments	**40,134**	17,964
Total current liabilities	**7,235,940**	9,220,275
NET CURRENT ASSETS	**8,887,659**	4,621,977
TOTAL ASSETS LESS CURRENT LIABILITIES	**9,495,317**	5,202,868
NON-CURRENT LIABILITIES		
Other payables	**33,239**	—
Interest-bearing bank and other borrowings	**3,348,031**	—
Total non-current liabilities	**3,381,270**	—
Net assets	**6,114,047**	5,202,868
EQUITY		
Share capital	**719,441**	642,441
Perpetual capital securities	**856,416**	800,000
Reserves (note)	**4,538,190**	2,759,427
Subscription monies received	**—**	1,001,000
Total equity	**6,114,047**	5,202,868

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	4,640,287	717,209	(1,963,605)	3,393,891
Loss and total comprehensive loss for the year	—	—	(634,464)	(634,464)
At 31 December 2018 and 1 January 2019	4,640,287	717,209	(2,598,069)	2,759,427
Profit and total comprehensive income for the year	—	—	854,764	854,764
Issuance of shares	923,999	—	—	923,999
At 31 December 2019	5,564,286	717,209	(1,743,305)	4,538,190

As at 31 December 2019, the contributed surplus of the Company includes (i) approximately HK$477,805,000 (2018: HK$477,805,000) that arose when the Company issued shares in exchange for the shares of companies being acquired, and represented the difference between the nominal value of the Company's shares issued and the value of the shares acquired; and (ii) approximately HK$239,404,000 (2018: HK$239,404,000) which was credited from the share premium cancellation in the prior years. The application of the contributed surplus is governed by the Companies Act of Bermuda.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 May 2020.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is as follows:

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**4,074,814**	2,704,796	2,766,510	1,908,153	3,293,318
Profit before tax	**1,344,797**	523,151	383,151	246,764	1,282,565
Income tax	**(625,300)**	(445,299)	(237,713)	(426,196)	(774,091)
Profit/(loss) for the year	**719,497**	77,852	145,438	(179,432)	508,474
Attributable to:					
Equity holders of the parent	**747,225**	4,717	174,401	(175,645)	591,409
Non-controlling interests	**(27,728)**	73,135	(28,963)	(3,787)	(82,935)
	719,497	77,852	145,438	(179,432)	508,474

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**35,843,685**	35,808,435	24,152,944	18,746,947	17,428,582
Total liabilities	**(28,279,591)**	(28,960,128)	(18,970,371)	(13,940,856)	(13,262,372)
Net assets	**7,564,094**	6,848,307	5,182,573	4,806,091	4,166,210
Equity attributable to:					
Equity holders of the parent	**7,465,574**	6,722,504	4,858,131	4,472,288	3,810,715
Non-controlling interests	**98,520**	125,803	324,442	333,803	355,495
Total equity	**7,564,094**	6,848,307	5,182,573	4,806,091	4,166,210

PARTICULARS OF PROPERTIES

Investment properties		Attributable beneficial interest to the Group	Total Saleable GFA m^2	Existing use	Lease term
1.	Levels 31-33, 35-39, 40-43 and 45 Royal Mediterranean Hotel No. 518 Tianhe Road Tianhe District Guangzhou Guangdong Province The PRC	100%	18,184	H	Medium lease
2.	Various floors Zhukong International Lot A2-1 Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	80%	43,918	C/O	Medium lease
3.	Block 7 and various units of Block 9 Yujing Scenic Garden Provincial Highway G105 line Jiulibu District Jiangpu Town Conghua Guangzhou Guangdong Province The PRC	100%	3,628	C	Medium lease
4.	Various units Central Park Lot H3-3 Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	2,746	C/O	Medium lease

Particulars of Properties

	Investment properties	Attributable beneficial interest to the Group	Total Saleable GFA m^2	Existing use	Lease term
5.	Various floors Hua Cheng Yujing Garden No. 770 Hua Cheng Da Dao Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	32,051	C/O	Medium lease
6.	G235 Yangguang Section Fengshun New Area Fengshun County Meizhou City Guangdong Province The PRC	100%	10,084	C/H	Medium lease
7.	Various retail units Tianhu Yujing Shui Di Village Jiulibu District Wenquan Town Conghua Guangzhou Guangdong Province The PRC	100%	2,001	C	Medium lease
8.	Meizhou Yujing Hotel Chaotang Village Chengdong Town Meixian District Meizhou City Guangdong Province The PRC	100%	7,389	H	Medium lease

PARTICULARS OF PROPERTIES

Detail of property development projects		Attributable beneficial interest to the Group	Site area m²	Total GFA m²	Total Saleable GFA m²	Completed and sold properties m²	Completed properties held for sale m²	Under development m²	Completed properties held as investment properties m²	Existing use	Estimated/ actual date of completion
9.	Zhukong International Lot A2-1, Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	80%	10,449	133,297	109,738	43,949	21,871	–	43,918	C/CP/O	2015
10.	Pearl Yunling Lake Provincial Highway S355 line Jiekou Street Conghua Guangzhou Guangdong Province The PRC	100%	200,083	126,827	95,130	30,921	37,165	27,044	–	R/H/V	2017-2019
11.	Yujing Scenic Garden Provincial Highway G105 line Jiulibu District Jiangpu Town Conghua Guangzhou Guangdong Province The PRC	100%	294,684	886,270	758,575	614,016	51,810	89,121	3,628	R/C/CP/S	2014-2020
12.	Tianhu Yujing Shui Di Village Jiulibu District Wenquan Town Conghua Guangzhou Guangdong Province The PRC	100%	55,031	241,556	186,895	135,519	49,375	–	2,001	R/C/CP	2016
13.	Central Park Lot H3-3 Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	3,430	36,489	28,909	23,631	2,532	–	2,746	S/C/CP	2015
14.	Pearl Yijing No.168 Xin Kai Street West Section Xianghe County Langfang City Hebei Province The PRC	100%	63,044	192,441	164,628	135,914	27,689	1,025	–	R/C/CP	2017-2019
15.	Xincheng Yujing Zhong Su Shang Wei Sunshine Village Tang Nan Town Fengshun County Meizhou City Guangdong Province The PRC	100%	280,836	355,160	310,351	105,175	37,090	158,002	10,084	R/V	2018-2020
16.	Nansha Scenic Jinzhou Main Street Nansha District Guangzhou The PRC	100%	28,319	103,266	92,544	92,532	12	–	–	R/C/CP	2012-2013

Particulars of properties

Detail of property development projects		Attributable beneficial interest to the Group	Site area m²	Total GFA m²	Total Saleable GFA m²	Completed and sold properties m²	Completed properties held for sale m²	Under development m²	Completed properties held as investment properties m²	Existing use	Estimated/ actual date of completion
17.	Project Tianying Junyuan Jiang Pu Street Conghua Guangzhou The PRC	100%	22,742	74,502	59,679	25,255	34,424	–	–	R/C	2019
18.	Hua Cheng Yujing Garden No. 770 Hua Cheng Da Dao Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	60,237	433,015	109,113	28,927	48,135	–	32,051	R/C/CP/O	2017-2019
19.	Meizhou Chaotang Project Chaotang Village Chengdong Town Meixian District Meizhou City The PRC	100%	46,793	97,617	34,202	–	–	26,813	7,389	H/V	2021
20.	Yujing Yayuan Guoji Fuyong Nanqu Zhongshan City The PRC	50%	15,745	50,471	37,967	–	–	37,967	–	R/C/CP	2020

R-Residential C-Commercial CP-Car park H-Hotel O-Office V-Villa S-Service Apartment