ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
中華國際控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1064

ANNUAL REPORT 2019

Contents

Drawings appeared in this report are computerised imaging artworks and do not associate with the Group's existing or potential property development projects.

Corporate Information

BOARD OF DIRECTORS

Executive Director

Ho Kam Hung

Non-Executive Director

Young Kwok Sui

Independent Non-Executive Directors

Tam Kong, Lawrence
Wong Miu Ting, Ivy
Wong Kui Fai

COMPANY SECRETARY

Chun Wai Yin *(appointed on 1 February 2020)*

REGISTERED OFFICE

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2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Shun Tak Centre
168-200 Connaught Road Central
Central
Hong Kong

PRINCIPAL OFFICE IN MAINLAND CHINA

Level 14, Gang Yu Square
Chaodong Road
Chaotianmen
Chongqing

AUDITOR

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

COMPANY WEBSITE

www.zhonghuagroup.com

LEGAL ADVISERS

As to Hong Kong Law
ReedSmith Richards Butler
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18 Westlands Road
Taikoo Place
Quarry Bay
Hong Kong

As to Bermuda Law
Conyers Dill & Pearman
29th Floor One Exchange Square
8 Connaught Place
Central
Hong Kong

PROPERTY VALUERS

Savills Valuation and Professional Services Limited
12th Floor, Cityplaza One
1111 King's Road
Taikoo Shing
Hong Kong

Vigers Appraisal and Consulting Limited
27th Floor, Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKERS

Wing Hang Bank (China) Limited,
Guangzhou Branch
Nanyang Commercial Bank, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LISTING AND STOCK CODE

The Main Board of The Stock Exchange of
Hong Kong Limited: 1064

FINANCIAL REVIEW

Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a revenue of HK$41,732,000 (2018: HK$51,300,000) for the year ended 31 December 2019. Net loss attributable to ordinary equity holders of the Company for the year was HK$18,505,000 (2018: profit of HK$11,989,000). The decrease of the Group's turnover during the year was attributable to the closure of the wholesale centre in Guangzhou, Mainland China in mid-August 2019.

Net Loss

The loss before tax of the Group for the year ended 31 December 2019 was HK$78,805,000 (2018: profit of HK$69,362,000) and the loss of the Group for the year was HK$62,099,000 (2018: profit of HK$50,269,000). The Group's loss for the year was attributable to (i) a decrease of fair value of the Group's investment properties in amount of HK$77,970,000 (2018: increase of HK$53,520,000) as at year end date; (ii) a provision for legal claim of HK$3,842,000 (2018: Nil); and (iii) accrual of demolition expenses of HK$5,876,000 (2018: Nil) for the wholesale centre in Guangzhou.

Adjusted EBITDA

The Adjusted EBITDA of the Group for the year ended 31 December 2019 was profit of HK$5,436,000 (2018: profit of HK$22,813,000). Adjusted EBITDA refers to the earnings before interest, tax and depreciation but does not take into account the effect of changes of fair value of investment properties. For easy reference purpose, the Group's Adjusted EBITDA for the year also included depreciation of right-of-use asset under the newly adopted HKFRS 16 with effect from 1 January 2019 of HK$2,078,000 (2018: N/A).

Liquidity and Financial Resources

During the year, the Group's operations were financed mainly by cash flows generated from business operations as well as borrowings. The Group's net cash flows from operating activities during the year were HK$12,538,000 (2018: HK$21,154,000).

As at 31 December 2019, the Group had cash and bank balances of HK$77,268,000 (2018: HK$91,511,000).

As at 31 December 2019, the Group had outstanding borrowings of HK$72,927,000 (2018: HK$80,714,000) comprising an interest-bearing bank loan of nil (2018: HK$7,137,000), lease liability of HK$1,269,000 (2018: N/A) and a loan from a director in an amount of HK$71,658,000 (2018: HK$73,577,000). According to their respective terms, the interest-bearing bank loan and lease liability are repayable within one year or on demand and the bank loan was denominated in Renminbi ("RMB"). The Group's exposure to interest rate fluctuation was minimal in the past years.

The Group's gearing ratio was 0.02 as at 31 December 2019 (2018: 0.02), calculated based on the Group's interest-bearing bank borrowings, lease liability and loan from a director in an aggregate amount of HK$72,927,000 (2018: HK$80,714,000) over total assets of HK$4,299,524,000 (2018: HK$4,495,261,000). The Group maintained a relatively low gearing ratio in the past years.

Management Discussion and Analysis

Assets

As at 31 December 2019, the Group's net current assets, net assets and total assets amounted to HK$25,027,000 (2018: HK$42,293,000), HK$2,914,869,000 (2018: HK$3,057,294,000) and HK$4,299,524,000 (2018: HK$4,495,261,000), respectively.

The Group had two investment properties, one in Chongqing and the other in Guangzhou. The investment property in Chongqing, which the Group had 100% interest, had carrying amount of HK$398,272,000 (2018: HK$407,790,000) as at 31 December 2019. The investment property in Guangzhou, which the Group had 25% interest, had carrying amount of HK$3,752,000,000 (2018: HK$3,933,000,000) as at 31 December 2019.

The Group also had properties held for sale with book cost of HK$34,826,000 (2018: HK$35,759,000) situated at Baiyun District (白雲區) and Fangcun District (芳村區) in Guangzhou.

Exchange Rate Risk

The Group's principal operations are located in Mainland China while the financial statements of these operating subsidiaries are reported in Renminbi. The Company may expose to exchange rate risk when transactions and financial statements of these operating subsidiaries reported in Renminbi are consolidated to the Company's consolidated financial statements which are reported in Hong Kong dollars. The Group did not take measures such as execution of forward hedging or exchange swap instruments to hedge the potential impact arising from adverse currency fluctuation between Renminbi and Hong Kong dollars in the past years. Given the exchange rates between Renminbi and Hong Kong dollars were not fluctuated from time to time in the past years, the Group could reasonably assess the trend of exchange rates between the two currencies in order to reduce its adverse impact to the Company's consolidated financial statements.

Charges on Assets

During the year, certain assets of the Group were pledged to secure banking facilities granted to the Group, and the Company together with one of its substantial shareholders provided guarantees to such banking facilities.

Contingent Liabilities

As at 31 December 2019, guarantees given to banks for mortgage loans provided to certain purchasers of the Group's properties amounted to HK$139,000 (2018: HK$139,000).

FUND RAISING ACTIVITIES

On 27 December 2019, it was announced that the Company entered into a subscription agreement with an independent third party in respect of subscription and issue of 120,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate. Pursuant to the terms of the subscription agreement, both the Company and the subscriber should have no claims against each other except for any antecedent breaches of any obligation under therein if in case completion of the subscription did not take place by 31 March 2020. Subscription did not take place by 31 March 2020 and the subscription agreement was lapsed accordingly.

On 15 April 2020, it was announced that the Company entered into another subscription agreement with Link Tide Investments Limited, a private company incorporated in the British Virgin Islands and an independent third party, in respect of subscription and issue of 108,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate. These new shares, if issued, would represent (i) approximately 17.8% of the existing issued share capital of the Company as at the date of this report; and (ii) approximately 15.1% of the issued share capital of the Company as enlarged by the issue and allotment of the new shares. The gross proceeds of the subscription would be HK$16,200,000. The net proceeds (after deducting all applicable costs and expenses of the subscription) of HK$16,000,000 were intended to be applied as HK$12,000,000 towards to the re-development costs of the Company's development project in Guangzhou and the balance of HK$4,000,000 as general working capital of the Group. It is expected that completion of the subscription would take place on or before 30 April 2020.

FINAL DIVIDEND

The board of directors of the Company (the "Directors") did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING

It is scheduled that the forthcoming annual general meeting of the Company will be held on Monday, 22 June 2020.

Notice of annual general meeting of the Company and related circular to shareholders will be sent to the shareholders of the Company under separate cover.

BUSINESS REVIEW

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and management businesses in Mainland China and have two major property interests, one in Chongqing (重慶市) and the other in Guangzhou (廣州市).

Guang Yu Square in Chongqing

The Group's property interest in Chongqing is situated at Chaotinmen, Yuzhong District, Chongqing (重慶市渝中區朝天門). With a history of over five centuries and situated in the northeast of Yuzhong District and at the delta of Yangtze River (長江) and Jianing River (嘉寧江), Chaotinmen is the most prominent port in Chongqing for transporting goods and passengers to and from the Three Gorges (三峽). Guang Yu Square (港渝廣場) is located at the junction of Chao Dong Road (朝東路) and Shanxi Sixth Lane (陝西六巷) in Chaotinmen which is within walking distance of about 15 minutes to the Port of the Three Gorges (三峽碼頭) and walking distance of about 20 minutes to Jiafangbei (解放碑), the most prime shopping area in Chongqing as well as with walking distance of about 5 minutes to Raffles City Chongqing (重慶來福仕廣場), the newly developed and most spectacular commercial landmark in Chongqing and within walking distance of about 10 minutes to Chaotinmen Square (朝天門廣場), which is one of the most famous sightseeing points in Chongqing.

Guang Yu Square is a 15-storey commercial building with a total gross floor area of about 49,400 square metres, out of which the Group owns portion of Basement, Levels 1 to 4, Levels 8 and 11 with total gross floor area of about 24,400 square metres. The property, which has been fully refurbished in 2016, is presently a multi-floor shopping mall focusing in wholesale and retailing of men's wear and footwear. There are about 50–70 shops per level with shop area ranging from 20–60 square metres per shop. Most shops are leased to unsolicited third parties for a term of about one year renewable automatically with prevailing market rental. The shopping mall (the floors owned by the Group) is almost fully occupied and shop turnover rate is maintained at a relatively low level. Given Chaotinmen has been one of the major clothing distribution points in Chongqing for nearby cities and the Three Gorges region for decades, Guang Yu Square is one of the most popular men's wear and footwear wholesale points in the region.

Following the commencement of business of the Raffles City Chongqing (owned and operated by third parties) in late 2019, Guang Yu Square extended business hours from 4 pm to 8 pm for attracting more walk-in customers. Barring from the temporary closure of the shopping mall as interrupted by the COVID-19 pandemic, it is expected that the property will generate higher revenue to the Group per month in the second half of 2020.

Metropolis Shoes City in Guangzhou

The Group's property interest in Guangzhou is situated at Yuexiu District, Guangzhou (廣州市越秀區). Metropolis Shoes City (廣州大都市鞋城) is located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Lane (謝恩里) in Yuexiu District which is within walking distance of about 3 minutes to the Old Hall (舊館) of the Canton Fair (廣州交易會), which was once the only export window in China before its Reform and Open Door Policy (改革開放政策) implemented in 1978 and within walking distance of about 5 minutes to the riverbank of the Pearl River (珠江), the icon of Guangzhou.

The Metropolis Shoes City (before operation ceased) was a 2-storey non-permanent building with gross floor area of about 14,700 square metres and had obtained the construction safety permits and fire safety permits granted by relevant governmental authorities annually since 2010. The mall had about 500 shops with shop area of about 30 square metres per shop. Most shops were leased to unsolicited third parties for a term of about one year renewable automatically with prevailing market rental. The mall was almost fully occupied and shop turnover was maintained at a relatively low level. With a history of over one century for footwear wholesale business in the region, the Metropolis Shoes City was the most popular footwear boutique showcase and wholesale centre in Guangzhou.

In order to support the Renovation Scheme for Old Zones in Guangzhou (廣州市老城區改造提升工程) promulgated by the Guangzhou Municipal People's Government (廣州市人民政府) (the "Guangzhou Government") and the Upgrade Programme of Jiefang Road South for the 70th National Day Celebration (迎賀建國七十週年美化解放南路一帶外貌設施) implemented by the Yuexiu District People's Government (越秀區人民政府) (the "Yuexiu Government"), the Metropolis Shoes City ceased operation in August 2019 for re-development purpose. The Yuexiu Government expressed that they would use their best endeavors to support G2 Zheng Da's re-development plan.

With the collaboration of the Yuexiu Government and the Group, most of the tenants of the Metropolis Shoes City were relocated to another vacant mall (owned and operated by third parties) within the same district in November 2019. As to-date, except for a few shops next to the mall continued to operate business as usual, the mall was demolished and the development site was vacant.

The re-development project is at its planning stage and intended to be developed into a 22-storey versatile grade A commercial building complex with twin towers and 3-level of basement for wholesale and exhibition hall facilities, office and service apartment uses with ancillary facilities such as carpark and loading/unloading bays with total gross floor area of about 234,000 square metres. It is also planned that the basement of the new building complex will be linked via subway to two metro stations, namely Yide Lu Station (一德路站) and Haizhou Square Station (海珠廣場站). It is the present intention of the Group that the new commercial complex, if completed, will be held for long-term investment purpose. Despite the planning work was interrupted by the COVID-19 pandemic in February and March 2020, negotiations with various governmental authorities are underway with an aim to mapping out a final re-development plan in late 2020.

According to the latest construction schedule, it is expected that the development project will take about four years and be completed by two phases, the first of which will be completed in late 2022 and the second stage will be completed in late 2024. Subject to the grant of inspection and safety permits by the relevant regulatory authorities, it is expected that the new commercial complex will commence business and generate rental revenue to the Group at its earliest in 2023.

The development project will be constructed with a budgeted cost of about RMB1,700 million (HK$1,920 million), of which the Group and the Vendors (as defined below) will bear 25% and 75% of the total costs, respectively, (assumed on the basis that the Group held 25% interest in the development project as at the date of this report). Further details of the equity holding (including the Vendors) are disclosed in the section headed "Material Acquisition Update" below. It is intended that the construction costs will be financed by bank borrowings (with pledge of the Group's property assets), project financing, equity financing and new funds of potential investors. In certain circumstances the potential contractors and building materials suppliers will advance working capital to the development project, which is a common industry practice in Mainland China.

Notwithstanding the development project in Guangzhou ceased to contribute significant revenue to the Group in coming years, it is expected that it will continue to generate rental income from a few remaining units not yet demolished, temporarily carpark and festival bazaar in 2020 until the construction work commences. The subject asset will remain as an investment property under Hong Kong Accounting Standard 40 – *Investment Property* and be measured at its fair value with changes in fair value recognised in the Group's financial statements for subsequent financial years. It is expected that the new commercial complex will be held for earning rentals and capital appreciation purposes upon completion.

Meantime, the Group will proactively explore other income sources and new business projects in Guangzhou in order to compensate the revenue forgone due to the closure of the wholesale mall last year.

Group Structure of GZ Zheng Da

The property interest in Guangzhou is wholly-owned by Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司) ("GZ Zheng Da") which in turn Zheng Da Real Estate Development Company Limited ("HK Zheng Da"), a private company incorporated in Hong Kong, has 100% interest.

GZ Zheng Da was set up as a Sino-foreign co-operative joint venture by Shun Fat Group Limited ("Shun Fat"), a private company incorporated in Hong Kong, as the foreign partner and 廣州市越秀房地產開發經營公司 ("越秀國企"), a state-owned enterprise under the control of the Yuexiu Government, pursuant to a Sino-foreign co-operative joint venture agreement executed in December 1993. The investment budget and registered capital of GZ Zheng Da were RMB450,000,000 and RMB150,000,000, respectively.

Since its establishment, 越秀國企:

(i) did not contribute any capital in GZ Zheng Da;

(ii) did not provide any fund advance to GZ Zheng Da;

(iii) did not provide or inject any land use rights or properties into GZ Zheng Da;

(iv) did not assume any liability of or provide any guarantee to GZ Zheng Da; and

(v) did not provide management support to GZ Zheng Da to a material extent.

As such, Shun Fat and 越秀國企 entered into the Enforcement Rules of the Joint Venture Agreement (合作合同實施細則) in 1994 to the effect that 越秀國企 irrevocably agreed to surrender all its interest in, benefits, profits, rights and liabilities of GZ Zheng Da except for receiving a management fee of RMB50,000 per month up to an aggregate amount of RMB10,000,000 and a bonus of RMB38,000,000 payable by four installments from the commencement of pre-sale of underlying properties. In return, Shun Fat (or HK Zheng Da which took up Shun Fat's entire interest therein later) had to bear all capital and investment costs as well as liabilities and business risks of GZ Zheng Da. As at 31 December 2019, the management fees in an aggregate amount of RMB10,000,000 had been paid to 越秀國企 while the bonus of RMB38,000,000 was not yet paid as pre-sale of the underlying properties not yet commenced.

Shun Fat fully contributed RMB150,000,000 as registered capital of GZ Zheng Da in 1996.

In 1997, as part of the pre-IPO restructuring scheme, Shun Fat, HK Zheng Da and 越秀國企 executed into a partnership transfer agreement to the effect that Shun Fat's entire interest in and rights of GZ Zheng Da were transferred to HK Zheng Da while the interests and rights of 越秀國企 in GZ Zheng Da remained unchanged. The subject partnership transfer was subsequently approved by the Guangzhou Foreign Economic and Trade Commission (廣州市對外經濟貿易委員會), the governmental body which administered all Sino-foreign joint venture matters in Guangzhou. Shareholders of Shun Fat were same parties as those of HK Zheng Da.

GZ Zheng Da commenced the demolition and resettlement (拆遷工程) in the prescribed area in the Yuexiu District with its own financial and management resources under the direction and supervision of the Yuexiu Government and in accordance with the relevant PRC laws and regulations. In 1998, GZ Zheng Da acquired two parcels of land from the Guangzhou National Land Bureau (廣州市國土局) with full settlement of land use right premium. Pending for re-development into a commercial complex, a 2-storey non-permanent commercial podium and a carpark was erected on the development site for investment purpose until it was demolished in late 2019.

GZ Zheng Da's development project was initially planned to be completed within a period of 15 years but its progress was interrupted by the modifications of municipal planning (修訂市區規劃) by the Yuexiu Government from time to time in the past years. As to-date, demolition remained uncompleted as permitted by the Yuexiu Government.

The joint venture of GZ Zheng Da was supposed to be for a period of 15 years ended on 31 December 2008 but the joint venture period was permitted by law to be extended at the request of either Sino or foreign partner upon maturity. In May 2008, both HK Zheng Da and GZ Zheng Da resolved to extend the joint venture period by another 15 years till December 2023. Approval for such extension was granted by the Yuexiu Foreign Trade and Economic Bureau (越秀區對外貿易經濟合作局) in December 2008.

Contemporaneously, it appeared that another enterprise named 廣州市越秀房地產開發經營有限公司 ("越房私企"), a private enterprise which was assumed to have acquired certain assets from 越秀國企 in 2006, claimed that it took up the interest in GZ Zheng Da from 越秀國企 but that was not the case.

Pursuant to the prevailing co-operative joint venture laws in the PRC, change of partnership of a joint venture is subject to (i) first right of refusal of existing partner(s) to acquire the interest of the leaving partner; (ii) consent of remaining partner(s) to introducing the new partner; and (iii) approval and acknowledgement of then governing authority. Similar clauses have been prescribed in the joint venture agreement of GZ Zheng Da.

Up to to-date, 越房私企 was unable to submit any legal evidence (in accordance with the prevailing PRC laws and regulations) to demonstrate its claim.

As such and in December 2008, GZ Zheng Da served a writ against 越房私企 at the Guangdong Provincial Guangzhou Municipal Yuexiu District People's Court (廣東省廣州市越秀區人民法院) (the "Yuexiu Court") pleading for disqualification of 越房私企 from the Sino partnership of the subject joint venture, details of which are elaborated in the section headed "Material Litigations" below.

According to the official records maintained at the Guangzhou Administration for Industry and Commerce Bureau (廣州市工商行政管理局) (the "Commerce Bureau") and Guangzhou Foreign Trade and Economic Bureau (廣州市對外貿易經濟合作局), the Sino partner of GZ Zheng Da remained as 越秀國企 but not 越房私企 and the capital contribution of HK Zheng Da and 越秀國企 were RMB150,000,000 and nil, respectively, as to-date.

MATERIAL ACQUISITION UPDATE

The Group acquired a 25% indirect interest in HK Zheng Da in December 2007 while the remaining 75% interest to be completed by the Group not later than 30 June 2020 at an aggregate consideration of RMB1,361,100,000 (equivalent to HK$1,524,432,000 as at 31 December 2019). Details of the intended acquisition, including terms and conditions, consideration and settlement mechanism, and their amendments thereafter were disclosed in the Company's circular dated 26 November 2007 (the "Acquisition Circular") and the Company's various announcements issued thereafter, the latest of which was issued on 18 June 2019 (primarily refers to the deferment of the long stop date for completion of the acquisition from 30 June 2019 to 30 June 2020).

The Group entered into a conditional sale and purchase agreement in October 2007 (the "Acquisition Agreement") with the private companies wholly owned by Messrs. Ho Pak Hung, Ho Tsam Hung and Ho Kam Hung (collectively the "Vendors"), pursuant to which, amongst other things, the Vendors agreed to sell, and an indirectly wholly-owned subsidiary of the Company (the "Purchaser") agreed to acquire, 100% equity interest in HK Zheng Da at a consideration of RMB1,814,800,000 (equivalent to HK$2,032,576,000 as at 31 December 2019) (the "Acquisition"). The principal asset held by HK Zheng Da is, via GZ Zheng Da, the entire interest in a property interest situated in Guangzhou. Details of the Acquisition were set out in the Acquisition Circular. The Vendors are connected persons to the Company who collectively are a substantial shareholder of the Company.

As set out in the Acquisition Circular, completion of the Acquisition should have taken place in four tranches to be completed in different phases on terms as follows:

Tranches	Equity interests in HK Zheng Da represented	Consideration for each tranche (RMB)	Original expected completion date
First Tranche (the "First Tranche")	25%	453,700,000	31 December 2007
Second Tranche (the "Second Tranche")	26%	471,848,000	31 May 2008
Third Tranche (the "Third Tranche")	24%	435,552,000	31 October 2008
Fourth Tranche (the "Fourth Tranche")	25%	453,700,000	31 March 2009
	100%	1,814,800,000	

Pursuant to the terms and conditions of the Acquisition Agreement, the Purchaser could at its sole discretion elect to defer completion of one or more tranches (except the First Tranche) to a date later than the expected completion date of the relevant tranche as mentioned above. If the Purchaser did not complete any of the tranches on or before the relevant expected completion date, the Purchaser was obliged to pay to the Vendors a deferred interest payment (the "Deferred Interest") calculated at the rate of 4% p.a. on the consideration for such tranche for the period commencing from the relevant original expected completion date and ending on and excluding the day when the relevant consideration was settled by the Purchaser or 31 March 2009, whichever the earlier. In the event that the entire Acquisition Agreement did not complete by 31 March 2009 (the "Long Stop Date"), the Acquisition Agreement should lapse (save for any part of completed tranches) and the Purchaser should have no liabilities save for the Deferred Interest obligations.

Completion of the First Tranche took place on 17 December 2007. At 31 March 2009, the Second Tranche, the Third Tranche and the Fourth Tranche were not completed. As such, the Purchaser was obliged to pay to the Vendors the Deferred Interest of the Second Tranche and the Third Tranche, which was HK$25,837,000 in total. No Deferred Interest was required to be paid by the Purchaser in respect of the Fourth Tranche as the original expected completion date for the Fourth Tranche was on 31 March 2009. The Purchaser and the Vendors then executed supplementary agreements thereafter to the effect that the Long Stop Date was further deferred to 30 June 2020.

In June 2019, the Purchaser and the Vendors executed an extension agreement to explore opportunity to arrive any revised terms for the settlement of and the consideration for, and completion timetable in relation to the Acquisition of the remaining 75% indirect interest in HK Zheng Da not later than the revised long stop date which was further deferred to 30 June 2020. If a revised agreement is concluded, it is anticipated that the Acquisition will be financed by debt financing, equity financing, bank borrowings or a combination of the three kinds. As at the date of this report, a revised agreement was not yet concluded between the Purchaser and the Vendors.

If in case the Acquisition lapses on 30 June 2020, no party shall be liable to each other. If this happens, the Group will no longer deem control over HK Zheng Da and its subsidiary and there will be a major accounting adjustment to the consolidated financial statements of the Company for the year ending 31 December 2020 to the effect that HK Zheng Da will be regarded as an associated company with a 25% equity interest but not a 25%-owned subsidiary of the Company. Further announcement will be made once a concrete decision is made by the Group.

MATERIAL LITIGATIONS

(a) In December 2008, GZ Zheng Da, an indirect subsidiary of the Company, served a writ against 越房私企 at the Yuexiu Court pleading, inter alia, for disqualification of 越房私企 as a partner of the underlying Sino-foreign co-operative joint venture. HK Zheng Da, which held 100% interest in GZ Zheng Da, joined the plead as the second plaintiff later. Judgement was granted by the Yuexiu Court in July 2009 with rulings endorsing, inter alia, the plead requested by GZ Zheng Da.

In August 2009, 越房私企 filed an appeal petition (the "Zheng Da Appeal") at the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court"). A hearing was made on 15 October 2009 and no further hearing had been made since then.

On 9 December 2009, the intended date of second hearing of the Zheng Da Appeal, both GZ Zheng Da and HK Zheng Da lodged an application for recusal (迴避呈請) of presiding judges of the subject case on prima facie unusual relationship of the said judges with the legal representative of 越房私企 (the "Recusal Application") prior to the commencement of court hearing. An official of the Guangzhou Court acknowledged receipt of the Recusal Application and no hearing or meeting in relation to the Zheng Da Appeal was convened on that date.

On 5 February 2010, the Company (but not GZ Zheng Da or HK Zheng Da) received from a third party a faxed copy (but not an original) of a document purporting to be a judgement dated 4 December 2009 (the "Purported Written Judgement") in which rulings in relation to the Zheng Da Appeal were made to the effect of (i) the rulings made by the Yuexiu Court was rescinded; and (ii) GZ Zheng Da's plead was withheld.

On 28 June 2010, a third party drew the Company's attention to, inter alia, the appearance on a specific website link which downloaded a document purporting to be a notice of service (公告送達) addressed to HK Zheng Da (but GZ Zheng Da being the first plaintiff not included) in relation to the Zheng Da Appeal (the "Purported Court Notice"). The Purported Court Notice, which was cited to be issued by the Guangzhou Court in June 2010 (but without a specific date), was supposed to effect, amongst other things, that (i) the judgement of the Zheng Da Appeal was made on 4 December 2009; and (ii) the rulings made by the Yuexiu Court were overturned; and (iii) the notice was deemed to be an original of written judgement being served to HK Zheng Da (but GZ Zheng Da not included). Original of the Purported Court Notice was supposed to be posted on the People's Court Daily (人民法院報) in Mainland China on 23 June 2010.

However, the Company noticed that:

(i) there was no such Purported Court Notice found in the published copy of the People's Court Daily issued on or about 23 June 2010;

(ii) the aforesaid specific website posted a legal disclaimer that all information posed therein were for private reference purpose and should not be regarded as public notice with legal effect; and

(iii) despite searches of public databases of the relevant courts in Mainland China, GZ Zheng Da, HK Zheng Da and an independent professional legal search firm commissioned by the Company were unable to find any official record of the Purported Court Notice issued by the relevant authority, or that the Purported Written Judgement was valid.

Both GZ Zheng Da, as the first plaintiff, and HK Zheng Da, as the second plaintiff, represent as follows:

(i) no written reply in respect of the Recusal Application (whether application acknowledged, accepted or declined) has been received from the Guangzhou Court so far despite repeated complaints were made since then;

(ii) no formal hearing in respect of the Zheng Da Appeal has been convened by the Guangzhou Court since 15 October 2009, the latest date of hearing of the Zheng Da Appeal;

(iii) no valid notice of summons or of judgement in respect of the Zheng Da Appeal has been served by the Guangzhou Court since 15 October 2009; and

(iv) no valid written judgement in respect of the Zheng Da Appeal, which was issued in accordance with the relevant PRC laws and due judicial procedures, has been received from the Guangzhou Court directly.

Having taken competent advice from the PRC legal counsel and advisers, the Company is of the view that:

(i) the Purported Court Notice does not conform with the PRC legal provisions and differs materially from the form of a valid notice of service and thus does not constitute a valid notice to GZ Zheng Da and HK Zheng Da; and

(ii) the Purported Written Judgement is not an effective disposition of the matter and thus is invalid and void.

Since then, both GZ Zheng Da and HK Zheng Da have dialogues with the relevant court officials from time to time and have been looking forward to receiving a formal and legally valid verdict, notice or directive in relation to the Zheng Da Appeal to be granted by the Guangzhou Court or its higher court in accordance with the relevant PRC laws and due judicial procedures, but no such verdict or directive was received in proper manner up to the date of this report.

Taking into account the rulings granted by the Yuexiu Court in July 2009, the facts and legal grounds substantiated at the first hearing of the Zheng Da Appeal, and the opinion given by the PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement in the Zheng Da Appeal.

Further details about the developments of, and events incidental to, the Zheng Da Appeal were disclosed in the Company's announcements dated 11 February 2010, 22 April 2010, 16 August 2010 and 23 March 2011.

(b) In 2009, a third party (the "Plaintiff") served a writ of summons against Chongqing Smart Hero Real Estate Development Company Limited (重慶超霸房地產開發有限公司) ("CQ Smart Hero"), an indirect wholly-owned subsidiary of the Company, at the Chongqing Municipal Yuzhong District People's Court (重慶市渝中區人民法院) (the "Yuzhong Court") in relation to a claim against a down payment transaction executed in 1996 but the claim was declined by the Yuzhong Court. The Plaintiff then filed an appeal at the Chongqing Municipal Fifth Intermediate People's Court (重慶市第五中級人民法院) (the "Fifth Intermediate Court") but the plead was also declined.

In April 2015, the Plaintiff re-served a writ of summons against CQ Smart Hero at the Yuzhong Court in relation to the same claim. The proceeding was adjourned following CQ Smart Hero lodged a separate plead at the Yuzhong Court in May 2015 for affirmation of the subject down payment transaction was lapsed but the plead was declined by the Yuzhong Court in March 2018. In August 2018, the Fifth Intermediate Court also turned down CQ Smart Hero's appeal.

In April 2019, the Yuzhong Court re-heard the claim case and ruled that CQ Smart Hero was obliged to refund an amount of approximately RMB1,216,000 plus accrued interests incurred from October 1996 up to the date of full settlement to the Plaintiff.

In June 2019, CQ Smart Hero filed an appeal at the Fifth Intermediate Court based on the legal ground that the Yuzhong Court misinterpreted the fundamental facts of the subject down payment terms in dispute and the petition was dismissed again in September 2019.

The aggregate amount payable by CQ Smart Hero for the above claim was approximately RMB3,400,000 (equivalent to approximately HK$3,808,000), and a provision of the same amount was fully made in the Company's consolidated financial statements for the year ended 31 December 2019. The claim remained unsettled as at 31 December 2019.

The PRC legal counsel of CQ Smart Hero is of the view that CQ Smart Hero has substantiated legal ground to pursue a judicial review (復審) with an aim to revoke the Fifth Intermediate Court's rulings. The Company will actively consider to proceed with the judicial review.

(c) In 2011, two plaintiffs, together with CQ Smart Hero in its capacity as the third plaintiff, served a writ of summons against a former business partner (the "Ex-Partner") at the Yuexiu Court in relation to a contract dispute (合同糾紛). The case was subsequently redirected to the Guangzhou Court for trial for the reason of jurisdiction of court.

In September 2013, the Guangzhou Court ruled that CQ Smart Hero was liable to pay an accrued interest in an aggregate amount of approximately RMB10,500,000 to the Ex-Partner. Subsequently, CQ Smart Hero, together with two plaintiffs, filed an appeal against the Guangzhou Court's rulings at the Guangdong Provincial Higher People's Court (廣東省高級人民法院) (the "Guangdong Court").

In June 2015, the Guangdong Court upheld the Guangzhou Court's rulings but the claim to be borne by CQ Smart Hero was reduced to approximately RMB4,200,000. The Guangdong Court's rulings are final and absolute unless being revoked by judicial review (復審).

The PRC legal counsel of CQ Smart Hero was of the view that judicial errors were made in the Guangdong Court's rulings and hence it would be justifiable for pursuing judicial review (復審) with an aim to revoke its rulings. CQ Smart Hero, after careful and due considerations, concluded that additional management time and legal costs to be incurred would probably override the economic benefits to be derived from a favourable verdict of judicial review, if any, and resolved not to pursue the case further.

In February 2016, the Guangzhou Court confined the claim amount to approximately RMB3,743,000, and a provision of the same amount was fully made in the Company's consolidated financial statements for the year ended 31 December 2015.

Since then CQ Smart Hero and the Ex-Partner could not reach consensus on settlement arrangements and both parties sought directions and orders at the Guangzhou Court for legal enforcements. The claim remained unsettled as at 31 December 2019.

(d) In October 2013, the Guangzhou Administration of National Resources and Property Bureau (廣州市國土資源和房屋管理局) (the "Property Bureau") issued two rulings on property demolition (房屋拆遷決定書) (the "Compensation Rulings") to GZ Zheng Da pertaining to two compensation and resettlement cases for property demolition (房屋拆遷補償安置個案). The Compensation Rulings concluded that GZ Zheng Da was liable to pay an one-off cash compensation in an aggregate amount of approximately RMB27,600,000 (the "Cash Compensation") to a group of nine claimants (the "Claimants").

In March 2014, the Guangzhou Government issued two rulings on administrative review (行政覆議決定書) revoking the Compensation Rulings. As a result, GZ Zheng Da's obligation to pay the Cash Compensation was discharged.

In June 2015, the Guangzhou Court issued two rulings on administrative proceedings (行政裁定書) declining the appeal made by the Claimants against the Guangzhou Government's rulings.

In December 2015, the Guangdong Court issued two rulings on administrative proceedings (行政裁定書) to the effect that (i) the Guangzhou Court's rulings were rescinded; and (ii) the Guangzhou Court was ordered to re-hear the Claimants' appeal against the Guangzhou Government's rulings.

In May 2017, the Guangzhou Railway & Transportation Intermediate Court (廣州鐵路運輸中級法院) (the "Railway Court") which was primarily engaged in cases pertaining to land and property disputes, under the direction of the Guangdong Court, re-heard the case and declined the appeal lodged by the Claimants against the Guangzhou Government's rulings. The Claimants then filed another appeal against the Railway Court's rulings (the "Second Appeal").

The aforesaid cases refer to the Claimants' disagreement with the decision of the Property Bureau on two compensation and resettlement cases for property demolition by means of property resettlement but not cash compensation. The Claimants in capacity as the legitimate estate beneficiaries (合法繼承權屬人等) rejected the Property Bureau's offer to take up properties resettlement and demanded for cash compensation instead. GZ Zheng Da in capacity as the Qualified Person for Demolition and Relocation (合資質拆遷人) by law is responsible to provide new properties to the Property Bureau for resettlement to those owners whose properties are demolished. Hence, the disputes on compensation terms for property demolition between the properties owners and the Property Bureau are not related to GZ Zheng Da which does not have contractual obligations or discretion to offer cash compensation or property resettlement to those owners of demolished properties in dispute. GZ Zheng Da involves in the cases in the capacity as an interested party (利害關係人) but not defendant.

All Claimants did not provide legal or other documentation to demonstrate their inheritance to the owners of the subject properties by law but represented that they were the legal and absolute beneficiaries (合法及唯一繼承權屬人等) while some other legal beneficiaries either were deceased or surrendered their interests. It appeared that the Property Bureau did not verify the litigate and absolute beneficiaries of the Claimants but accepted their joint declaration by notary instead.

All Claimants resided outside Mainland China and represented by two joint powers of attorneys. Five of the Claimants were aged from 76 to 91 years old in 2014 when the Claimants raised objection at the Guangzhou Court. It appeared that at least one of the Claimants passed away in 2016. According to the PRC legal practice, the Claimants' existing joint powers of attorneys are void if any principal is deceased or loses his authorisation capacity and the remaining Claimants are required to refresh their powers of attorneys for proceeding the Second Appeal.

As at the date of this report, the Second Appeal was not yet heard.

Taking into account the latest rulings granted by the Guangzhou Government and the Railway Court, the facts and legal grounds substantiated, and the opinion given by the PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement to GZ Zheng Da after the hearing of the Second Appeal.

(e) In March 2015, the Guangzhou Urban Management Integrated Enforcement Bureau Yuexiu Sub-Bureau (廣州市城市管理綜合執法局越秀分局) (the "Enforcement Bureau") issued a ruling on an administrative disposition of illegal erection (違法建築行政處理決定書) (the "Bureau's Rulings") to GZ Zheng Da to the effect that a 2-storey non-permanent commercial podium situated in the Yuexiu District was required to be demolished by GZ Zheng Da. In the Bureau's Rulings, the Enforcement Bureau concluded, inter alia, that the subject property was deemed as an illegal erection as its occupancy permit had been expired. The Bureau's Rulings, however, did not elaborate further reasons of not granting renewal of the occupancy permit.

Notwithstanding the subject property was classified as non-permanent erection pending for re-development, it obtained approvals and permits for town planning, construction, inspection, occupancy and fire safety from all relevant government authorities every year and hence its building standards and fire safety were comparable to those standards for permanent erections. In addition, GZ Zheng Da was of the view that the subject property would not be deemed as illegal erection if the occupancy permit could be reasonably renewed as permitted under the relevant PRC laws and regulations and hence the prosecution in question should be immune.

As such, GZ Zheng Da, together with six co-operative parties, served a writ against the Bureau's Rulings at the Yuexiu Court in November 2015. The petition was declined by the Yuexiu Court in May 2016.

In June 2016, GZ Zheng Da, together with six co-operative parties, filed an appeal against the Yuexiu Court's rulings at the Railway Court. In May 2017, the Railway Court rescinded both the Yuexiu Court's rulings and the Bureau's Rulings.

In November 2017, the Enforcement Bureau filed an administration petition (行政申訴) at the Guangdong Court with an attempt to overturn the rulings made by the Railway Court. In June 2019, the Guangdong Court ordered the Railway Court to re-hear the case with the enforcement of latest rulings temporarily suspended.

In July, 2019, the Railway Court, under the direction of the Guangdong Court, re-heard the case and revoked its earlier rulings and upheld the earlier rulings granted by the Yuexiu Court.

With an objective to support the Renovation Scheme for Old Zones in Guangzhou (廣州市老城區改造提升工程) promulgated by the Guangzhou Government and the Upgrade Programme of Jiefang Road South for the 70th National Day Celebration (迎賀建國七十週年美化解放南路一帶外貌設施) implemented by the Yuexiu Govenment, GZ Zheng Da did not pursue further to appeal against the Railway Court's latest decision. In return, the Yuexiu Government expressed that they would use their best endeavours to support GZ Zheng Da's re-development plan.

The subject commercial podium ceased operation in mid-August 2019 and was demolished in November 2019. Further information on the re-development plan of the subject site is elaborated in the section headed "Business Review" above.

ALLEGED "LIQUIDATION PETITION" AGAINST GZ ZHENG DA

GZ Zheng Da Corporate Information Indicates Information of Alleged "Liquidation Provisional Filed (清算備案)" ("Alleged Liquidation Provisional Filed")

Pursuant to the Provisional Rules of Public Notice of Corporate Information of the People's Republic of China (中華人民共和國企業信息公示暫行條例) newly enacted in October 2014, the Public Database of National Enterprise Credit Information (Guangdong) (全國企業信用信息公示系統 (廣東)) (the "Public Database") on GZ Zheng Da downloaded in March 2015 revealed certain newly appeared information under the Provisional Filing Information Column (備案信息欄目) viz "Liquidation Information (清算信息)", "Liquidation Officer-In-Charge He Wei (清算負責人何偉)" and "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)".

With effect from August 2016, the Public Database was restructured as the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) with a more user friendly reporting format. The report of GZ Zheng Da downloaded from the new system in March 2020 (the "Credit Report") contains similar information as disclosed in former reports including "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)".

In addition, the Credit Report reveals that the registration status (登記狀態) of GZ Zheng Da is "Enterprise in Operation (in Business) (在營 (開業) 企業)" and the authorised representative (法定代表人) is "Ho Kam Hung", who is also an executive director of the Company.

According to the Corporate Registration Information Memorandum (企業登記資料包) obtained from the Commerce Bureau by GZ Zheng Da (being exclusive information to the subject corporation), a third party namely Guangdong Guoding Law Firm (廣東國鼎律師事務所) ("Guoding") filed an Application Form for Notification of Change (Provisional Filing) of Foreign Investment Enterprise (外商投資企業變更(備案) 登記申請書) (the "Application Form"), together with a copy of purported order of the Guangzhou Court (廣東省廣州市中級人民法院決定書) (the "Purported Court Order") as supporting document, to the Commerce Bureau without the prior acknowledgment nor consent of GZ Zheng Da in September 2011.

The Application Form requested for filing of "Provisional Filing of Member of the Liquidation Group (清算組成員備案)" and "Provisional Filing of Liquidation Officer-In-Charge (清算負責人備案)" in the corporate information database of GZ Zheng Da at the Commerce Bureau. Copy of the Purported Court Order stated that "the court has appointed Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da (the "Alleged Liquidator") in accordance with the law (已指定國鼎組成清算組, 依法對廣州正大進行清算)".

According to the relevant provisions of the Rules of Administration of Company Registration of the People's Republic of China (中華人民共和國公司登記管理條例) (the "Company Registration Rules"), the provisional filing of liquidation information with the Commerce Bureau requires the consent of the subject company (with company chop shown on the application form) and other requisite legal documents, such as company dissolution documents (公司解散證明文件) and compulsory liquidation order (強制清算決定書), as supporting documents. No such supporting documents nor GZ Zheng Da's company chop were found on the Application Form submitted by Guoding.

After taking PRC legal advice, both the Company and GZ Zheng Da considered that the Application Form submitted to the Commerce Bureau by Guoding violated the relevant provisions of the Company Registration Rules to a material extent and the provisional filing under concern should be rendered "application declined (申請退回)" in accordance with the relevant regulations of the Company Registration Rules.

GZ Zheng Da confirmed to the Company that it had never authorised, appointed or instructed Guoding or He Wei to file or handle such application, nor granted consent to such application thereafter.

GZ Zheng Da and HK Zheng Da, being holding 100% interest of GZ Zheng Da, also confirmed to the Company that they had never been served any statements of instigation of proceedings, notice of summons or notice of judgement, orders (including the Purported Court Order or order of a similar nature) or written judgement(s) in relation to liquidation petition or of a similar nature (the "Purported Liquidation Petition") from the Guangzhou Court in accordance with the prevailing PRC laws and regulations and due judicial procedures.

Both the Company and GZ Zheng Da further confirmed that they were unable to find any "public official record" about the Purported Liquidation Petition (not even the relevant case number) from the official database or public notice board of the Guangzhou Court so far.

According to the Purported Court Order, it appeared that the purported liquidation petition was instituted by 越房私企, a third party neither had any equity or any other interests in GZ Zheng Da nor was a creditor of GZ Zheng Da. Hence, the PRC legal counsel of GZ Zheng Da considered that 越房私企 was unlikely to meet the pre-requisite conditions for filing a liquidation petition against GZ Zheng Da pursuant to the prevailing PRC company laws and liquidation procedures.

Based on the record and facts known to the Company and GZ Zheng Da and having taken the PRC legal advice, both the Company and GZ Zheng Da are of the view that:

(i) the legal proceedings of the Purported Liquidation Petition (if any) do not conform to the legal provisions and judicial procedures in the PRC;

(ii) the Purported Court Order (if any) is not an effective disposition of the matter to which it purportedly relates and thus is invalid and void;

(iii) the purported authority of the Alleged Liquidator is derived from the Purported Court Order which is invalid and void; and

(iv) Guoding does not have the lawful authority to proceed with liquidation of GZ Zheng Da or file corporate information about GZ Zheng Da with the Commerce Bureau (or for any other purposes) for and on behalf of GZ Zheng Da.

Further details about the lawful authority of the Alleged Liquidator in question were disclosed in the Company's announcement dated 23 March 2013.

The Second and Unqualified Person Appearing on the Demolition Permit and the Demolition Extension Notice

Since 2003, GZ Zheng Da had been granted by the Property Bureau the Qualified Person for Demolition and Relocation (合資質拆遷人) (the "Qualified Person") (which was required to demonstrate substantial capital resources, property development plan on hand, concrete property demolition and relocation plan pursuant to the provisions of Rules of Management of Urban Property Demolition and Relocation of Guangzhou (廣州市城市房屋拆遷管理條例) (the "Demolition Management Rules")) and the Qualified Contractor for Demolition and Relocation (合資質拆遷實施單位) (the "Qualified Contractor") (which was required to demonstrate substantial hands-on experience in property demolition and relocation projects and hiring extensive construction and engineering professionals pursuant to the provisions of the Demolition Management Rules) to the effect that GZ Zheng Da was empowered to demolish a property cluster located in Yuexiu District within a period of about one year under the licence of a property demolition and relocation permit (房屋拆遷許可證) (the "Demolition Permit").

Since then, GZ Zheng Da applied for the extension of the Demolition Permit once every year and the Property Bureau customarily renewed the Demolition Permit and the notice of extension of property demolition and relocation (房屋拆遷延期公告) (the "Demolition Extension Notice") every subsequent year.

The Demolition Extension Notices issued since 2014 contained new clauses which included, inter alia, the Alleged Liquidator as the secondary Qualified Person (第二拆遷人) and the secondary Qualified Contractor (第二拆遷實施單位) in addition to GZ Zheng Da which remained as the primary Qualified Person (第一拆遷人) and primary Qualified Contractor (第一拆遷實施單位). The Demolition Extension Notices also put a remark that "pursuant to the Purported Court Order, the Guangzhou Court nominated Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da in accordance with the laws, and the demolition activities should be executed by the liquidation group" (collectively the "New Clauses").

GZ Zheng Da confirmed to the Company that it had no knowledge of the New Clauses until the renewal of the said extension notices nor concurred with such New Clauses thereafter and hence raised objection to the Property Bureau about the imposition of the New Clauses. No formal reply had been obtained from the Property Bureau so far.

After seeking PRC legal advice, both the Company and GZ Zheng Da consider that:

(i) both the Demolition Permits and the Demolition Extension Notices granted to GZ Zheng Da are legally valid permit and notice, respectively, despite their legal defects;

(ii) the Yuexiu Government, the Yuexiu Court, the Guangzhou Court and the Property Bureau all accept GZ Zheng Da as a separate legal entity as well as a qualified litigant (適格訴訟主體);

(iii) GZ Zheng Da remains as the Qualified Person and the Qualified Contractor and therefore is eligible to proceed the demolition and relocation activities as empowered by the Demolition Permit;

(iv) the purported authority of the Alleged Liquidator is derived from the Purported Court Order which is invalid and void (as elaborated in the section headed "Alleged Liquidation Provisional Filed" above);

(v) the capacity of the Alleged Liquidator does not exist until and when Guoding suspends the legal representative of GZ Zheng Da;

(vi) the Alleged Liquidator technically cannot co-exist with GZ Zheng Da to engage in same business activities;

(vii) a liquidator is not empowered to engage in the businesses other than those specified under Clause 184 of Companies Law of People's Republic of China (中華人民共和國公司法), which does not include demolition and relocation businesses;

(viii) a liquidator does not possess the pre-requisite qualifications (特定資質) and hands-on expertise in demolition and relocation businesses as required under the provisions of the Demolition Management Rules; and

(ix) the Purported Court Order (without prejudice on its legally) fundamentally does not provide that "the demolition activities should be executed by the liquidation group".

Since 2014, both the Demolition Permit and the Demolition Extension Notice renewed every subsequent year, including the latest one renewed in December 2019, contained the New Clauses. GZ Zheng Da continued to proceed the demolition and relocation activities as usual.

A Purported Letter issued by the Alleged Liquidator

In June 2017, HK Zheng Da and one of its three directors received a notice (告知函) (the "Purported Letter") issued by the Alleged Liquidator albeit the operation of GZ Zheng Da remained as usual and normal when the Purported Letter was issued.

The Purported Letter, dated 16 June 2017, was issued by the Alleged Liquidator and the addressees were HK Zheng Da and 越房私企 (collectively the "Addressees"). 越房私企 was an independent third party to GZ Zheng Da and did not have any equity or other interest therein. HK Zheng Da and one of its three directors received the Purported Letter on or about 21 June 2017.

The Purported Letter was the first notice or letter that HK Zheng Da (holding 100% attributable interest in GZ Zheng Da) so far received from the Alleged Liquidator, some six years from its alleged constitution in 2011.

The Purported Letter sought to convey, inter alia, the following messages (without prejudice on its validity) to the Addressees:

(i) the Alleged Liquidator was constituted under a mandate granted by the Guangzhou Court pertaining to a members' compulsory liquidation petition (apparently lodged by 越房私企);

(ii) the Alleged Liquidator was prepared to make submission to the Guangzhou Court for balloting the appointment of appraisal and auction agents to appraise and tender the assets of GZ Zheng Da for auction which include, inter alia, two parcels of land with an aggregate gross area of about 16,800 square metres and a 2-storey non-permanent commercial podium; and

(iii) the Addressees were urged to furnish any related information or proposal to the Alleged Liquidator within 15 days from the date of the Purported Letter.

According to then record downloaded from the official website of the Commerce Bureau, the co-operative partners of GZ Zheng Da are HK Zheng Da and 越秀國企. Pursuant to the terms of relevant joint venture agreement (as revised) executed between HK Zheng Da and 越秀國企, HK Zheng Da held 100% attributable interest in GZ Zheng Da.

To the best knowledge and belief and having made all reasonable enquiries, the Company confirms that 越房私企:

(i) is not a registered Sino partner of GZ Zheng Da;

(ii) does not have any attributable interest in GZ Zheng Da; and

(iii) is not a creditor of GZ Zheng Da.

越房私企 is not 越秀國企.

Pursuant to the relevant provisions of the PRC laws and regulations, "the liquidation group shall finalise the liquidation within six months from the date of constitution in the case the liquidation is ordered by the People's Court (人民法院). If the liquidation is not yet finalised within six months under particular circumstances, the liquidation group shall apply for extension of its mandate at the People's Court." Hence, if the liquidation group is unable to finalise the liquidation within six months and the extension of mandate is not sought from the court, the liquidation group shall be dissolved by law.

The PRC legal counsel of HK Zheng Da noted that the Alleged Liquidator was unable to offer any evidence for the renewal of its mandate (without prejudice on its validity) in separate court proceedings at the Guangzhou Court in or about June 2017.

Further to the views expressed in the above sections, the PRC legal counsel of HK Zheng Da further opines as follows:

(i) the Alleged Liquidator does not possess a valid mandate to proceed with the liquidation of GZ Zheng Da nor to issue the Purported Letter; and

(ii) even if there were a renewal of the Alleged Liquidator's mandate, the Purported Letter is in itself ultra vires as it does not mention whether the liquidation proposal (清算方案) has been approved by equity partners (including HK Zheng Da), creditors or the court as required by the relevant PRC laws and liquidation procedures.

The Company acknowledges that HK Zheng Da, GZ Zheng Da and their respective directors have not received any further notice or letter from the Alleged Liquidator since June 2017.

PROPERTIES HELD FOR SALE

The Group had a portfolio of about 220 residential units ranging from 20 square metres to 70 square metres each unit with total gross area of about 12,880 square metres. These residential units were constructed in late 1990s for the purpose of interim resettlement of occupiers who surrendered their units to GZ Zheng Da for demolition in the development site in Yuexiu District but remained unoccupied as at year end date.

These properties represent five clusters of residential units situated at Baiyun District (白雲區) and Fangcun District (芳村區) in Guangzhou with convenient traffic access. Given all these units were completed for more than two decades, they are subject to refurbishment before launch for sale in the market. It is expected that these units will be well perceived by the first-time home buyers.

MANAGEMENT'S REPRESENTATION

With reference to the above facts and developments of GZ Zheng Da and opinion given by the PRC legal counsel and advisers, the Company, HK Zheng Da and GZ Zheng Da represent as follows:

(i) the Sino partner of GZ Zheng Da remains as 越秀國企 per the record of the Credit Report to-date;

(ii) the joint venture period of GZ Zheng Da has been extended to another 15 years till 2023;

(iii) the registration status (登記狀態) of GZ Zheng Da disclosed in the Credit Report is "Enterprise in Operation (in Business) (在營 (開業) 企業)" as to-date and Ho Kam Hung has retained as the authorized representative (法定代表人) since its establishment in 1993;

(iv) the business of GZ Zheng Da remains usual and normal as to-date; and

(v) both HK Zheng Da and GZ Zheng Da have never been served any summons, notice or judgements pertaining to the Purported Liquidation Petition by the courts so far.

The Company considers that no further action is required at this stage in respect of the Purported Liquidation Petition until receipt of formal and legally valid notice or direction issued by the relevant court of the PRC in accordance with relevant PRC laws and due judicial procedures. However, only the courts of the PRC have power to determine with authority the validity and effect of the Purported Court Order (or any other related court papers), and the Company can give no assurance that the courts of the PRC would concur with the independent legal advice received by the Company. If there is any material development about any of the above issues, further announcements will be made by the Company as circumstances necessitate.

Despite of the above purported legal documents frustrating GZ Zheng Da for years, the Group aims to moving forward the re-development plan of GZ Zheng Da on schedule. The Yuexiu Government has expressed that they would use their best endeavours to support GZ Zheng Da's re-development project.

Taking into consideration the location of the Group's investment property in Guangzhou is prime and precious, the Group is committed to striving for a re-development plan that will maximise its long-term investment return in accordance with prevailing state land policies as far as practicable.

OUTLOOK

The challenges arising from the COVID-19 pandemic in Mainland China and Hong Kong are unprecedented as the Group's principal operations in Mainland China have ceased in compliance with state orders since Chinese New Year while most staff are restricted from travelling freely in Mainland China and cross border to/from Hong Kong. In view of the severity of the outbreak, it is necessary and appropriate to accord priority to the health and safety of all personnel when performing their duties.

Following the COVID-19 cases dropping to a level under-control as per official statistics in Mainland China (except for the Hubei Province) in late February 2020, the Group's operation in Guangzhou resumed limited operation on 24 February 2020 while operation in Chongqing resumed pilot operation on 15 March 2020, both in accordance with the business resumption permits granted by local governments. The Directors are striving with its staff to adhere to stringent hygiene standards in offices and shopping areas with a view to catching up the revenue that has fallen behind budget.

To alleviate the adverse impact of the outbreak and economic crackdown nationwide in the first quarter, the Central Government of China has already rolled out tax cuts (including refund of social security funds) and trillions of yuan worth of emergency funds to help hard-hit medium to small businesses. The Directors believe that this may help to boost both the productivity of private sector (民企) and domestic consumer market (內需市場), which in turn will serve to benefit the Group's business as a whole.

The Sino-US Trade Agreement Phase I was concluded in January 2020, however, it is uncertain at this stage whether China will re-initiate the talk or defer the execution of the agreement due to the impact of COVID-19 outbreak globally. Hence, the development of the Sino-US Trade Agreement as well as its impact on the Group remains uncertain and the Directors will continue to monitor the situation closely with a view to minimizing any adverse impact on the Group's businesses.

With strong assets backing and extremely low gearing level, the Directors will lever these advantages to finance the Group's re-development project in Guangzhou as well as explore new business opportunities in 2020 and 2021. The Directors will also strengthen its management expertise and redeploy the Group's resources for meeting these new challenges.

Looking ahead, 2020 will be a tough year but the Directors remain optimistic about the economic bounce back in Mainland China and Hong Kong in the second half year.

EMPLOYMENT AND REMUNERATION POLICIES

As at 31 December 2019, the Group had about 40 (2018: 40) employees. Total staff costs (including directors' remuneration) for the year amounted to HK$8,825,000 (2018: HK$8,432,000).

Remuneration policies are reviewed regularly by the Directors and by the Remuneration Committee in respect of remuneration of the Directors and senior management. The Group values all employees and recognises their contributions, and is committed to establishing fair and caring relationship with its employees by offering competitive compensation packages comparable to market benchmarks. Further information about the Group's human resources policies are disclosed in the "Environmental, Social and Governance Report" in the annual report.

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries are set out in note 34 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

For details in relation to the business review including an analysis of the Group's performance using financial key performance indicators during the reporting period and prospect of the Group, please refer to pages 3 to 21 and pages 35 to 37 under the sections headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report", respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in the annual report, the Directors are not aware of any principal risks and uncertainties of the Group.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the financial statements on pages 45 to 119.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2019.

FIVE YEAR GROUP FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from its audited financial statements, is set out on page 120 of the annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Save as disclosed in the annual report, details of the Company's share capital and share options are set out in notes 24 and 25 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which will oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for cash distribution and distribution in specie were HK$16,052,000. In addition, in accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK$398,726,000, are distributable in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and supplier were as follows:

(i) the aggregate amount of sales attributable to the Group's four largest customers represented 100% of the total sales for the year. The sales attributable to the Group's largest customer represented 71% of the Group's total sales for the year; and

(ii) the Group had no major supplier due to the nature of principal activities of the Group.

As far as the Directors are aware, neither the Directors, their respective close associates nor any substantial shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's four largest customers.

DIRECTORS

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

Executive Director:

Ho Kam Hung

Non-Executive Director:

Young Kwok Sui

Independent Non-Executive Directors:

Tam Kong, Lawrence
Wong Miu Ting, Ivy
Wong Kui Fai

All non-executive Directors, including independent non-executive Directors, are appointed for a term of one to two years. In accordance with the Company's bye-laws, all of them shall retire from office by rotation, and, being eligible, will offer themselves for re-election at the Company's annual general meeting.

In accordance with the Company's bye-laws, Young Kwok Sui and Tam Kong, Lawrence shall retire from office by rotation, and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence from Tam Kong, Lawrence, Wong Miu Ting, Ivy and Wong Kui Fai, and regards these directors to be independent as at the date of this report.

Profile of the Directors are set on page 38 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the Company's forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for those disclosed in the section headed "Connected Transactions" below and note 36 to the financial statements, no transactions, arrangements or contracts of significance in relation to the business of the Group to which the Company or any of the Company's subsidiaries was a party and in which a Director nor a connected entity of a Director had a material interest, either directly or indirectly, subsisted as at the end of the reporting period or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who make contributions to the Group's operations and profitability. Further details of the share option scheme are disclosed in note 25 to the financial statements.

At the end of the reporting period and the date of approval of these financial statements, the Company had no share option outstanding under the share option scheme.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive, if any, in the share capital and the underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

The Company:

Name of director and chief executive	Capacity and nature of interest	Number of shares held Long position	Number of shares held Short position	Percentage of the Company's share capital *(note 2)*
Ho Kam Hung *(note 1)*	Through controlled corporations	110,600,000	–	18.26

Associated Companies:

Name of director and chief executive	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Numbers of shares/equity derivatives held Long position	Numbers of shares/equity derivatives held Short position	Capacity and nature of interest	Percentage of the associated corporation's issued share capital *(note 2)*
Ho Kam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	–	Directly beneficially owned	30.13
	China Land Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	–	Directly beneficially owned	30.13

The rights and restrictions attached to the afore-mentioned non-voting deferred shares are set out in note 34 to the financial statements.

Notes:

1. Ho Kam Hung is deemed (by virtue of the SFO) to be interested in these shares in the following capacities.

   (i) 10,800,000 shares are held by Morecambe Corporation which is beneficially owned by him.

   (ii) 87,120,000 shares are held by EC Fair Limited, in which he has $33\frac{1}{3}$% interest.

   (iii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

2. Save as disclosed in note 38(a) to the financial statements, on 27 December 2019, the Company entered into a subscription agreement (as amended on 31 January 2020) with China Everbright International Investment Holdings Co., Ltd, a private company incorporated in the British Virgin Islands, in respect of subscription and issue of 120,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share. The new shares, if issued, would represent approximately 19.8% of the existing issued share capital of the Company as at year end date, or approximately 16.5% of the issued share capital of the Company as enlarged by the new issue.

   Taking into consideration the intended issue of 120,000,000 new shares lapsed subsequent to year end date, no adjustment has been made to the above table to reflect the changes of the directors' and chief executive's (if any) respective percentage of the Company's share capital as a result of the contracted but lapsed new issue.

Save as disclosed above, as at 31 December 2019, to the best knowledge of the Directors, none of the Directors and chief executive, if any, had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

CONNECTED TRANSACTIONS

The Company had the following connected transactions, details of which were disclosed in accordance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(i) On 18 June 2019, the Company entered into an extension agreement with the Vendors (as defined in page 9 of this annual report) to extend the dates of completion of the second, the third and the fourth tranches in relation to the Acquisition (as defined in page 9 of this annual report) from 30 June 2019 to 30 June 2020, while no deferred interest is required for the period of extension. Further details are disclosed in page 108 of this annual report.

(ii) An interest expense of HK$5,654,000 was incurred in respect of a loan from Ho Kam Hung, a Director, during the year. Details of a loan from a director are disclosed in notes 22 and 36 to the financial statements.

(iii) Certain bank loans were secured by a personal guarantee of Ho Pak Hung, a substantial shareholder of the Company (through controlled corporations by virtue of the SFO). Further details are disclosed in note 21 to the financial statements.

(iv) On 16 March 2020, Ho Kam Hung, a Director, entered into an agreement with the Company to indemnify the Company from any potential losses arising from an other receivable of RMB9,706,000 (equivalent to HK$10,871,000). The full amount of the said other receivable has been included in the consolidated statement of financial position as at 31 December 2019. The indemnity covers the period from 1 January 2020 to 31 December 2020.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

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

As at 31 December 2019, the interests and short positions of 5% or more of the share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long Position:

Name of shareholders	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's share capital** *(note 7)*
Ye Jia Li *(note 1)*	Interest of spouse	110,600,000	18.26
Ho Tsam Hung *(note 2)*	Through controlled corporations	105,600,000	17.44
Ho Pak Hung *(note 3)*	Through controlled corporations	99,800,000	16.48
Liang Gui Fen *(note 4)*	Interest of spouse	99,800,000	16.48
EC Fair Limited *(notes 2 and 3)*	Directly beneficially owned	87,120,000	14.39
Strong Hero Holdings Limited *(note 5)*	Directly beneficially owned	100,000,000	16.51
Xie Xiaoxiang *(note 5)*	Through controlled corporation	100,000,000	16.51
Hero Grand Investments Limited *(note 6)*	Directly beneficially owned	30,800,000	5.09
Leung Po Wa *(note 6)*	Through controlled corporation	30,800,000	5.09

Notes:

1. Ye Jia Li is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the capacity as the spouse of Ho Kam Hung, a Director.

2. Ho Tsam Hung is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the following capacities:

   (i) 5,800,000 shares are held by Morgan Estate Assets Limited, which is beneficially owned by him.

   (ii) 87,120,000 shares are held by EC Fair Limited, in which he has $33^1/_3$% interest.

   (iii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

3. Ho Pak Hung is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the following capacities:

   (i) 87,120,000 shares are held by EC Fair Limited, in which he has $33^1/_3$% interest.

   (ii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

4. Liang Gui Fen is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the capacity as the spouse of Ho Pak Hung.

5. Strong Hero Holdings Limited is wholly-owned by Xie Xiaoxiang.

6. Hero Grand Investments Limited is wholly-owned by Leung Po Wa.

7. Save as disclosed in note 38(a) to the financial statements, on 27 December 2019, the Company entered into a subscription agreement (as amended on 31 January 2020) with China Everbright International Investment Holdings Co., Ltd *(note 8)*, a private company incorporated in the British Virgin Islands, in respect of subscription and issue of 120,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share. The new shares, if issued, would represent approximately 19.8% of the existing issued share capital of the Company as at year end date, or approximately 16.5% of the issued share capital of the Company as enlarged by the new issue.

   Taking into consideration the intended issue of 120,000,000 new shares lapsed subsequent to year end date, no adjustment has been made to the above table to reflect the changes of the substantial shareholders' and other persons' respective percentage of the Company's share capital as a result of the contracted but lapsed new issue.

8. Both China Everbright International Investment Holdings Co., Ltd and 新疆光實含弘股權投資管理有限公司, a limited liability company established in the PRC, were deemed to have the entire interest of 120,000,000 shares in the capital of the Company as at year end date representing approximately 16.5% of the issued share capital of the Company as enlarged by the new issue. China Everbright International Investment Holdings Co., Ltd was wholly-owned by 新疆光實含弘股權投資管理有限公司.

Save as disclosed above, as at 31 December 2019, as far as the Directors are aware, no person, other than the Directors (whose interests are set out in "Directors' and chief executive's interests and short positions in shares and underlying shares" above) had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a property developer, wholesale and retailing premises operator in Mainland China, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution, sewage treatment and disposal of building debris in public domain. Compliance procedures are in place from time to time to ensure adherence to applicable laws, rules and regulations.

During the year under review, so far as the Directors are aware, the Group complied with relevant laws and regulations that have significant impact on the operations of the Group. Moreover, the Directors also noticed to any latest changes in applicable laws, rules and regulations and drew attention of relevant employees and operation units to notice the same from time to time.

RELATIONSHIP WITH EMPLOYEES

The Group is committed to establishing a close and caring relationship with its employees.

The Group also provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to its employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their roles.

PERMITTED INDEMNITY AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Company's Bye-laws, all Directors or officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by them as Directors or officers of the Company in defending any proceedings, provided that no fraud or dishonesty were committed by the said persons. Appropriate insurance coverage for the liabilities of the Directors and officers was arranged by the Company during the year in respect of any legal actions which might be taken against them in the execution and discharge of their duties or in relation thereto.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this report, the Company maintained the prescribed amount of public float as required under the Listing Rules at all times up to the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the Group's events after the reporting period are set out in note 38 to the financial statements.

AUDITOR

Ernst & Young retires and a resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Ho Kam Hung
Executive Director

Hong Kong
17 April 2020

This report describes the Company's corporate governance practices and explains the application of the principles of the code provisions of the Corporate Governance Code (the "Code") (formerly known as the Code on Corporate Governance Practices) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2019 and for the period up to the date of the annual report. The Company, in the opinion of the Directors, complied with the Code throughout the year, except for the following deviation of Code Provision A.4.2 as discussed in "Appointment and Re-election of Directors".

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code for securities transactions by the Directors. Amendments will be made to the Model Code from time to time in order to conform with any new amendments made to Appendix 10 to the Listing Rules. Having made specific enquiry to all Directors, the Company confirmed that the Directors complied with the required standard set out in the aforesaid code throughout the year.

BOARD OF DIRECTORS

The Directors are responsible for determining those matters that are to be retained for full board's sanctions including, but not limited to, overall strategy and long-term objectives, new business opportunities, business plans and financial statements, interim and final results, material acquisitions and disposal of assets, capital projects and commitments, funding and risk management policies, material litigations as well as connected transactions.

The Directors have delegated the day-to-day responsibilities in respect of management and administrative functions to senior management including, but not limited to, implementing and achieving the strategies and objectives set by the Directors as well as overseeing the performance of different operating subsidiaries and monitoring and implementing proper accounting system and internal controls.

The board also has the corporate governance function, which is to determine the policy for the corporate governance of the Company and duties performed by the board under Code Provision D.3.1.

Four regular board meetings were held during the past twelve months. The attendance record of each Director at the said meetings throughout the year is set out as follows:

Name	**Attended/Eligible to Attend**
Executive Director	
Ho Kam Hung	4/4
Non-Executive Director	
Young Kwok Sui	4/4
Independent Non-Executive Directors	
Tam Kong, Lawrence	4/4
Wong Miu Ting, Ivy	4/4
Wong Kui Fai	4/4

During the year ended 31 December 2019, the Directors participated in the following trainings:

Name	Type of Trainings
Executive Director	
Ho Kam Hung	A, B
Non-Executive Director	
Young Kwok Sui	A, B
Independent Non-Executive Directors	
Tam Kong, Lawrence	A, B
Wong Miu Ting, Ivy	A, B
Wong Kui Fai	A, B

A: attending training session provided by the Company.

B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should be exercised by different individuals. In order to comply with this provision by spirit, the board meetings of the Company were chaired by the Non-Executive Director or Independent Non-Executive Directors at most of the times throughout the year.

Ho Kam Hung, being the Managing Director of the Company, is regarded as performing similar role as a chief executive officer of the Company.

NON-EXECUTIVE DIRECTORS

The terms of office of all Independent Non-Executive Directors, subject to earlier determination or retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws and/or applicable laws and regulations, are fixed for one year renewable on an annual basis.

The Company received from each of its Independent Non-Executive Directors an annual confirmation of independence and considered that each of them is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the provisions of the bye-laws of the Company, any director appointed by the Company either to fill a casual vacancy or as an addition to the board shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman and/or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. However, the Managing Director, though without a specified term, voluntarily retired and offered himself for re-election at the Company's annual general meetings in the past years. The Company considers that this practice is in line with the spirit of the Code's practice.

AUDIT COMMITTEE

The present members of the Audit Committee are comprised of three Independent Non-executive Directors, Wong Miu Ting, Ivy, as Chairman, Wong Kui Fai and Tam Kong, Lawrence and one Non-Executive Director, Young Kwok Sui. Throughout the year, the Audit Committee held two regular meetings.

The attendance record of each member at the audit committee meetings throughout the year is as follows:

Name of members	Attended/Eligible to Attend
Wong Miu Ting, Ivy *(Chairman)*	2/2
Wong Kui Fai	2/2
Tam Kong, Lawrence	2/2
Young Kwok Sui	2/2

The main duties of the Audit Committee include reviewing the financial information of the Group and overseeing the Group's financial reporting system and internal control procedures.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of three Independent Non-Executive Directors, Tam Kong, Lawrence, as Chairman, Wong Miu Ting, Ivy and Wong Kui Fai, and one Executive Director, Ho Kam Hung.

The attendance record of each member at the remuneration committee meetings throughout the year is as follows:

Name of members	Attended/Eligible to Attend
Tam Kong, Lawrence *(Chairman)*	1/1
Ho Kam Hung	1/1
Wong Kui Fai	1/1
Wong Miu Ting, Ivy	1/1

The main duties of the Remuneration Committee include determining remuneration policy for Directors and senior management and reviewing the remuneration package including performance-based remuneration.

NOMINATION COMMITTEE

The Nomination Committee comprises of two Independent Non-Executive Directors, Wong Kui Fai, as Chairman, and Tam Kong, Lawrence, and one Executive Director, Ho Kam Hung.

The attendance record of each member at the nomination committee meetings throughout the year is as follows:

Name of members	Attended/Eligible to Attend
Wong Kui Fai *(Chairman)*	1/1
Ho Kam Hung	1/1
Tam Kong, Lawrence	1/1

The main duties of the Nomination Committee include determining policy for nomination of directors and the nomination procedures and the process and criteria to select and recommend candidates for directorship.

The Board has adopted a board diversity policy (the "Board Diversity Policy") and delegated certain duties under the Board Diversity Policy to the Nomination Committee. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board. The Board reviewed the structure of the Board and is of the opinion that the Board met the requirements under the terms of the Board Diversity Policy.

The Nomination Committee will discuss and review the measurable objectives for implementing the Board Diversity Policy from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained.

INTERNAL CONTROL

The Directors acknowledge their responsibility for the Group's internal control system and through the Audit Committee, conduct reviews on the effectiveness of such system at least annually, covering all material controls, financial, operational and compliance controls and risk management functions. The process used in reviewing the effectiveness of such internal control system includes discussion with management on risk areas identified by management. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational system so that the Group's objectives can be achieved.

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the fees charged to the income statement of the Group for the Group's statutory audit services amounted to HK$2,228,000.

COMPANY SECRETARY

During the year, Tsang Tsz Hung ("Tsang"), the then company secretary of the Company, has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Tsang tendered his resignation as company secretary in January 2020 after a service with the Company for about nine years.

Chun Wai Yun ("Chun") has been working with the Company since its listing on the Main Board of the Stock Exchange in 1997 and has been maintaining all company and accounting records of the Company since then. He de facto handled most company secretarial routines, board papers, company registrars' matters and investors' relations and listing rules compliance in the capacity as assistant company secretary in the past years. Chun possessed the academic qualifications of Bachelor of Accountancy awarded by University of South Australia, Australia and Master of Laws in International Law and Commercial Law awarded by University of Greenwich, the United Kingdom. He also enrolled the course of Master of Corporate Governance offered by the Open University of Hong Kong. Upon his graduation from the aforesaid course with required working experience, Chun will be qualified to be admitted as Associate of the Chartered Governance Institute *(formerly known as the Institute of Chartered Secretaries and Administrators)*. The Directors are delighted to appoint Chun as the company secretary of the Company with effect from 1 February 2020.

SHAREHOLDERS' RIGHTS

The Directors believes that effective communication with the shareholders in a timely basis is essential. Shareholders can, by written requisition to the Board or the company secretary of the Company, to convene an extraordinary general meeting, subject to the provision of the Company's Bye-laws 58.

Shareholders are provided with contact details of the Company, such as telephone number, fax number, email address and postal address in the Company's website www.zhonghuagroup.com, in order to enable them to make any query that they may have with respect to the Company. They can also put forward their proposals at shareholders' meetings through these means subject to the provision as set out in the Company's Bye-Laws.

INVESTOR RELATIONS

There was no significant change in the issuer's constitutional documents during the year. For details of the Company's Bye-laws, shareholders can refer to the announcement dated 21 March 2013 on the website of the Stock Exchange or the Company's website for the bilingual copy of the Bye-Laws.

INTRODUCTION

This report is prepared pursuant to Code 3 of Appendix 27 to the Listing Rules in relation to the Environmental, Social and Governance ("ESG") Report.

The Group is principally engaged in property development, investment and management businesses and has two major investment properties in Chongqing and Guangzhou, Mainland China. As at 31 December 2019, the Group had a re-development site in Guangzhou but remained vacant. The Group's corporate office is situated in Hong Kong. The total headcount of the Group is about 40 as at 31 December 2019.

The management is responsible for evaluating and determining the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control system are in place. This report thus states the Group's ESG management approach, strategy, priorities and objectives and explains how these parameters relate to or affect its business and operations.

Taking into account of headcount of about 40, the management has to balance the efforts and additional resources utilized for ESG management and its cost benefits and contributions to the communities. Materiality and quantitative figures are the thresholds of measurement for the effectiveness of the Group's ESG performance.

ENVIRONMENTAL

The management had a good practice in implementing environmental friendly policies and observed, to a material extent, relevant laws and regulations about energy saving and environmental pollution imposed by the governmental bodies in the past years. For instance, all building and renovation materials, furniture and fixtures, electrical appliances replaced or newly installed were required to comply with the latest specifications and standards imposed by the relevant industrial institutions or governmental bodies. The management also implemented sensible energy saving program and policies from time to time. For instance, most fluorescent tubes and tungsten light bulbs used in the investment properties were replaced with light emitting diode tubes and comparable energy saving lighting appliances. Due to the nature of its business, the hazardous waste and greenhouse gas emission generated by the Group was minimal while water and fuel consumption was not a concern to the Group in the past years.

Given the Group has completed most of its energy saving program a couple of years ago, there was little room for further reduction of air, greenhouse gas and light emission for the year under review unless there are new technologies evolved. The management is also enthusiastic to use novel building materials and electrical appliances with energy saving or environmental friendly features provided that the costs of these novel products were reasonably affordable. The management will use its best endeavor to preserve the environment from time to time.

However, it is hard for the management to monitor the air and light pollution generated by its tenants as most of the tenants are engaged in leather or synthetic fabric footwear wholesale business which footwear products and materials (like glues) may generate hazardous odour or greenhouse gas emission. The management can hardly monitor the lighting consumption habits of its tenants too.

HEALTH CARE

The challenges arising from the COVID-19 pandemic in Mainland China and Hong Kong are unprecedented as the Group's principal operations in Mainland China have ceased in compliance with state orders since late January 2020 while most staff are restricted from travelling freely in Mainland China and cross border to and from Hong Kong. In view of the severity of the outbreak, it is necessary and appropriate to accord priority of the health and safety of all personnel when performing their duties.

In order to maintain an efficient but safe working environment for carrying out the Company's statutory audit work in Hong Kong office during February and March 2020, the management laid down strict hygiene control rules and home office policy for its local staff. Contingent plans were also mapped if in case COVID-19 cases out-broke nearby office or unfortunately suffered by its staff (or their close relatives). All local staff were required to keep health log books for tracing infection history, if any. During the social distancing period, communication and transmission of documents among various offices within the Group and with the Company's auditors and other professionals were transacted via telephone, internet or other purpose-built electronic network device, and the performance was satisfactory.

The management in the Hong Kong office also installed air purifiers with NANOE technology (one of the most advanced of its kinds) and sprayed regularly the Zhongdao Hypochlorous Disinfectant (中稻次氯酸消毒液) (which had been recently approved as an efficient but hazard free disinfectant for application on civil planes by the Civil Aviation Bureau of China (中國民用航空局)).

In addition, the management also distributed the following disinfection products and anti-virus medicine to its staff of head office for office or personal use including:

– Virus Shut Out Mobile Ionizer (lasts for 30 days)
– Sensi 3-ply Surgical Face Mask (level 1 safety)
– Zoono Microbe Surface Sanitizer (lasts for 30 days)
– Zoono Hand Sanitizer (lasts for 24 hours)
– AQ Bio Sanitizer (hazard free to human and animals)
– Hibiscrub Antimicrobial Skin Cleanser (a hospital grade hand cleanser)
– Lysol Disinfecting Wipes and Spray (Lysol is an US manufacturer invented the world's first disinfecting cleanser)
– Bosomi Alcohol Free Wipes (the most popular alcohol free wipes in Hong Kong)
– Huoxiang Zhengqi Pian (藿香正氣片) (a Chinese prescription recommended by the National Health Committee of China (中國國家衛生及健康委員會) for anti-virus precaution purpose

Following the COVID-19 cases dropping to a level under-control in Mainland China and Hong Kong, the Group's operation in Guangzhou and Chongqing resumed limited operation in late February and mid March 2020, respectively, while Hong Kong office resumed normal business in late March 2020.

SOCIAL

The Group only has headcount of about 40. The management values all employees and recognises their contributions, and is committed to establishing fair and caring relationship with its employees. Staff turnover rate was extremely low in the past years.

The management admits that its remuneration package is non-competitive with those packages offered by conglomerates or multi-national enterprises, but delivers a fair, comfortable, caring and enjoyable work place to its staff. Other than statutory labour terms and benchmark staff benefits, the Group offers additional fringe benefits to its staff like paid maternity, paternity and funeral leave, paid study and elderly care leave and professional training, overtime allowance and compensation, flexible office hours, free travel packages and bulk purchase discount on selective commodities and health care program. The management also provides allowances and insurance coverage for staff who requires overseas or cross-border travel. In addition, the management respects equal opportunities and family status of its staff. The management never hired child, forced or illegal labour.

All premises under the management or occupation of the Group do comply with the relevant building, fire, and environmental requirements imposed by the relevant laws and regulations from time to time. The management always conducts fire drill at its investment properties. There were no major fire hazards or industrial safety accidents took place in all premises during the year under review. Due to its business nature, the staff's exposure to occupational hazards is remote.

The management always encourages its staff to enroll professional, academic vocational or healthcare related training courses. For instance, the Group sponsored its senior staff to enrol the Master of Corporate Governance Course offered by the Open University of Hong Kong. The management also organises in-house seminars and training courses for its directors and general staff from time to time. The management also grants subsidy to its staff for attending external professional and vocational training courses should circumstances necessitate.

OPERATING PROCEDURES

Due to its business nature, the management did not set up hard and fast rules on supply chain management and product responsibility. However, the management always encourages its tenants and contractors to observe intellectual rights and product safety. The management always respects fair trade contracts.

The management has set up stringent house guidelines about ethics and honesty, bribery, extortion, fraud, money laundering and terrorism. Except the suspected judicial prejudice case encountered by one of the Group's principal subsidiaries (please refer to pages 109 to 113 of this annual report for details), there was no bribery, extortion, money laundering or terrorism case reported during the year under review.

COMMUNITY SERVICE

The management always dedicates its staff and resources to serve the community by means of donations, sponsorship, volunteer services, and organizing "kai fong" events within the community. In Mainland China, governmental endorsement (or no objection) is essential for hosting "kai fong" events like "National Day Gala", "Spring Festival Fire Crackers and Lion Dance Show" and "free distribution of fortune rice".

As part of the civic and patriotic propaganda program, the Group always posts related posters and leaflets issued by the governmental bodies, and invites government officers to present civic and patriotic seminars in its premises. The Group also sponsors events and functions organised by local authorities.

In January 2020, the Company donated RMB400,000 (HK$452,000) at the 中華情 – 攜手行慈善聯誼會 jointly organised by the Ling Ge Art Foundation (鈴戈藝術基金會) and the Chinese Language and Culture Education Foundation of China (中國華文教育基金會) in Macau for the purpose of promoting the education of Chinese culture and arts in the "One Road One Belt" (為推廣"一帶一路"中華文化藝術教育).

In mid February 2020, the Company donated Zhongdao Hypochlorous Disinfectant (中稻次氯酸消毒液) to the Shunde District People's Government (順德區人民政府), the Street Management Office of Rongqui Town (容桂鎮街道管理辦公室) and the Liaison Office of the Central People's Government in Hong Kong (中央人民政府駐港聯絡辦公室) for their routine disinfection use.

In Hong Kong, the Group's staff participates in volunteer services (while volunteer services are not yet popular in Mainland China) on ad hoc basis to serve the community. With full support of the management (donation matching, usually on dollar-to-dollar basis), the staff also makes donations to those needed from time to time.

Profile of Directors

DIRECTORS

Executive director

Ho Kam Hung, aged 64, has been appointed as the Managing Director of the Company since October 1997. Mr. Ho has over 30 years' experience in property investment and development, manufacturing, multinational trading and investments in Mainland China and Hong Kong. Mr. Ho has been enthusiastic in community services in Mainland China and is currently the Standing Committee of Guangdong Federation of Industry & Commerce (廣東省工商業聯合會(總商會)), as well as the vice presidents of Guangdong International Overseas Chinese Chamber of Commerce (廣東國際華商會) and Guangdong Chamber of Foreign Investors (廣東外商公會).

Non-executive director

Young Kwok Sui, aged 61, was appointed as an independent non-executive Director in December 2002 and was re-designated as a non-executive Director in March 2006. He holds bachelor degrees in laws and commerce awarded by the University of Canterbury, New Zealand. He is also a solicitor and barrister of the High Court of New Zealand. He has over 30 years' professional and commercial experiences in finance, corporate strategies and property sector.

Independent non-executive directors

Tam Kong, Lawrence, aged 75, was appointed in December 2005 as an independent non-executive Director. He is a seasoned banking and finance professional. He is a member of the Chartered Governance Institute (formerly known as *the Institute of Chartered Secretaries and Administrators*, the United Kingdom, and holds a Post-Graduate Diploma in Management Studies from the University of Hong Kong and has completed the Pacific Rim Bankers Program at the University of Washington, Seattle, the United States of America.

Wong Miu Ting, Ivy, aged 58, was appointed in December 2005 as an independent non-executive Director. She holds a Bachelor Degree in Accounting and Financial Management from Loughborough University of Technology, England. She is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Ms. Wong has over 30 years of experience in auditing and business advisory. She also has experience in the initial public offerings of various companies and has been providing financial advisory services to listed companies in relation to accounting, internal control and financial matters.

Wong Kui Fai, aged 63, was appointed in November 2006 as an independent non-executive Director. He holds a Bachelor Degree in Actuarial Science from University of Kent at Canterbury, England. He has been in the information technology ("IT") field for over 30 years with regional exposure covering the Greater China region and the United States. He had served at senior management levels for a number of multinational e-commerce solutions corporations and IT investment companies with hands-on experience in operations, strategic planning and direct investments. Mr. Wong formerly was the General Manager of Microsoft Hong Kong Limited and is presently actively engaged in mergers and acquisitions of cross border IT investment projects.

EY 安永

To the shareholders of Zhong Hua International Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 119, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 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.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Accounting for Zheng Da Real Estate Development Company Limited ("HK Zheng Da") and its wholly-owned subsidiary, namely 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da") (collectively the "Zheng Da Group")	
As at 31 December 2019, the Group had a non-controlling interest of HK$2,074,825,000, which represented 75% of equity interest of the Zheng Da Group. The assessment on whether the Group can account for both HK Zheng Da and GZ Zheng Da as its subsidiaries would significantly affect the Group's revenue and net asset value on consolidation basis. During the year ended 31 December 2019 and as at 31 December 2019, the revenue and total assets contributed by the Zheng Da Group to the Group represented 43% and 81%, respectively. The Group acquired 25% equity interest in the Zheng Da Group in December 2007, and pursuant to an acquisition agreement pertaining to the Zheng Da Group and related supplemental agreements executed thereafter (the latest of which was executed in June 2019), the Group had the currently exercisable right to acquire the remaining 75% equity interest in the Zheng Da Group anytime on or before 30 June 2020. In addition, the private company which holds the remaining 75% equity interest in the Zheng Da Group, which is controlled by a director and certain substantial shareholders of the Company, has given an undertaking to the Company that its board will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) the ability to use its power over HK Zheng Da to affect the amount of its returns.	We assessed the accounting treatment of the investment in the Zheng Da Group and evaluated the Group's control over the Zheng Da Group by, among others, inquiring of management, reviewing the related acquisition agreement and supplementary agreements, the minutes of HK Zheng Da and the undertaking given to the Company by the largest shareholder of the Zheng Da Group. We also checked the calculation of non-controlling interests of the Group and assessed the related disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Accounting for Zheng Da Real Estate Development Company Limited ("HK Zheng Da") and its wholly-owned subsidiary, namely 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da") (collectively the "Zheng Da Group") (continued)</td></tr>
<tr><td>On that basis, the directors of the Company considered that it is appropriate to account for both HK Zheng Da and GZ Zheng Da as subsidiaries of the Group with effect from 17 December 2007, the date of completion of the acquisition of 25% equity interest in the Zheng Da Group. This accounting treatment involved significant management judgement and the amounts involved are material.

Related disclosures about the accounting judgement and the particulars of the Zheng Da Group are included in notes 3 and 34 to the consolidated financial statements.</td><td></td></tr>
<tr><td colspan="2">Fair value estimation of investment properties</td></tr>
<tr><td>As at 31 December 2019, the aggregate fair value of the Group's investment properties was HK$4,150,272,000 which represented 96.5% of the Group's total assets. The estimation of fair value of investment properties requires management's significant judgement. Management, on an annual basis, commissions professional valuers to appraise the fair value of the Group's investment properties, and determines the fair value of these properties with reference to the valuation carried out by the professional valuers.

Related disclosures about the accounting estimation and the fair value measurement of investment properties are included in notes 3 and 14 to the consolidated financial statements.</td><td>We reviewed the objectivity, independence and expertise of the valuers commissioned by the Group and assessed the related data and assumptions being adopted, including unobservable inputs and other estimates, by comparing key valuation parameters including the capitalisation rate and rent with market information. We involved our valuation specialists to assist us in reviewing the valuation methodologies and key valuation parameters on the fair value estimation of investment properties. We also assessed the disclosures relating to the assumptions used in determining the fair values in the consolidated financial statements.</td></tr>
</table>

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Litigations	
As at 31 December 2019, the Group was subject to several legal claims in relation to disputes in respect of (i) an investment in a subsidiary; (ii) a property demolition; and (iii) certain contract disputes. In determining whether provision for these legal claims in dispute is appropriate, management needs to exercise significant judgement with reference to legal advices given by the Group's legal advisors about the estimation of probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Related disclosures about the accounting judgement and estimates and details of these legal claims are included in notes 3, 34 and 35 to the consolidated financial statements.	We inquired of the management about the latest status update on the legal proceedings and the related legal letters, considered the opinion and advices on the probable outcome of these legal claims given by the Group's legal advisors, and performed writ searches. We then evaluated the assessment for the legal claims made by the management and assessed the related disclosures 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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.

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

- 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.

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

The engagement partner on the audit resulting in this independent auditor's report is Chung Yuk Man.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
17 April 2020

Consolidated Income Statement

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	*5*	**41,732**	51,300
Other income and gains		**917**	564
Changes in fair value of investment properties	*14*	**(77,970)**	53,520
Administrative expenses		**(37,468)**	(29,321)
Finance costs	*6*	**(6,016)**	(6,701)
PROFIT/(LOSS) BEFORE TAX	*7*	**(78,805)**	69,362
Income tax credit/(expense)	*10*	**16,706**	(19,093)
PROFIT/(LOSS) FOR THE YEAR		**(62,099)**	50,269
Attributable to:			
Ordinary equity holders of the Company		**(18,505)**	11,989
Non-controlling interests		**(43,594)**	38,280
		(62,099)	50,269
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*11*		
– Basic		**HK$(0.03)**	HK$0.02
– Diluted		**HK$(0.03)**	HK$0.02

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(62,099)**	50,269
OTHER COMPREHENSIVE EXPENSE		
Other comprehensive expense that may be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(80,454)**	(134,791)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	**(142,553)**	(84,522)
Attributable to:		
Ordinary equity holders of the Company	**(42,620)**	(28,261)
Non-controlling interests	**(99,933)**	(56,261)
	(142,553)	(84,522)

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**4,187**	4,559
Right-of-use asset	*13(a)*	**1,212**	–
Investment properties	*14*	**4,150,272**	4,340,790
Total non-current assets		**4,155,671**	4,345,349
CURRENT ASSETS			
Properties held for sale		**34,826**	35,759
Trade receivables	*16*	**19,135**	9,433
Prepayments, deposits and other receivables	*17*	**12,624**	13,209
Cash and bank balances	*18*	**77,268**	91,511
Total current assets		**143,853**	149,912
CURRENT LIABILITIES			
Trade payables	*19*	**(1,956)**	(2,008)
Other payables and accruals	*20*	**(59,014)**	(46,026)
Tax payable		**(56,587)**	(52,448)
Interest-bearing bank borrowings	*21*	**–**	(7,137)
Lease liability	*13(b)*	**(1,269)**	–
Total current liabilities		**(118,826)**	(107,619)
NET CURRENT ASSETS		**25,027**	42,293
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,180,698**	4,387,642
NON-CURRENT LIABILITIES			
Loan from a director	*22*	**(71,658)**	(73,577)
Due to a director	*22*	**(171,636)**	(183,382)
Long term other payables	*20*	**(130,554)**	(133,645)
Deferred tax liabilities	*23*	**(891,981)**	(939,744)
Total non-current liabilities		**(1,265,829)**	(1,330,348)
Net assets		**2,914,869**	3,057,294

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*24*	**15,140**	15,140
Reserves	*26*	**824,904**	867,396
		840,044	882,536
Non-controlling interests		**2,074,825**	2,174,758
Total equity		**2,914,869**	3,057,294

Ho Kam Hung
Director

Young Kwok Sui
Director

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 26)*	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2018	**15,140**	**398,726**	**80,258**	**96,804**	**291,608**	**882,536**	**2,174,758**	**3,057,294**
Effect of adoption of HKFRS 16 (note 2.2)	**–**	**–**	**–**	**–**	**128**	**128**	**–**	**128**
At 1 January 2019 (restated)	**15,140**	**398,726**	**80,258**	**96,804**	**291,736**	**882,664**	**2,174,758**	**3,057,422**
Exchange differences related to foreign operations	**–**	**–**	**–**	**(24,115)**	**–**	**(24,115)**	**(56,339)**	**(80,454)**
Loss for the year	**–**	**–**	**–**	**–**	**(18,505)**	**(18,505)**	**(43,594)**	**(62,099)**
Total comprehensive expense for the year	**–**	**–**	**–**	**(24,115)**	**(18,505)**	**(42,620)**	**(99,933)**	**(142,553)**
At 31 December 2019	**15,140**	**398,726***	**80,258***	**72,689***	**273,231***	**840,044**	**2,074,825**	**2,914,869**
At 1 January 2018	15,140	398,726	80,258	137,054	279,619	910,797	2,231,019	3,141,816
Exchange differences related to foreign operations	–	–	–	(40,250)	–	(40,250)	(94,541)	(134,791)
Profit for the year	–	–	–	–	11,989	11,989	38,280	50,269
Total comprehensive income/(expense) for the year	–	–	–	(40,250)	11,989	(28,261)	(56,261)	(84,522)
At 31 December 2018	15,140	398,726*	80,258*	96,804*	291,608*	882,536	2,174,758	3,057,294

* *These reserve accounts comprise the consolidated reserves of HK$824,904,000 (2018: HK$867,396,000) 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/(loss) before tax		**(78,805)**	69,362
Adjustments for:			
Finance costs	*6*	**6,016**	6,701
Interest income	*7*	**(382)**	(303)
Depreciation of property, plant and equipment	*7*	**255**	270
Depreciation of right-of-use asset	*7*	**2,078**	–
Changes in fair value of investment properties	*7*	**77,970**	(53,520)
		7,132	22,510
Increase in trade receivables		**(10,037)**	(8,656)
Decrease/(increase) in prepayments, deposits and other receivables		**259**	(118)
Decrease in trade payables		**–**	(34)
Increase in other payables and accruals		**16,579**	9,212
Exchange differences on translation of foreign operations		**(274)**	101
Cash generated from operations		**13,659**	23,015
Interest received		**382**	303
Interest paid		**(362)**	(696)
Overseas taxes paid		**(1,141)**	(1,468)
Net cash flows from operating activities		**12,538**	21,154
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in time deposits with original maturity of more than three months when acquired and net cash flows from/(used in) an investing activity		**2,301**	(44)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank loans		**(7,013)**	(6,836)
Principal portion of lease payments		**(1,893)**	–
Decrease in an amount due to a director		**(15,703)**	(1,754)
Increase in long term other payables		**–**	652
Net cash flows used in financing activities		**(24,609)**	(7,938)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(9,770)**	13,172
Cash and cash equivalents at beginning of year		**89,169**	79,684
Effect of foreign exchange rate changes		**(2,131)**	(3,687)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**77,268**	89,169

	Notes	2019 HK$'000	2018 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*18*	**77,268**	89,169
Time deposits	*18*	**–**	2,342
Cash and bank balances as stated in the consolidated statement of financial position		**77,268**	91,511
Time deposits with original maturity of more than three months when acquired		**–**	(2,342)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**77,268**	89,169

1. CORPORATE INFORMATION

Zhong Hua International Holdings Limited (the "Company") was incorporated in Bermuda on 23 September 1997 as an exempted company with limited liability under the Bermuda Companies Act 1981.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. During the year, the principal office of the Company in Hong Kong was located at Suite 2911, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Central, Hong Kong.

The principal activity of the Company has not changed during the year and was investment holding. The principal activities of the Company's subsidiaries are set out in note 34 to the financial statements. There were no significant changes in the nature of the principal activities of the subsidiaries during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties 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 except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") 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 the 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 the consolidated income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the consolidated income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 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 to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, HK(IFRIC)-Int 23 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:

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 will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

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 transitional 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of office property. 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 two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (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).

Impact on transition

Lease liability at 1 January 2019 was recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use asset was recognised based on the carrying amount as if the standard had always applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019.

The asset was assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use asset and lease liability separately in the statements of financial position.

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. These properties 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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	HK$'000
Assets	
Increase in right-of-use asset and total assets	**3,290**
Liabilities	
Increase in lease liability and total liabilities	**3,162**
Reserves	
Increase in retained profits	**128**

The lease liability as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	**3,587**
Weighted average incremental borrowing rate as at 1 January 2019	**5.88%**
Lease liability and discounted operating lease commitments as at 1 January 2019	**3,162**

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 adoption

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

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

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.

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 if 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 the 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 joint ventures

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

The Group's investments in 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 joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

Business combinations and goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill 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.

Fair value measurement

The Group measures its investment properties 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(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.

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 and properties held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	3%
Leasehold improvements	20%
Equipment	20%
Computer and office equipment, furniture and fixtures	20%
Motor vehicles	20%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings held to earn 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.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Properties held for sale

Properties held for sale, consisting of completed properties intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other costs attributable to such properties. Net realisable value is determined by directors with reference to the prevailing market prices on an individual property basis.

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.

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(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.

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.

(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 and laptop computers 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 income statement 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 lesse are accounted for as finance leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable before 1 January 2019)

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

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

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

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 asset 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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.

Subsequent measurement

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

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 the income statement when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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 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.

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 consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

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

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 rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

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 the income statement.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Provisions

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

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

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 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 investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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, the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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

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

Dividend income derived from the Company's subsidiaries in Mainland China is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "PRC").

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer 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.

Sale of completed properties held for sale

Revenue from sale of completed properties held for sale is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

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 in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of these employees' basic salaries and are charged to the income statement 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.

The Group's subsidiaries in Mainland China are required to participate in the employee retirement scheme operated by the relevant local government bureau in Mainland China and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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 income statement is also recognised in other comprehensive income or income statement, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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:

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 independent of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Impairment of assets

Management's judgement is required in the area of asset impairment, particularly in assessing whether: (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the assets using estimated cash flow projections; and (3) the cash flow projections are discounted using an appropriate rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Income tax

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

As explained in note 23 to the financial statements, withholding tax is levied on dividends to be distributed by subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax is provided, at the applicable withholding tax rate, on the undistributed earnings of the Group's subsidiaries in the PRC that would be distributed to their respective holding companies outside Mainland China in the foreseeable future. Management makes assessment based on the factors which included the dividend policy and level of capital and working capital required for the Group's operation in the foreseeable future.

The Group's investment properties at fair value in Mainland China are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group acquired 25% equity interest in Zheng Da Real Estate Development Company Limited ("HK Zheng Da") and its wholly-owned subsidiary, namely 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da") (collectively the "Zheng Da Group") in December 2007, and pursuant to an acquisition agreement pertaining to the Zheng Da Group and related supplemental agreements executed thereafter (the latest of which was executed in June 2019), the Group had the currently exercisable right to acquire the remaining 75% equity interest in the Zheng Da Group anytime on or before 30 June 2020. In addition, the private company which holds the remaining 75% equity interest in the Zheng Da Group, which is controlled by a director and certain substantial shareholders of the Company, has given an undertaking to the Company that its board will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group considers that it controls the Zheng Da Group even though it owns less than 50% of voting rights because the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) the ability to use its power over HK Zheng Da to affect the amount of its returns. On that basis, the directors of the Company considered that it is appropriate to account for both HK Zheng Da and GZ Zheng Da as subsidiaries of the Group with effect from 17 December 2007, the date of completion of acquisition of 25% equity interest in the Zheng Da Group. Further details are given in note 34(c) to the financial statements.

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 discussed below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

Fair value estimation of investment properties

In the absence of current prices in an active market for comparable properties, management considers information from a variety of sources, including:

(a) by reference to independent valuations;

(b) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences; and

(c) recent prices of comparable properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices.

Further details, including the key assumptions used for fair value measurement and sensitivity analysis, are given in note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for legal disputes

At 31 December 2019, the Group was subject to several legal claims in relation to disputes in respect of (i) an investment in a subsidiary; (ii) a property demolition; and (iii) certain contract disputes which, in the opinion of the directors of the Company, arose during the normal course of business. In determining whether provision for these legal claims in dispute is necessary requires an estimation of probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Based on the advices from the independent legal advisors, certain outstanding legal claims are still in the preliminary stage and the final outcome is unable to be determined at this stage. In the opinion of the directors of the Company, the Group has possible obligations in relation to certain legal disputes. Except for those accounted for in the financial statements, no other provision was considered necessary in the consolidated financial statements at the end of the reporting period. Disclosure of the litigations has been made in notes 34 and 35 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the property investment segment, which invests in properties located in Mainland China for generating potential income from letting; and

(b) the corporate and others segment, which provides management services to group companies.

The management of the Group 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/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit/(loss) before tax from operations except that other income and gains and finance costs are excluded from such measurement. Segment assets exclude cash and bank balances as it is managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities, lease liability, interest-bearing bank borrowings and a loan from a director as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

	Property Investment		Corporate and Others		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Segment revenue *(note 5)*						
Sales to external customers	**41,732**	51,300	**–**	–	**41,732**	51,300
Segment results	**(59,020)**	90,760	**(14,686)**	(15,261)	**(73,706)**	75,499
Other income and gains					**917**	564
Finance costs					**(6,016)**	(6,701)
Profit/(loss) before tax					**(78,805)**	69,362
Income tax credit/(expense)					**16,706**	(19,093)
Profit/(loss) for the year					**(62,099)**	50,269
Segment assets	**4,220,361**	4,403,132	**1,895**	618	**4,222,256**	4,403,750
Unallocated assets					**77,268**	91,511
Total assets					**4,299,524**	4,495,261
Segment liabilities	**321,700**	314,191	**41,460**	50,870	**363,160**	365,061
Unallocated liabilities					**1,021,495**	1,072,906
Total liabilities					**1,384,655**	1,437,967
Other segment information						
Depreciation of property, plant and equipment	**255**	270	**–**	–	**255**	270
Depreciation of right-of-use asset	**–**	–	**2,078**	–	**2,078**	–
Changes in fair value of investment properties	**(77,970)**	53,520	**–**	–	**(77,970)**	53,520

Geographical information

Revenues are attributed to the segments based on the locations of the customers, and assets are attributed to the segments based on the locations of the assets. No geographical information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Information about major customers

Revenues from four (2018: four) customers, each of which accounted for revenue exceeding 10% of the Group's total revenues, amounted to approximately HK$41,732,000 (2018: HK$51,300,000).

5. REVENUE

An analysis of revenue is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from other sources		
Income from letting of investment properties	**41,732**	51,300

6. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on:		
Bank loans	**231**	696
Loan from a director	**5,654**	6,005
Interest on lease liability *(note 13(b))*	**131**	–
	6,016	6,701

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2019 HK$'000	2018 HK$'000
Depreciation of property, plant and equipment *(note 12)*	**255**	270
Depreciation of right-of-use asset *(note 13(a))*	**2,078**	–
Minimum lease payments under operating leases on land and buildings	**–**	2,206
Lease payments not included in the measurements of lease liability	**272**	–
Employee benefit expense (including directors' and chief executive's remuneration – *note 8*):		
Wages and salaries	**8,415**	8,008
Pension scheme contributions[#]	**410**	424
	8,825	8,432
Auditor's remuneration	**2,228**	2,228
Bank interest income	**(382)**	(303)
Changes in fair value of investment properties *(note 14)*	**77,970**	(53,520)

[#] At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Stock Exchange"), 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:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2019				
Executive Director				
Ho Kam Hung*	**2,400**	**–**	**36**	**2,436**
Non-executive Director				
Young Kwok Sui	**282**	**–**	**–**	**282**
Independent Non-executive Directors				
Tam Kong, Lawrence	**166**	**–**	**–**	**166**
Wong Miu Ting, Ivy	**166**	**–**	**–**	**166**
Wong Kui Fai	**166**	**–**	**–**	**166**
	498	**–**	**–**	**498**
	3,180	**–**	**36**	**3,216**
2018				
Executive Director				
Ho Kam Hung*	2,400	–	36	2,436
Non-executive Director				
Young Kwok Sui	282	–	–	282
Independent Non-executive Directors				
Tam Kong, Lawrence	166	14	–	180
Wong Miu Ting, Ivy	166	14	–	180
Wong Kui Fai	166	14	–	180
	498	42	–	540
	3,180	42	36	3,258

* Ho Kam Hung is the Managing Director of the Company, which has a similar capacity as a chief executive officer of the Company.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

The Executive Director of the Company is the key management personnel of the Group.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2018: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries, allowances and benefits in kind	**1,992**	1,833
Pension scheme contributions	**54**	54
	2,046	1,887

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
Nil to HK$1,000,000	**3**	3

During the year, no emoluments were paid by the Group to the non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

10. INCOME TAX

	2019 **HK$'000**	2018 HK$'000
Current – elsewhere		
Charge for the year	**6,697**	6,023
Deferred *(note 23)*	**(23,403)**	13,070
Total tax charge/(credit) for the year	**(16,706)**	19,093

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 elsewhere have been calculated at the rates of tax prevailing in the regions in which the Group operates. The subsidiaries established in Mainland China are subject to income taxes at a tax rate of 25% (2018: 25%).

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2019

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Loss before tax	(14,539)	(64,266)	(78,805)
Tax at the statutory tax rate	(2,399)	(16,067)	(18,466)
Expenses not deductible for tax	2,399	–	2,399
Others	–	(639)	(639)
Tax credit at the Group's effective rate	–	(16,706)	(16,706)

2018

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	(14,800)	84,162	69,362
Tax at the statutory tax rate	(2,442)	21,041	18,599
Expenses not deductible for tax	2,442	52	2,494
Others	–	(2,000)	(2,000)
Tax charge at the Group's effective rate	–	19,093	19,093

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss (2018: earning) per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$18,505,000 (2018: profit of HK$11,989,000), and the number of ordinary shares of 605,616,520 (2018: 605,616,520) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

12. PROPERTY, PLANT AND EQUIPMENT

2019	Buildings HK$'000	Leasehold improvements HK$'000	Equipment HK$'000	Computer and office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 January 2019	9,330	562	478	386	4,452	15,208
Exchange realignment	(244)	(5)	(5)	(8)	(12)	(274)
At 31 December 2019	9,086	557	473	378	4,440	14,934
Accumulated depreciation:						
At 1 January 2019	4,771	562	478	386	4,452	10,649
Provided during the year	255	–	–	–	–	255
Exchange realignment	(127)	(5)	(5)	(8)	(12)	(157)
At 31 December 2019	4,899	557	473	378	4,440	10,747
Net book value:						
At 31 December 2019	4,187	–	–	–	–	4,187

2018	Buildings HK$'000	Leasehold improvements HK$'000	Equipment HK$'000	Computer and office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 January 2018	9,735	571	491	395	4,472	15,664
Exchange realignment	(405)	(9)	(13)	(9)	(20)	(456)
At 31 December 2018	9,330	562	478	386	4,452	15,208
Accumulated depreciation:						
At 1 January 2018	4,707	571	491	395	4,472	10,636
Provided during the year	270	–	–	–	–	270
Exchange realignment	(206)	(9)	(13)	(9)	(20)	(257)
At 31 December 2018	4,771	562	478	386	4,452	10,649
Net book value:						
At 31 December 2018	4,559	–	–	–	–	4,559

13. LEASES

The Group as a lessee

The Group has lease contract for office premise in Hong Kong and the Mainland China used in its operations. It generally has lease terms of one to three years.

(a) *Right-of-use asset*

The carrying amounts of the Group's right-of-use asset and the movements during the year are as follows:

	Office premise HK$'000
As at 1 January 2019	**3,290**
Depreciation charge *(note 7)*	**(2,078)**
As at 31 December 2019	**1,212**

(b) *Lease liability*

The carrying amount of lease liability and the movements during the year are as follows:

	Lease liability HK$'000
Carrying amount at 1 January 2019	**3,162**
Accretion of interest recognised during the year *(note 6)*	**131**
Payments	**(2,024)**
Carrying amount at 31 December 2019	**1,269**
Analysed into:	
Repayable within one year	**1,269**

The maturity analysis of lease liability is disclosed in note 32 to the financial statements.

13. 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
Interest on lease liabilities	**131**
Depreciation charge of right-of-use assets	**2,078**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses) *(note 7)*	**272**
Total amount recognised in income statement	**2,481**

(d) The total cash outflow for lease is disclosed in note 27(b) to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 14) consisting of two commercial properties in the PRC under operating lease arrangements with a term of one year (2018: one year). The terms would provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$41,732,000 (2018: HK$51,300,000), details of which are included in note 5 to the financial statements.

At the end of the reporting period, the Group had no undiscounted lease payments receivable in future periods under non-cancellable operating leases with its tenants.

14. INVESTMENT PROPERTIES

	2019	2018
	HK$'000	HK$'000
Carrying amount at 1 January	**4,340,790**	4,476,000
Changes in fair value recognised in the income statement *(note 7)*	**(77,970)**	53,520
Exchange realignment	**(112,548)**	(188,730)
Carrying amount at 31 December	**4,150,272**	4,340,790

14. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties comprise commercial properties in Chongqing and properties under development in Guangzhou, the PRC. With reference to the nature, characteristics and risk of these properties, management determined that these commercial properties and properties under development should be classified as investment properties.

The Group's investment properties located in Chongqing and Guangzhou, the PRC, were revalued on 31 December 2019 with reference to the valuations performed by Savills Valuation and Professional Services Limited and Vigers Appraisal and Consulting Limited, both independent qualified valuers, at RMB355,600,000, equivalent to HK$398,272,000 (2018: RMB354,600,000, equivalent to HK$407,790,000), and RMB3,350,000,000, equivalent to HK$3,752,000,000 (2018: RMB3,420,000,000, equivalent to HK$3,933,000,000), respectively.

Management commissions qualified valuers to appraise the fair value of the Group's investment properties on an annual basis. Selection criteria for external valuers includes market knowledge, reputation, independence and professional standards. Management also discusses with the valuers on the valuation assumptions and methodologies. In estimating the fair value of the properties, the valuers assume that the current use is the highest and best use of these properties.

Certain investment properties of the Group amounting to HK$398,272,000 (2018: HK$407,790,000) were pledged to secure banking facilities granted to (i) the Group as set out in note 21 to the financial statements and (ii) an independent third party, as set out below. In addition, as at 31 December 2017, certain units of these investment properties of the Group were subject to a charge order imposed by the People's Court (人民法院) for restricted transfer of property title unless and upon repayment of RMB3,743,000 (note 35(c)) to a claimant is made. Such charge order was withdrawn in January 2018.

A principal subsidiary of the Group ("Subsidiary") provided a corporate guarantee and pledged certain of its investment properties and rental receivables to a bank for banking facilities ("Banking Facilities") granted to a local leasing operator (the "Operator") of the sole tenant ("Sole Tenant") of the underlying investment properties. In return, the Operator was responsible to carry out the renovation of the underlying investment properties which was financed by the Banking Facilities. Contemporaneously, both the Operator and the Sole Tenant provided corporate guarantees to the Subsidiary in the event of default in the repayment of the Banking Facilities by the Operator ("Repayment"). In addition, the Sole Tenant undertook to assign its rental receivables of the underlying investment properties to the Subsidiary in the event of default in the Repayment. As at 31 December 2019, the Banking Facilities utilised by the Operator amounted to approximately HK$6,678,000 (2018: HK$18,496,000).

14. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy

The fair values of the Group's investment properties as at 31 December 2019 and 2018 are estimated by using significant unobservable inputs and the fair value measurements are categorised under Level 3.

	Chongqing, the PRC HK$'000	Guangzhou, the PRC HK$'000
Carrying amount at 1 January 2019	**407,790**	**3,933,000**
Changes in fair value recognised in the income statement	**1,130**	**(79,100)**
Exchange realignment	**(10,648)**	**(101,900)**
Carrying amount at 31 December 2019	**398,272**	**3,752,000**
Carrying amount at 1 January 2018	420,000	4,056,000
Changes in fair value recognised in the income statement	5,520	48,000
Exchange realignment	(17,730)	(171,000)
Carrying amount at 31 December 2018	407,790	3,933,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Class of property	Valuation techniques	Significant unobservable inputs	Weighted average of unobservable inputs 2019	2018
Chongqing, the PRC – Commercial properties, completed – Level 3	Income capitalisation approach	Capitalisation rate per annum *(note 1)*	**8%**	8%
Guangzhou, the PRC – Commercial properties, under development – Level 3	Residual approach	Market prices per square metre *(note 2)*	**HK$39,183**	HK$41,072
		Developer's profit per square metre *(note 3)*	**HK$5,434**	HK$6,872
		Estimated cost to complete per square metre *(note 4)*	**HK$10,595**	HK$10,947

14. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (continued)

Notes:

1. The higher the capitalisation rate per annum, the lower the fair value.

2. The higher the market prices per square metre, the higher the fair value.

3. The higher the developer's profit per square metre, the lower the fair value.

4. The higher the estimated cost to complete per square metre, the lower the fair value.

Under the income capitalisation approach, fair value is estimated on the basis of capitalisation of estimated market rentals for the unexpired land use term. The estimated market rentals of the investment properties are assessed and capitalised at a market yield expected by investors for this type of property. The market rentals are assessed by reference to the rentals achieved in the lettings of similar properties in the neighbourhood. The market yield, which is the capitalisation rate adopted, is made by reference to the yields derived from analysing the sales transactions of similar properties and adjusted to take account of the valuers' knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties.

Under the residual approach, fair value is estimated on the basis of the gross development value of the investment properties by reference to their development potential deducting various costs, such as construction cost, contingency cost, finance cost, marketing cost and professional fees that will be expended to complete the development as well as the developer's profit to reflect the risks associated with the development of the investment property and the quality of the completed development. The gross development value is arrived at by making reference to the sales transactions or asking price evidences of comparable properties as available in the market with adjustments made to account for any differences and where appropriate.

15. INVESTMENTS IN JOINT VENTURES

	2019	2018
	HK$'000	HK$'000
Share of net assets	**–**	–

15. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Particulars of the Group's joint ventures are as follows:

Name	Business structure	Place of incorporation and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
I-Mall Investments Limited	Corporate	British Virgin Islands	68.6	33.3	68.6	Dormant
B2B Market Investments Limited	Corporate	British Virgin Islands	35.0	33.3	35.0	Dormant

All of the above investments in joint ventures are directly held by I-Action Agents Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

The Group has discontinued the recognition of its share of losses of I-Mall Investments Limited and B2B Market Investments Limited because the share of losses of these joint ventures exceeded the Group's interests in the joint ventures and the Group has no obligation to take up further losses. At 31 December 2019, the amount of the Group's unrecognised share of losses of these joint ventures was cumulatively HK$8,614,000 (2018: HK$8,614,000).

16. TRADE RECEIVABLES

An ageing analysis of the trade receivables at the end of the reporting period is as follows:

	2019 HK$'000	2019 Percentage	2018 HK$'000	2018 Percentage
Within 6 months	**12,320**	**64**	9,433	100
More than 6 months but within 1 year	**6,815**	**36**	–	–
	19,135	**100**	9,433	100

The Group generally grants a credit term of 3 months to 12 months to its customers.

The ageing of the Group's trade receivables is based on the date of recognition of revenue. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

At 31 December 2019, the Group had high concentrations of credit risk that may arise from the exposure to one (2018: four) customer and the largest customer which accounted for 100% (2018: 100%) and 100% (2018: 63%) of the Group's total trade receivables, respectively.

As at 31 December 2019, trade receivables of the Group amounting to HK$19,135,000 (2018: HK$5,983,000) were pledged to secure banking facilities granted to an independent third party of the Group as set out in note 14 to the financial statements.

16. TRADE RECEIVABLES (CONTINUED)

The Group has applied the simplified approach to provide impairment of ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group considers the historical loss rate and adjusts for forward-looking information in calculating the expected credit loss rate. As at 31 December 2019, the Group estimated the expected loss rate of trade receivables was minimal and no ECL allowance (2018: Nil) in respect of these balances was made.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	52	346
Deposits and other receivables	12,572	12,863
	12,624	13,209

None of the above deposits and other receivables was either past due or impaired at 31 December 2019 and 2018. The financial assets included in the above balances relate to deposits and other receivables for which there was no recent history of default. On 16 March 2020, Ho Kam Hung, a director of the Company, has indemnified the Company from any losses arising from an other receivable of RMB9,706,000 (equivalent to HK$10,871,000) ("Other Receivable"). The indemnity covers the period from 1 January 2020 to 31 December 2020.

Deposits and other receivables mainly represent rental deposits and Other Receivable. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. 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. As at 31 December 2019, the Group estimated the loss rate of these balances was minimal and no impairment (2018: Nil) in respect of these balances was made.

18. CASH AND BANK BALANCES

	2019	2018
	HK$'000	HK$'000
Cash and bank balances	**77,268**	89,169
Time deposits	**–**	2,342
	77,268	91,511

At the end of the reporting period, total cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$73,480,000 (2018: HK$84,799,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made varying periods of one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

19. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period is as follows:

	2019		2018	
	HK$'000	**Percentage**	HK$'000	Percentage
More than 1 year	**1,956**	**100**	2,008	100

The ageing of the Group's trade payables is based on the dates of the goods received or services rendered. The trade payables are non-interest-bearing.

20. OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	HK$'000
Other payables	**138,676**	131,629
Accrued deferred interest on the Remaining Tranches in relation to the Acquisition *(note 34(c))*	**25,837**	25,837
Other accruals	**25,055**	22,205
	189,568	179,671
Less: current portion	**(59,014)**	(46,026)
Non-current portion	**130,554**	133,645

The balances of other payables and accruals are non-interest-bearing and have no fixed terms of repayment, except for an amount of HK$130,554,000 (2018: HK$133,645,000) which is not repayable before 31 May 2020.

21. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	**Maturity**	**2019 HK$'000**	Effective interest rate (%)	Maturity	2018 HK$'000
Current						
Bank loans – secured	–	–	–	5.88	2019	7,137

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	–	7,137

At 31 December 2018, the secured bank loans of HK$7,137,000 of the Group bore interest at floating interest rates. The secured bank loans of HK$7,137,000 were denominated in RMB.

At 31 December 2019 and 2018, banking facilities of the Group were secured by certain of the Group's investment properties, a corporate guarantee executed by the Company and a personal guarantee executed by one of the Company's substantial shareholders, Ho Pak Hung.

22. BALANCES WITH A DIRECTOR

The loan from a director (the "Loan"), which is unsecured and bears interest at 7.821% (2018: 7.821%) per annum, is due to Ho Kam Hung, a director of the Company. The balance due to a director (the "Balance"), which is unsecured and interest-free, is due to Ho Kam Hung, a director of the Company. Ho Kam Hung has undertaken to the Company not to demand repayment of the Loan and the Balance until the Group is able to generate sufficient cash inflows to meet its daily working capital requirement but in any event such repayment request will not be made on or before 31 May 2021 and, accordingly, the Loan and the Balance are included under non-current liabilities.

23. DEFERRED TAX

The movements in deferred tax liabilities/(assets) during the year were as follows:

Deferred tax liabilities

	Fair value adjustments on investment properties		Others		Total	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**940,125**	967,620	**1,619**	–	**941,744**	967,620
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	**(19,493)**	13,380	**1,163**	1,690	**(18,330)**	15,070
Exchange realignment	**(24,352)**	(40,875)	**(53)**	(71)	**(24,405)**	(40,946)
Gross deferred tax liabilities at 31 December	**896,280**	940,125	**2,729**	1,619	**899,009**	941,744

Deferred tax assets

	Temporary differences of accruals	
	2019	2018
	HK$'000	HK$'000
At 1 January	**(2,000)**	–
Deferred tax credited to the income statement during the year *(note 10)*	**(5,073)**	(2,000)
Exchange realignment	**45**	–
Gross deferred tax assets at 31 December	**(7,028)**	(2,000)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019	2018
	HK$'000	HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	**891,981**	939,744

23. DEFERRED TAX (CONTINUED)

Deferred tax assets (continued)

The Group has tax losses arising in Hong Kong of HK$156,000 (2018: HK$156,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in group companies that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of 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. At 31 December 2019, the aggregate amount of temporary differences associated with these subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$911,256,000 (2018: HK$958,913,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. SHARE CAPITAL

Shares

	2019 HK$'000	2018 HK$'000
Authorised:		
4,000,000,000 (2018: 4,000,000,000) ordinary shares of HK$0.025 (2018: HK$0.025) each	**100,000**	100,000
Issued and fully paid:		
605,616,520 (2018: 605,616,520) ordinary shares of HK$0.025 (2018: HK$0.025) each	**15,140**	15,140

There were no movements in the Company's issued ordinary share capital and share premium during the years ended 31 December 2019 and 2018.

On 27 December 2019, it was announced that the Company entered into a subscription agreement with an independent third party in respect of subscription of new shares in the capital of the Company. Details are set out in note 38(a) to the financial statements for development after 31 December 2019.

25. SHARE OPTION SCHEME

The Company's share option scheme was adopted on 19 December 2012 (the "Scheme").

The purposes of the Scheme are to: (a) provide a way of recognition of the contributions or services or expected contributions or services of employees, executive and non-executive directors and others; (b) strengthen the relationships between the Group and its employees and directors and others; (c) attract and retain high quality employees and executives and providers of goods and services; and (d) motivate eligible participants to assist in the development and expansion of the Group.

The eligible participants are any executives or non-executive directors or employees (full-time or part-time) of any member of the Group and any other persons whether or not employees (full-time or part-time) or directors of any member of the Group who, in the sole discretion of the board of directors (the "Board"), have contributed or are likely to contribute to the Group. The Scheme became effective on 19 December 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board and may commence and end on any dates as determined by the Board but shall in any event end not later than 10 years from the date upon which the share option is granted.

The exercise price of the share options is determinable by the Board, but must be at least the highest of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (2) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (3) the par value of the Company's shares.

There were no share options in issue under the Scheme during the year. At the end of the reporting period and the date of approval of these financial statements, the Company had no share options outstanding under the Scheme.

26. 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 of the financial statements.

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions:

(i) During the year ended 31 December 2019, interest on a loan from a director, Ho Kam Hung, of HK$5,654,000 (2018: HK$6,005,000) was settled through the balance due to a director.

(ii) During the year ended 31 December 2019, director fee of HK$2,400,000 (2018: HK$2,400,000) included in accruals was settled through the balance due to a director.

(b) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019
	HK$'000
Within operating activities	**(403)**
Within financing activities	**(1,893)**
	(2,296)

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Changes in liabilities from financing activities

	Interest-bearing bank borrowings HK$'000	Lease liability HK$'000	Loan from a director HK$'000	Due to a director HK$'000	Long term other payables HK$'000
At 31 December 2018	7,137	–	73,577	183,282	133,645
Effect of adoption of HKFRS 16	–	3,162	–	–	–
At 1 January 2019 (restated)	7,137	3,162	73,577	183,382	133,645
Changes in financing cash flows	(7,013)	(1,893)	–	(15,703)	–
Foreign exchange movement	(124)	–	(1,919)	(4,097)	(3,091)
Interest expenses	–	131	–	5,654	–
Interest paid classified as operating cash flows	–	(131)	–	–	–
Accruals *(note (a)(ii))*	–	–	–	2,400	–
At 31 December 2019	–	1,269	71,658	171,636	130,554

	Interest-bearing bank borrowings HK$'000	Loan from a director HK$'000	Due to a director HK$'000	Long term other payables HK$'000
At 1 January 2018	14,283	76,776	183,840	137,622
Changes in financing cash flows	(6,836)	–	(1,754)	652
Foreign exchange movement	(310)	(3,199)	(7,109)	(4,629)
Interest expenses	–	–	6,005	–
Accruals *(note (a)(ii))*	–	–	2,400	–
At 31 December 2018	7,137	73,577	183,382	133,645

28. CONTINGENT LIABILITIES

Save as disclosed elsewhere in the financial statements, at the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2019 HK$'000	2018 HK$'000
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	**139**	139

29. OPERATING LEASE COMMITMENTS

During the year ended 31 December 2018, the Group leased its office premises in Hong Kong and Mainland China under operating lease arrangements with leases negotiated for terms of one to three 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	2,299
In the second to fifth years, inclusive	1,288
	3,587

30. COMMITMENTS

At the end of the reporting period, the Group had contracted, but not provided for, commitments in respect of construction works and design costs relating to investment properties amounting to approximately HK$1,465,000 (2018: HK$1,504,000) in total.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Financial assets at amortised cost	
	2019	2018
	HK$'000	HK$'000
Trade receivables	**19,135**	9,433
Financial assets included in prepayments, deposits and other receivables	**12,572**	12,863
Cash and bank balances	**77,268**	91,511
	108,975	113,807

Financial liabilities

	Financial liabilities at amortised cost	
	2019	2018
	HK$'000	HK$'000
Trade payables	**1,956**	2,008
Financial liabilities included in other payables and accruals	**37,169**	26,854
Loan from a director	**71,658**	73,577
Due to a director	**171,636**	183,382
Long term other payables	**130,554**	133,645
Interest-bearing bank borrowings	**–**	7,137
Lease liability	**1,269**	–
	414,242	426,603

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, lease liability and cash and bank balances. The Group has various other financial assets and liabilities such as trade and other receivables, trade payables, other payables and accruals and balances with a director, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The interest rates of the interest-bearing bank borrowings of the Group were disclosed in note 21 to the financial statements. The Group believed its exposure to interest rate risk was minimal.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
2019		
Hong Kong dollar	**50**	**–**
Hong Kong dollar	**(50)**	**–**
2018		
Hong Kong dollar	50	(36)
Hong Kong dollar	(50)	36

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The tables below show 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:

	2019				
	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	–	–	–	19,135	19,135
Financial assets included in prepayments, deposits and other receivables					
– Normal**	12,572	–	–	–	12,572
– Doubtful**	–	–	–	–	–
Cash and bank balances					
– Not yet past due	77,268	–	–	–	77,268
	89,840	**–**	**–**	**19,135**	**108,975**

	2018				
	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	–	–	–	9,433	9,433
Financial assets included in prepayments, deposits and other receivables					
– Normal**	12,863	–	–	–	12,863
– Doubtful**	–	–	–	–	–
Cash and bank balances					
– Not yet past due	91,511	–	–	–	91,511
	104,374	–	–	9,433	113,807

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 16 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The directors of the Company have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The maturity profile of the financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2019		
	On demand or within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	**1,956**	**–**	**1,956**
Financial liabilities included in other payables and accruals	**37,169**	**–**	**37,169**
Loan from a director	**–**	**77,312**	**77,312**
Due to a director	**–**	**171,636**	**171,636**
Long term other payables	**–**	**130,867**	**130,867**
Lease liability	**1,288**	**–**	**1,288**
	40,413	**379,815**	**420,228**

	2018		
	On demand or within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	2,008	–	2,008
Financial liabilities included in other payables and accruals	26,854	–	26,854
Loan from a director	–	79,582	79,582
Due to a director	–	183,382	183,382
Long term other payables	–	133,645	133,645
Interest-bearing bank borrowings	7,368	–	7,368
	36,230	396,609	432,839

The Group is also exposed to liquidity risk through the granting of financial guarantees, further details of which are disclosed in notes 14 and 28 to the financial statements.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and bank balances and equity attributable to equity holders of the Company, which comprises share capital and reserves as detailed in the consolidated statement of changes in equity.

The Group monitors capital using a gearing ratio, which is interest-bearing borrowings divided by total assets. Interest-bearing borrowings included interest-bearing bank borrowings, lease liability and a loan from a director. The gearing ratios as at the end of the reporting periods were as follows:

	2019 **HK$'000**	2018 HK$'000
Interest-bearing bank borrowings	**–**	7,137
Lease liability	**1,269**	–
Loan from a director	**71,658**	73,577
Total interest-bearing borrowings	**72,927**	80,714
Total non-current assets	**4,155,671**	4,345,349
Total current assets	**143,853**	149,912
Total assets	**4,299,524**	4,495,261
Gearing ratio	**0.02**	0.02

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**290,218**	290,218
Due from subsidiaries	**184,339**	197,357
Right-of-use asset	**1,212**	–
Total non-current assets	**475,769**	487,575
CURRENT ASSETS		
Deposits and other receivables	**647**	617
Cash and bank balances	**67**	47
Total current assets	**714**	664
CURRENT LIABILITIES		
Other payables and accruals	**(5,507)**	(5,416)
Tax payable	**(1,148)**	(1,148)
Lease liability	**(1,269)**	–
Total current liabilities	**(7,924)**	(6,564)
NET CURRENT LIABILITIES	**(7,210)**	(5,900)
TOTAL ASSETS LESS CURRENT LIABILITIES	**468,559**	481,675
NON-CURRENT LIABILITIES		
Long term other payables	**(27,141)**	(27,181)
Due to a director	**(11,500)**	(10,300)
Total non-current liabilities	**(38,641)**	(37,481)
Net assets	**429,918**	444,194
EQUITY		
Share capital	**15,140**	15,140
Reserves *(note)*	**414,778**	429,054
Total equity	**429,918**	444,194

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2018	**398,726**	**547,326**	**(516,998)**	**429,054**
Effect of adoption of HKFRS 16 *(note 2.2)*	**–**	**–**	**128**	**128**
At 1 January 2019 (restated)	**398,726**	**547,326**	**(516,870)**	**429,182**
Loss for the year	**–**	**–**	**(14,404)**	**(14,404)**
At 31 December 2019	**398,726**	**547,326**	**(531,274)**	**414,778**
At 1 January 2018	398,726	547,326	(502,362)	443,690
Loss for the year	–	–	(14,636)	(14,636)
At 31 December 2018	398,726	547,326	(516,998)	429,054

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and business	Issued and fully paid share/ registered capital	Percentage of equity attributable to the Company 2019	2018	Principal activities
Directly held					
China Land Realty Investment (BVI) Limited	British Virgin Islands/Hong Kong	US$11,204 Ordinary	**100**	100	Investment holding
Indirectly held					
Chongqing Smart Hero Real Estate Development Company Limited ("CQ Smart Hero")	PRC/ Mainland China	US$2,000,000 Registered capital *(Note a)*	**100**	100	Property development, investment and management
Smart Hero (Holdings) Limited	Hong Kong	HK$2 Ordinary, HK$300 Non-voting deferred *(Note b)*	**100**	100	Investment holding
Proland International Technology Limited	Hong Kong	HK$2 Ordinary	**100**	100	Investment holding
廣州遠朋天成電子科技有限公司	PRC/ Mainland China	HK$1,500,000 Registered capital *(Note a)*	**100**	100	Inactive
HK Zheng Da	Hong Kong	HK$4 Ordinary *(Note c)*	**25**	25	Investment holding
GZ Zheng Da	PRC/ Mainland China	RMB150,000,000 Registered capital *(Notes a, c, d and e)*	**25**	25	Property development, investment and management

The above table lists the subsidiaries of the Company at 31 December 2019 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

a. CQ Smart Hero and 廣州遠朋天成電子科技有限公司 are wholly-foreign-owned enterprises established in the PRC while GZ Zheng Da is a Sino-foreign co-operative joint venture established in the PRC.

b. The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company, or to participate in any distribution on winding-up.

c. The Group entered into a conditional sale and purchase agreement on 9 October 2007 (as amended on 26 October 2007) (the "Acquisition Agreement") with two private companies to acquire the entire equity interest in the Zheng Da Group (the "Acquisition"). The acquisition of the entire equity interest in the Zheng Da Group was to be completed in four tranches. The first tranche was completed on 17 December 2007 and, as a result, the Group acquired a 25% equity interest in HK Zheng Da. According to the Acquisition Agreement and related supplementary agreements executed thereafter (the latest of which was executed in June 2019), the Group had the currently exercisable right to acquire the remaining 75% equity interest in HK Zheng Da anytime on or before 30 June 2020 as further discussed below. In addition, the private company which holds the remaining 75% equity interest in the Zheng Da Group, which is controlled by a director and certain substantial shareholders of the Company, has given an undertaking to the Company that its board will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) ability to use its power over HK Zheng Da to affect the amount of its returns. On this basis, the directors of the Company considered it is appropriate to account for both HK Zheng Da and GZ Zheng Da as subsidiaries of the Group with effect from 17 December 2007, the date of completion of acquisition of 25% equity interest in the Zheng Da Group.

   In accordance with the Acquisition Agreement, the second, third and fourth tranches (the "Remaining Tranches") had to be completed on or before 31 May 2008, 31 October 2008 and 31 March 2009, respectively. Should the Remaining Tranches not be completed according to the dates specified above, a deferred interest would be incurred which was calculated based on a rate of 4% per annum on the relevant consideration based on the period from the relevant completion date of each tranche as mentioned above and ending on and excluding the day when the relevant consideration was settled by the Company or 31 March 2009, whichever the earlier. At the end of the reporting period and up to the date of the annual report, the completion of the Remaining Tranches remained outstanding and the accrued aggregated deferred interest in aggregate of HK$25,837,000 (note 20) remained unsettled.

   During the current reporting period, the Company entered into an extension agreement on 18 June 2019 to extend the completion of the Remaining Tranches from 30 June 2019 to 30 June 2020. No deferred interest was required for this period of extension.

d. Subject to the payment of a fixed sum of RMB50,000 per month for 200 months up to 28 February 2011 to the joint venture party, HK Zheng Da is entitled to all of the profits and bears all of the losses of GZ Zheng Da.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da

GZ Zheng Da's corporation information indicates information of alleged "Liquidation Provisional Filed (清算備案)" ("Alleged Liquidation Provisional Filed")

Pursuant to the Provisional Rules of Public Notice of Corporate Information of the People's Republic of China (中華人民共和國企業信息公示暫行條例) newly enacted in October 2014, the Public Database of National Enterprise Credit Information (Guangdong) (全國企業信用信息公示系統 (廣東)) (the "Public Database") on GZ Zheng Da downloaded in March 2015 revealed certain newly appeared information under the Provisional Filing Information Column (備案信息欄目) viz "Liquidation Information (清算信息)", "Liquidation Officer-In-Charge He Wei (清算負責人何偉)" and "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)".

With effect from August 2016, the Public Database was restructured as the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) with a more user friendly reporting format. The report of GZ Zheng Da downloaded from the new system in March 2020 (the "Credit Report") contained similar information as disclosed in former reports including "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)".

In addition, the Credit Report reveals that the registration status (登記狀態) of GZ Zheng Da is "Enterprise in Operation (in Business) (在營(開業)企業)" and the authorised representative (法定代表人) is "Ho Kam Hung", who is an executive director of the Company.

According to the Corporate Registration Information Memorandum (企業登記資料包) obtained from the Guangzhou Administration for Industry and Commerce Bureau (廣州市工商行政管理局) (the "Commerce Bureau") by GZ Zheng Da (being exclusive information to the subject corporation), a third party namely Guangdong Guoding Law Firm (廣東國鼎律師事務所) ("Guoding") filed an Application Form for Notification of Change (Provisional Filing) of Foreign Investment Enterprise (外商投資企業變更 (備案) 登記申請書) (the "Application Form"), together with a copy of purported order of the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院決定書) (the "Purported Court Order") as supporting document, to the Commerce Bureau without the prior acknowledgment nor consent of GZ Zheng Da in September 2011.

The Application Form requested for filing of "Provisional Filing of Member of the Liquidation Group (清算組成員備案)" and "Provisional Filing of Liquidation Officer-In-Charge (清算負責人備案)" in the corporate information database of GZ Zheng Da at the Commerce Bureau. Copy of the Purported Court Order stated that "the court has appointed Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da (the "Alleged Liquidator") in accordance with the law (已指定國鼎組成清算組，依法對廣州正大進行清算)".

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

Alleged Liquidation Provisional Filed (continued)

According to the relevant provisions of the Rules of Administration of Company Registration of the People's Republic of China (中華人民共和國公司登記管理條例) (the "Company Registration Rules"), the provisional filing of liquidation information with the Commerce Bureau requires the consent of the subject company (with company chop shown on the application form) and other requisite legal documents, such as company dissolution documents (公司解散證明文件) and compulsory liquidation order (強制清算決定書), as supporting documents. No such supporting documents nor GZ Zheng Da's company chop were found on the Application Form submitted by Guoding.

After taking PRC legal advice, both the Company and GZ Zheng Da considered that the Application Form submitted to the Commerce Bureau by Guoding violated the relevant provisions of the Company Registration Rules to a material extent and the provisional filing under concern should be rendered "application declined (申請退回)" in accordance with the relevant regulations of the Company Registration Rules.

GZ Zheng Da confirmed to the Company that it had never authorised, appointed or instructed Guoding or He Wei to file or handle such application, nor granted consent to such application thereafter.

GZ Zheng Da and HK Zheng Da, being holding 100% interest of GZ Zheng Da, also confirmed to the Company that they had never been served any statements of instigation of proceedings, notice of summons or notice of judgement, orders (including the Purported Court Order or order of a similar nature) or written judgement(s) in relation to liquidation petition or of a similar nature (the "Purported Liquidation Petition") from the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court") in accordance with the prevailing PRC laws and regulations and due judicial procedures.

Both the Company and GZ Zheng Da further confirmed that they were unable to find any "public official record" about the Purported Liquidation Petition (not even the relevant case number) from the official database or public notice board of the Guangzhou Court so far.

According to the Purported Court Order, it appeared that the purported liquidation petition was instituted by 廣州市越秀房地產開發經營有限公司 ("越房私企"), a third party neither had any equity or any other interests in GZ Zheng Da nor was a creditor of GZ Zheng Da. Hence, the PRC legal counsel of GZ Zheng Da considered that 越房私企 was unlikely to meet the pre-requisite conditions for filing a liquidation petition against GZ Zheng Da pursuant to the prevailing PRC company laws and liquidation procedures.

Based on the record and facts known to the Company and GZ Zheng Da and having taken PRC legal advice, both the Company and GZ Zheng Da are of the view that (i) the legal proceedings of the Purported Liquidation Petition (if any) do not conform to the legal provisions and judicial procedures in the PRC; (ii) the Purported Court Order (if any) is not effective disposition of the matter to which it purportedly relates and thus is invalid and void; (iii) the purported authority of the Alleged Liquidator is derived from the Purported Court Order which is invalid and void; and (iv) Guoding does not have the lawful authority to proceed with the liquidation of GZ Zheng Da or file corporate information about GZ Zheng Da with the Commerce Bureau (or for any other purposes) for and on behalf of GZ Zheng Da.

Further details about the lawful authority of the Alleged Liquidator in questions were disclosed in the Company's announcement dated 23 March 2013.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

The Second and Unqualified Person appearing on the Demolition Permit and the Demolition Extension Notice

Since 2003, GZ Zheng Da had been granted by the Guangzhou Municipal Administration of National Resources and Property Bureau (廣州市國土資源和房屋管理局) ("Property Bureau"), the Qualified Person for Demolition and Relocation (合資質拆遷人) (the "Qualified Person") (which was required to demonstrate substantial capital resources, property development plan on hand, concrete property demolition and relocation plan pursuant to the provisions of Rules of Management of Urban Property Demolition and Relocation of Guangzhou Municipality (廣州市城市房屋拆遷管理條例) (the "Demolition Management Rules")) and the Qualified Contractor for Demolition and Relocation (合資質拆遷實施單位) (the "Qualified Contractor") (which was required to demonstrate substantial hands-on experience in property demolition and relocation projects and hiring extensive construction and engineering professionals pursuant to the provisions of the Demolition Management Rules) to the effect that GZ Zheng Da was empowered to demolish a property located in Yuexiu District within a period of about one year under the licence of a property demolition and relocation permit (房屋拆遷許可證) (the "Demolition Permit").

Since then, GZ Zheng Da applied for the extension of the Demolition Permit once every year and the Property Bureau customarily renewed the Demolition Permit and the notice of extension of property demolition and relocation (房屋拆遷延期公告) (the "Demolition Extension Notice") every subsequent year.

The Demolition Extension Notices issued since 2014 contained new clauses which included, inter alia, the Alleged Liquidator as the secondary Qualified Person (第二拆遷人) and the secondary Qualified Contractor (第二拆遷實施單位) in addition to GZ Zheng Da which remained as the primary Qualified Person (第一拆遷人) and primary Qualified Contractor (第一拆遷實施單位). The Demolition Extension Notices also put a remark that "pursuant to the Purported Court Order, the Guangzhou Court nominated Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da in accordance with the laws, and the demolition activities should be executed by the liquidation group" (collectively the "New Clauses").

GZ Zheng Da confirmed to the Company that it had no knowledge of the New Clauses until the renewal of the said extension notices nor concurred with such New Clauses thereafter and hence raised objection to the Property Bureau about the imposition of the New Clauses. No formal reply had been obtained from the Property Bureau so far.

After seeking PRC legal advice, both the Company and GZ Zheng Da consider that (i) both the Demolition Permits and the Demolition Extension Notices granted to GZ Zheng Da are legally valid permit and notice, respectively, despite their legal defects; (ii) the Guangdong Provincial Guangzhou Municipal Yuexiu District People's Court (廣東省廣州市越秀區人民法院) ("Yuexiu Court"), the Guangzhou Court and the Property Bureau all accept GZ Zheng Da as a separate legal entity as well as a qualified litigant (適格訴訟主體); (iii) GZ Zheng Da remains as the Qualified Person and the Qualified Contractor and therefore is eligible to proceed the demolition and relocation activities as empowered by the Demolition Permit; (iv) the purported authority of the Alleged Liquidator is derived from the Purported Court Order which is invalid and void (please refer to the section headed "Alleged Liquidation Provisional Filed" above for further details); (v) the capacity of the Alleged Liquidator does not exist until and when Guoding suspends the legal representative of GZ Zheng Da; (vi) the Alleged Liquidator technically cannot co-exist with GZ Zheng Da to engage in the same business activities; (vii) a liquidator is not empowered to engage in the businesses other than those specified under Clause 184 of Companies Law of People's Republic of China (中華人民共和國公司法), which does not include demolition and relocation businesses; (viii) a liquidator does not possess the pre-requisite qualifications (特定資質) and hands-on expertise in demolition and relocation businesses as required under the provisions of the Demolition Management Rules; and (ix) the Purported Court Order, (without prejudice on its legally), fundamentally does not provide that "the demolition activities should be executed by the liquidation group".

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

The Second and Unqualified Person appearing on the Demolition Permit and the Demolition Extension Notice (continued)

Since 2014, both the Demolition Permit and the Demolition Extension Notice renewed every subsequent year, including the latest one renewed in December 2019, contained the New Clauses. GZ Zheng Da continued to proceed the demolition and relocation activities as usual.

A Purported Letter issued by the Alleged Liquidator

In June 2017, HK Zheng Da and one of its three directors received a notice (告知函) (the "Purported Letter") issued by the Alleged Liquidator albeit the operation of GZ Zheng Da remained as usual and normal when the Purported Letter was issued.

The Purported Letter, dated 16 June 2017, was issued by the Alleged Liquidator and the addressees are HK Zheng Da and 越房私企 (collectively the "Addressees"). 越房私企 was an independent third party to GZ Zheng Da and did not have any equity or other interest therein. HK Zheng Da and one of its three directors received the Purported Letter on or about 21 June 2017.

According to then record downloaded from the official website of the Commerce Bureau, the co-operative partners of GZ Zheng Da are HK Zheng Da and 越秀國企 (as defined in note (35(a)). Pursuant to the terms of relevant joint venture agreement (as revised) executed between HK Zheng Da and 越秀國企, HK Zheng Da held 100% attributable interest in GZ Zheng Da.

To the best knowledge and belief and having made all reasonable enquiries, the Company confirms that 越房私企 (i) is not a registered Sino partner of GZ Zheng Da; (ii) does not have any attributable interest in GZ Zheng Da; and (iii) is not a creditor of GZ Zheng Da. 越房私企 is not 越秀國企.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

A Purported Letter issued by the Alleged Liquidator (continued)

The Purported Letter sought to convey, inter alia, the following messages (without prejudice on its validity) to the Addressees: (i) the Alleged Liquidator was constituted under a mandate granted by the Guangzhou Court pertaining to a members' compulsory liquidation petition (apparently lodged by 越房私企) (the "Purported Petition"); (ii) the Alleged Liquidator was prepared to make submission to the Guangzhou Court for balloting the appointment of appraisal and auction agents to appraise and tender the assets of GZ Zheng Da for auction which include, inter alia, two parcels of land with an aggregate gross area of about 16,800 square metres and a 2-storey non-permanent commercial podium; and (iii) the Addressees were urged to furnish any related information or proposal to the Alleged Liquidator within 15 days from the date of the Purported Letter.

The Purported Letter was the first notice or letter that HK Zheng Da (holding 100% attributable interest in GZ Zheng Da) so far received from the Alleged Liquidator, some six years from its alleged constitution in 2011.

Pursuant to the relevant provisions of the PRC laws and regulations, "the liquidation group shall finalise the liquidation within six months from the date of constitution in the case the liquidation is ordered by the People's Court (人民法院). If the liquidation is not yet finalised within six months under particular circumstances, the liquidation group shall apply for extension of its mandate at the People's Court (人民法院)." Hence, if the liquidation group is unable to finalise the liquidation within six months and the extension of mandate is not being granted by the People's Court, the liquidation group shall be dissolved by law.

The PRC legal counsel of HK Zheng Da noted that the Alleged Liquidator was unable to offer any evidence for the renewal of its mandate (without prejudice on its validity) in separate court proceedings at the Guangzhou Court in or about June 2017.

The PRC legal counsel of HK Zheng Da hence advised as follows: (i) the Alleged Liquidator does not possess a valid mandate to proceed with the liquidation of GZ Zheng Da nor to issue the Purported Letter; and (ii) even if there was a renewal of the Alleged Liquidator's mandate, the Purported Letter is in itself ultra vires as it does not mention whether the liquidation proposal (清算方案) has been approved by equity partners (including HK Zheng Da), creditors or the court as required by the relevant PRC laws and liquidation procedures.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests	**75%**	75%

	2019 HK$'000	2018 HK$'000
Profit/(loss) for the year allocated to non-controlling interests	**(43,594)**	38,280
Dividends paid to non-controlling interests	**–**	–
Exchange differences on translation of foreign operation	**(56,339)**	(94,541)
Accumulated balances of non-controlling interests at the reporting date	**2,074,825**	2,174,758

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	2019 HK$'000	2018 HK$'000
Profit/(loss) for the year	**(58,125)**	51,040
Total comprehensive expense for the year	**(133,244)**	(75,015)
Current assets	**217,856**	207,801
Non-current assets	**3,752,023**	3,933,024
Current liabilities	**(70,386)**	(58,995)
Non-current liabilities	**(1,133,060)**	(1,182,153)
Net cash flows from operating activities	**3,639**	5,780
Net cash flows used in financing activities	**(3,528)**	(5,969)
Net increase/(decrease) in cash and cash equivalents	**111**	(189)

35. LITIGATIONS

(a) In December 2008, GZ Zheng Da, an indirect subsidiary of the Company, served a writ against 越房私企 at the Yuexiu Court pleading for disqualification of 越房私企, a privately owned enterprise which acquired certain assets (but interest in GZ Zheng Da not included) from 廣州市越秀房地產開發經營公司 ("越秀國企") (the Sino Partner of GZ Zheng Da) from the sino partnership (if any) of the subject joint venture. The relevant judgement was granted in July 2009 with rulings endorsing the request made by GZ Zheng Da.

In August 2009, 越房私企 filed an appeal petition (the "Zheng Da Appeal") at the Guangzhou Court. A hearing was made in October 2009 and no further hearing had been made since then.

Both GZ Zheng Da and HK Zheng Da had not yet received a valid judgement in writing issued by the Guangzhou Court in accordance with the relevant PRC laws and due judicial procedures.

Since then, both GZ Zheng Da and HK Zheng Da had dialogues with the relevant court officials from time to time and have been looking forward to receiving a formal and legally valid verdict, notice or directive in relation to the Zheng Da Appeal to be granted by the Guangzhou Court or its higher court in accordance with the relevant PRC laws and due judicial procedures, but no such verdict or directive was received in proper manner up to the date of this report.

Taking into account the rulings granted by the Yuexiu Court in July 2009, the facts and legal grounds substantiated at the first hearing of the Zheng Da Appeal, and the opinion given by the PRC legal counsel and advisors, the Company remains optimistic in obtaining a favourable judgement in the Zheng Da Appeal.

Further details about the developments of, and events incidental to, the Zheng Da Appeal were disclosed in the Company's announcements dated 11 February 2010, 22 April 2010, 16 August 2010 and 23 March 2011.

(b) In October 2013, the Property Bureau issued two rulings on property demolition (房屋拆遷決定書) (the "Compensation Rulings") to GZ Zheng Da pertaining to two compensation and resettlement cases for property demolition (房屋拆遷補償安置個案). The Compensation Rulings concluded that GZ Zheng Da was liable to pay a one-off cash compensation in an aggregate amount of approximately RMB27,600,000 (the "Cash Compensation") to a group of nine claimants (the "Claimants").

35. LITIGATIONS (CONTINUED)

(b) (continued)

In March 2014, the Guangzhou Municipal People's Government (廣州市人民政府) (the "Guangzhou Government") issued two rulings on administrative review (行政覆議決定書) revoking the Compensation Rulings. As a result, GZ Zheng Da's obligation to pay the Cash Compensation was discharged.

In June 2015, the Guangzhou Court issued two rulings on administrative proceedings (行政裁定書) declining the appeal made by the Claimants against the Guangzhou Government's rulings.

In December 2015, the Guangdong Provincial Higher People's Court (廣東省高級人民法院) (the "Guangdong Court") issued two rulings on administrative proceedings (行政裁定書) to the effect that (i) the Guangzhou Court's rulings were rescinded; and (ii) the Guangzhou Court was ordered to re-hear the Claimants' appeal against the Guangzhou Government's rulings.

In May 2017, the Guangzhou Railway & Transportation Intermediate Court (廣州鐵路運輸中級法院) (the "Railway Court") which was primarily engaged in cases pertaining to land and property disputes, under the direction of the Guangdong Court, re-heard the case and declined the appeal made by the Claimants against the Guangzhou Government's rulings. The Claimants then filed another appeal against the Railway Court's rulings (the "Second Appeal"). As at the date of this report, the Second Appeal was not yet heard.

Taking into account the latest rulings granted by the Guangzhou Government and the Railway Court, the facts and legal grounds substantiated, and the opinion given by the PRC legal counsel and advisors, the Company remains optimistic in obtaining a favourable judgement to be given to the Group after the hearing of the Second Appeal.

(c) In 2011, two plaintiffs, together with CQ Smart Hero, an indirect wholly-owned subsidiary of the Company, in its capacity as the third plaintiff, served a writ of summons against a former business partner (the "Ex-Partner") at the Yuexiu Court in relation to a contract dispute (合同糾紛). The case was subsequently redirected to the Guangzhou Court for trial for the reason of jurisdiction of court.

In September 2013, the Guangzhou Court ruled that CQ Smart Hero was liable to pay an accrued interest in an aggregate amount of approximately RMB10,500,000 to the Ex-Partner. Subsequently, CQ Smart Hero, together with two plaintiffs, filed an appeal against the Guangzhou Court's rulings at the Guangdong Court.

In June 2015, the Guangdong Court upheld the Guangzhou Court's rulings but the claim to be borne by CQ Smart Hero was reduced to approximately RMB4,200,000. The Guangdong Court's rulings are final and absolute unless being revoked by judicial review (復審).

35. LITIGATIONS (CONTINUED)

(c) (continued)

The PRC legal counsel of CQ Smart Hero was of the view that judicial errors were made in the Guangdong Court's rulings and hence it would be justifiable for pursuing judicial review (復審) with an aim to revoke its rulings. CQ Smart Hero, after careful and due considerations, concluded that additional management time and legal costs to be incurred would probably override the economic benefits to be derived from a favourable verdict of judicial review, if any, and resolved not to pursue the case further.

In February 2016, the Guangzhou Court confined the claim amount to approximately RMB3,743,000 and a provision of the same amount was fully made in the consolidated financial statements for the year ended 31 December 2015.

Since then, CQ Smart Hero and the Ex-Partner could not reach consensus on settlement arrangement and both parties sought directions and orders at the Guangzhou Court for legal enforcements. The claim remained unsettled as at 31 December 2019.

(d) In March 2015, the Guangzhou Urban Management Integrated Enforcement Bureau Yuexiu Sub-Bureau (廣州市城市管理綜合執法局越秀分局) (the "Enforcement Bureau") issued a ruling on an administrative disposition of illegal erection (違法建築行政處理決定書) (the "Bureau's Rulings") to GZ Zheng Da to the effect that a 2-storey non-permanent commercial podium situated in the Yuexiu District was required to be demolished by GZ Zheng Da. In the Bureau's Rulings, the Enforcement Bureau concluded, inter alia, that the subject property was deemed as an illegal erection as its occupancy permit had been expired. The Bureau's Rulings, however, did not elaborate further reasons of not granting renewal of the occupancy permit.

Notwithstanding the subject property was classified as non-permanent erection pending for re-development, it obtained approvals and permits for town planning, construction, inspection, occupancy and fire safety from all relevant government authorities every year and hence its building standards and fire safety were comparable to those standards for permanent erections. In addition, GZ Zheng Da was of the view that the subject property would not be deemed as illegal erection if the occupancy permit could be reasonably renewed as permitted under the relevant PRC laws and regulations and hence the prosecution in question should be immune.

As such, GZ Zheng Da, together with six co-operative parties, served a writ against the Bureau's Rulings at the Yuexiu Court in November 2015. The petition was declined by the Yuexiu Court in May 2016.

35. LITIGATIONS (CONTINUED)

(d) (continued)

In June 2016, GZ Zheng Da, together with six co-operative parties, filed an appeal against the Yuexiu Court's rulings at the Railway Court. In May 2017, the Railway Court rescinded both the Yuexiu Court's rulings and the Bureau's Rulings.

In November 2017, the Enforcement Bureau filed an administration petition (行政申訴) at the Guangdong Court with an attempt to overturn the rulings made by the Railway Court. In June 2019, the Guangdong Court ordered the Railway Court to re-hear the case with the enforcement of latest rulings temporarily suspended.

In July, 2019, the Railway Court, under the direction of the Guangdong Court, reheard the case and revoked its earlier rulings and upheld the earlier rulings granted by the Yuexiu Court.

With an objective to support the Renovation Scheme for Old Zones in Guangzhou (廣州市老城區改造提升工程) promulgated by the Guangzhou Government, GZ Zheng Da did not pursue further to appeal against the Railway Court's latest decision.

The subject commercial podium ceased operation in mid-August 2019 and was demolished in November 2019. Further information on the re-development plan of the subject site is elaborated in the "Business Review" section in the "Management Review and Analysis" of the annual report.

(e) In April 2015, a third party (the "Plaintiff") served a writ of summons against CQ Smart Hero at the Chongqing Municipal Yuzhong District People's Court (重慶市渝中區人民法院) (the "Yuzhong Court") in relation to a claim against a down payment transaction proceeded in 1996. The proceeding was adjourned following CQ Smart Hero lodged a separate plead at the Yuzhong Court in May 2015 for affirmation of the subject down payment transaction was lapsed but the plead was declined by the Yuzhong Court in March 2018. In August 2018, the Chongqing Municipal The Fifth Intermediate People's Court (重慶市第五中級人民法院) (the "Fifth Intermediate Court") also turned down CQ Smart Hero's appeal.

In April 2019, the Yuzhong Court re-heard the claim case and ruled that CQ Smart Hero was obliged to refund an amount of approximately RMB1,216,000 plus accrued interests incurred from October 1996 up to the date of full settlement to the Plaintiff.

In June 2019, CQ Smart Hero filed an appeal at the Fifth Intermediate Court based on the legal ground that the Yuzhong Court misinterpreted the fundamental facts of the subject down payment terms in dispute and the petition was dismissed again in September 2019.

The aggregate amount payable by CQ Smart Hero for the above claim was approximately RMB3,400,000 (equivalent to approximately HK$3,808,000), and a provision of the same amount was fully made in the consolidated financial statements for the year ended 31 December 2019. The claim remained unsettled as at 31 December 2019.

The PRC legal counsel of CQ Smart Hero is in the view that CQ Smart Hero has substantiated legal ground to pursue a judicial review (復審) with an aim to revoke the Fifth Intermediate Court's rulings. The Company would actively consider to proceed with the judicial review.

36. RELATED PARTY TRANSACTIONS

In addition to the guarantee, related party transactions and balances with related parties as detailed elsewhere in these financial statements, the Group also incurred an interest expense of HK$5,654,000 (2018: HK$6,005,000) in respect of a loan from a director, Ho Kam Hung, during the year. Details of a loan from a director were disclosed in note 22 to the financial statements.

37. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and selected interpretation.

38. EVENTS AFTER THE REPORTING PERIOD

(a) On 27 December 2019, it was announced that the Company entered into a subscription agreement with an independent third party in respect of subscription and issue of 120,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate. Pursuant to the terms of the subscription agreement, both the Company and the subscriber should have no claims against each other except for any antecedent breaches of any obligation under therein if in case completion of the subscription did not take place by 31 March 2020. Subscription did not take place by 31 March 2020 and the subscription agreement was lapsed accordingly.

Further details are set out in the Company's announcements dated 27 December 2019, 31 January 2020 and 31 March 2020, respectively.

(b) On 15 April 2020, it was announced that the Company entered into another subscription agreement with Link Tide Investments Limited, a company incorporated in the British Virgin Islands and an independent third party, in respect of subscription and issue of 108,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate. The gross proceeds of the subscription would be HK$16,200,000. The net proceeds (after deducting all applicable costs and expenses of the subscription) of HK$16,000,000 were intended to be applied as HK$12,000,000 towards to the re-development costs of the Company's development project in Guangzhou and the balance of HK$4,000,000 as general working capital of the Group. It is expected that completion of the subscription would take place on or before 30 April 2020.

Further details are set out in the Company's announcement dated 15 April 2020.

(c) Save as disclosed elsewhere in the annual report and pending for cool down of COVID-19 pandemic in Mainland China and Hong Kong, the Group will continue to evaluate its impact on the financial position, cash flows and operations of the Group. As at the date of the annual report, it is premature to make an assessment on the extend of such impact, if any.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2020.

Five Year Group Financial Summary

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

RESULTS

	Year ended 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**41,732**	51,300	39,330	35,568	37,392
Profit/(loss) before tax	**(78,805)**	69,362	133,966	344,502	186,843
Income tax credit/(expense)	**16,706**	(19,093)	(37,158)	(89,672)	(46,858)
Profit/(loss) before non-controlling interests	**(62,099)**	50,269	96,808	254,830	139,985
Non-controlling interests	**43,594**	(38,280)	(78,199)	(196,202)	(111,249)
Profit/(loss) for the year attributable to ordinary equity holders of the Company	**(18,505)**	11,989	18,609	58,628	28,736

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
TOTAL ASSETS	**4,299,524**	4,495,261	4,615,251	4,135,706	4,014,674
TOTAL LIABILITIES	**(1,384,655)**	(1,437,967)	(1,473,435)	(1,324,720)	(1,282,641)
NON-CONTROLLING INTERESTS	**(2,074,825)**	(2,174,758)	(2,231,019)	(1,988,123)	(1,915,698)
	840,044	882,536	910,797	822,863	816,335

Particular of the major properties in Mainland China held by the Group at 31 December 2019 is as follows:

Investment Properties

	Description	Use	Lease term	Approximate gross floor area (sq.m.)	Attributable percentage interest
1.	The whole of Level 1, Level 2, Level 3, Level 4, Level 8, Level 11, and portion of the Basement Level of Gang Yu Square Chiao Dong Road Chiaotianmen Chongqing The People's Republic of China	Commercial	Medium	24,372	100
2.	The Land Parcels located to the east of Jiefang Road South, to the south of Daxin Road; to the north of Yede Road and to the west of Xieen Street, Yuexiu District, Guangzhou Guangdong Province, The People's Republic of China	Commercial	Medium	233,818	25

Guang Yu Square, Chaotiman, Yuzhong District, Changqing
重慶市渝中區朝天門港渝廣場

Metropolis Shoes City, Yuexiu District, Guangzhou
廣州市越秀區廣州大都市鞋城