中天
ZHONG TIAN

ZHONGTIAN INTERNATIONAL LIMITED
中天國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02379)

Annual Report 2019

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
CHEN Jun *(Chairman)*
SU Haiqing (appointed on 20 December 2019)
CHEN Dezhao (resigned on 20 December 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS
LIU Jin Lu
CHAN Chak Kwan
CUI Haitao

COMPANY SECRETARY
TAI Man Hin, Tony *(CPA)*

AUDIT COMMITTEE
CUI Haitao *(Chairman)*
CHAN Chak Kwan
LIU Jin Lu

REMUNERATION COMMITTEE
LIU Jin Lu *(Chairman)*
CHEN Dezhao (resigned on 20 December 2019)
CHAN Chak Kwan
CUI Haitao

NOMINATION COMMITTEE
CHEN JUN (appointed on 20 December 2019) *(Chairman)*
CHEN Dezhao (resigned on 20 December 2019)
CHAN Chak Kwan
CUI Haitao

HONG KONG LEGAL ADVISORS
Gallant

AUTHORISED REPRESENTATIVES
CHEN Jun
SU Haiqing (appointed on 20 December 2019)
CHEN Dezhao (resigned on 20 December 2019)

STOCK CODE
02379

COMPANY'S WEBSITE
www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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Central, Hong Kong

AUDITOR
Crowe (HK) CPA Limited

PRINCIPAL BANKERS
China Construction Bank
No.3 branch, Shinan District, Qingdao
Hua Xia Bank
Nanjing Road branch, Qingdao
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
SMP Partners (Cayman) Limited Royal Bank House
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Cayman Islands

REGISTERED OFFICE
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Cayman Islands

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Laoshan District
Qingdao City
Shandong Province
The People's Republic of China

CHAIRMAN'S STATEMENT

We shall strive forward for more glorious achievements!

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Zhongtian International Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**"), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2019 (the "**Year**").

Throughout the year of 2019, the macroeconomic situation in China was eye-catching. The RMB exchange rate first stabilized and then depreciated. Affected by the Sino-US trade war and with the strong rebound of the US dollar index in late April, RMB continued to depreciate under pressure. The macroeconomic environment for real estate policies became more and more complicated. While the financial and fiscal policies were "loosening", the real estate policies remained "tight".

In the Year, the Group was principally engaged in the leasing of commercial properties, generating rental revenue of approximately RMB18,360,000, down by 51.6% as compared to 2018.

The property of Qingdao Zhongtian Software Park Company Limited, a subsidiary of the Company, is located at Jinjialing Financial Zone of Laoshan District, Qingdao City. According to the relevant data, as the core region, pilot region and demonstration region of Qingdao's pilot district for wealth management and comprehensive financial reform, in 2019, 152 financial enterprises and the like were settled down in Jinjialing, with the total number reaching 802 cumulatively, covering 20 financial business segments. Large legal person financial institutions, fund subscription scale and tax revenue from the financial industry had accounted for 75%, 90% and 49% of Qingdao respectively, demonstrating its initial aggregation effect. The rental market for offices in the district continued to be robust. In the long run, the office property owned by the Company has a great potential for appreciation and development.

In 2019, the project land at No. 877 Huihai Road, owned by Qingdao Zhongtian Enterprise Development Company Limited, a subsidiary of the Company, began to unveil its value. The ancillary facilities surrounding the project land are under comprehensive construction, with the construction of the Qingdao Hongdao High-Speed Rail Station, which is 1.5 kilometers from the project, basically completed. Currently, 12 railway lines have already been officially put into operation. Meanwhile, the construction of the main station lobby with a gross floor area of approximately 70,000 square meters has basically been completed. The ancillary facilities surrounding the on and off-ramps and the squares on the northern and southern ends are under active construction. Hongdao Station is expected to officially open for passenger service in 2020 which by then will become the largest railway station in Qingdao.

At the same time, the Hetao Station of Qingdao Metro Line 8, adjacent to the south of the land, is also under intense construction. Qingdao Metro Line 8, with a total length of approximately 60 kilometers, starts from Jiaozhou North Station in the north, and extends to the May-fourth Square in the city south surpassing through Qingdao New Airport and Hongdao High-tech Zone. It is one of the first batch of preferential projects of economy reform in Shandong Province and is the only metro-line under the urban subway line system connecting Jiaozhou New Airport.

CHAIRMAN'S STATEMENT

The Board remained confident and optimistic of the future prospect of the Group, and would also promote corporate governance, business expansion and personnel training. Looking into 2020, the Group will definitely create a more positive prospect.

Zhongtian International Limited
Chen Jun
Chairman

12 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Year, the Group was principally engaged in three business segments, namely financial service, property and renovation service.

Financial Service

On 17 July 2017, Qingdao Zhongtian Enterprise Development Co., Ltd. (“Qingdao Zhongtian”), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement with two independent third parties. Pursuant to the aforesaid agreement, as clarified by a supplemental agreement made on 26 March 2018, Qingdao Zhongtian was appointed to provide financing services, for a period of 10 years, and to obtain a loan facility of RMB600,000,000 from a designated trust scheme for the purpose of financing the purchase consideration of materials and equipments, for construction of a natural gas project located in Qingdao, the PRC. Under the aforesaid agreements, the Gas Operator (as a third party to the aforesaid agreements) shall bear all the obligations for the repayment of the loan principals, together with the interests accruing thereon, through Qingdao Zhongtian, to the trust scheme on 31 May 2020, 31 May 2021 and 31 May 2022, with each principal installment being RMB120,000,000, RMB120,000,000 and RMB360,000,000, respectively, and the interests accrued on a quarterly basis. This business segment is expected to contribute a stable long-term revenue to the Group.

Property

After the renovation of its investment properties in 2010 and further acquisition of new office premises in 2016, the Group leased its commercial properties to generate rental revenue. During the year ended 31 December 2019, the rental income from investment properties was approximately RMB18 million as compared to approximately RMB38 million for the last year ended 31 December 2018, mainly due to the temporary non-occupancy of a major investment property, for which the tenancy agreement expired on 31 December 2018, in the first half of 2019. On 18 May 2019, the Group and the tenant entered into a new lease agreement for a lease period from 1 June 2019 to 31 May 2021, with effect on 1 June 2019. In addition, an office unit, which was reclassified from investment properties to property held for sale, was successfully sold at the consideration of approximately RMB11.7 million (2018: Nil) which was received in full during the year ended 31 December 2019. As at 31 December 2019, the details of the investment properties and land under development into properties for sale of the Group are disclosed below.

As at 31 December 2019, the details of the investment properties of the Group are as follows:

(a) Completed Properties held for leasing

Particulars	Location	Total approximate gross floor area	Approximate occupancy rate
Composite building with 11 commercial units, 23 office units and an underground storage unit	Laoshan District, Qingdao City, the PRC	11,969 sq.m.	78.5% since 1 June 2019; 7.8% since 1 January 2019
243 underground car parking spaces within a composite building	Laoshan District, Qingdao City, the PRC	10,207 sq.m.	105 carpark spaces leasing out at monthly basis and 138 spaces leasing out at hourly basis during the Year; all spaces leasing out at hourly basis since 1 January 2019
A storey in a commercial building	Shinan District, Qingdao City, the PRC	1,511 sq.m.	64%
An office unit	Shinan District, Qingdao City, the PRC	365 sq.m.	100%

All the commercial and office units in the composite building located at Laoshan District, Qingdao City, the PRC, were leased out under a lease agreement dated 18 May 2019, for the period between 1 June 2019 and 31 May 2021. An underground storage with gross floor area of 14.82 sq.m. has not been rented out. 243 underground car parking spaces in the composite building have been rented out on an hourly basis to tenants and visitors to the composite building.

Most of the units in the storey in a commercial building located at the Shinan District, Qingdao City, the PRC have been leased out. Lease agreements have been entered into with the tenants by the Group with an initial period ranging from 2 to 10 years.

(b) Land under Development

The land of the Company which is under development is situated within the Chengyang District in Qingdao City, the PRC. On 20 May 2019, the People's Government of Qingdao City (High-tech Zone) officially approved the entering into of the Agreement on Recovering the Land Use Right of State-owned Construction Land (Qing Gao Tu Chu Shou Zi [2019] No. 8) between Qingdao Municipal State-owned Land Resources and Housing Management Bureau (High-tech Zone) and the Group for the purpose of expropriating the land use right of 36,311 square meters state-owned construction land in the land parcel of 91,165 square meters located at No. 877 Huihai Road held by the Group into the local government's land reserve. The land expropriating compensation in aggregate amounted to RMB136,777,000 which was received by the Group from the Committee of Hetao Sub-district Office on Land Requisition and Reconstruction for supporting projects at the area adjacent to the Hongdao Station（河套街道辦事處紅島站周邊配套工程徵地拆遷建設工作指揮部）(the "Committee"). The remaining land use right of the state-owned construction land of 54,854 square meters still belongs to the Group. The compensation consideration received from the land expropriation was tax exempted in accordance with the relevant regulations and rules in the PRC.

To capitalise on the benefits of the recent changes in the revised government town planning for the district where the Group's remaining land is situated, the Group has changed its overall plan for developing its remaining land into residential and commercial properties intended for sale.

(c) Renovation Service

In July 2019, Qingdao Zhongtian Software Park Limited ("Zhongtian Software Park"), a subsidiary of the Company, entered into a renovation service agreement with a customer to perform intellectual upgrade on lift, air-conditioning and lighting facilities of a third party hotel in Qingdao. Zhongtian Software Park was responsible for the overall project management and subcontracted the part of the renovation project for the procurement and installation. The whole renovation project was completed in December 2019. The Company plans to carry on more intellectual upgrade renovation services to hotels and commercial buildings in the near future.

FINANCIAL REVIEW

Turnover

The Group's total turnover for the Year was approximately RMB67,873,000, representing an increase of approximately 49% from approximately RMB45,705,000 for the year in 2018. This was mainly attributable to the increase in income from provision of renovation service in the renovation service segment.

Other Income and Other Net Gains

The Group's other income and other net gains for the Year were approximately RMB42,179,000 (2018: RMB33,010,000), representing an increase of approximately 28% as compared to the year in 2018. This was mainly attributable to the increase in interest income from loan receivable generated from the financial service segment.

Gain on Land Expropriation

During the Year, the Group recorded a gain on land expropriation of approximately RMB48,777,000 (2018: Nil).

Fair Value Loss on Investment Properties

During the Year, the Group recorded a fair value loss on investment properties of approximately RMB38,079,000 (2018:RMB13,304,000), representing an increase of approximately 186% as compared to 2018.

Administrative Expenses

The Group's administrative expenses for the Year were approximately RMB16,245,000 (2018: RMB35,906,000), representing a decrease of approximately 55% over the corresponding year ended 31 December 2018. This was mainly attributable to the decrease in property tax and other additional levies, and staff costs during the Year.

Finance Costs

The Group's finance costs for the Year were approximately RMB51,431,000 (2018: RMB48,238,000), representing an increase of approximately 7% as compared to the year of 2018. This was mainly attributable to the increase in average borrowing rate of bank and other borrowings during the Year.

Income Tax Credit/(Expenses)

During the Year, the Group recorded a tax credit of approximately RMB47,296,000 as compared to tax expense of approximately RMB27,651,000 for the year of 2018. It was mainly attributable to the effect of reversal of deferred tax liabilities of approximately RMB50,853,000 (2018: Nil) arising from the land expropriation, which is tax exempted according to the relevant regulation and rules in the PRC, and fair value loss on investment properties.

Net Profit

During the Year, the Group recorded a net profit of approximately RMB64,425,000 representing a turnaround from the net loss of approximately RMB45,562,000 for the year of 2018. The turnaround was mainly attributable to the gain in land expropriation, provision of renovation services, and reversal of deferred taxation particularly arising from land expropriation, and fair value loss on investment properties in the Year as compared to 2018.

BUSINESS REVIEW

Analysis by Business Segment

During the Year, the Group's principal source of income was derived from the renovation service segment, which accounted for approximately 45.1% of the total turnover of the Group. The property and financial service segments contributed the remaining 44.3% and 10.6%, respectively.

During the Year, all of the Group's income were derived from the Shandong Province, the PRC, which had accounted for 100% of the Group's total turnover.

FUTURE OUTLOOK

Commercial properties of the Group have commenced to generate stable and growing rental revenue and have become a major source of income for the Group.

As China has invested a substantial amount of funding in the innovation and research and development of clean energy, China has become the largest producer of clean energy in the world and has been promoting the development of clean energy industry of the world. The “Clean Energy Action” of the Chinese government has already created various positive effects on related industries and sectors. Under such circumstance, the Group has accelerated the deployment in the clean energy industry under the new financial service segment and is prepared to occupy market share leveraging on its own advantages and in response to its development demand.

After the outbreak of the novel coronavirus (“COVID-19”), the China has adopted a series of prevention and control measures, including the regional traffic control and delayed resumption of factory production, etc. This has undoubtedly led to temporary negative impact to the economic activities. Given the resilience and potentials of China's economy in the long run, it is believed that long-term stable growth would remain unchanged.

DEBTS

As at 31 December 2019, the Group had secured bank and other borrowings of approximately RMB803,850,000 (2018: RMB804,150,000). Details of the secured bank and other borrowings are set out in Note 22 to the consolidated financial statements.

Save as disclosed above, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease and mortgages.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group’s capital requirement represents mainly working capital in relation to the costs of business expansion and property investment. The Group principally finances its operation and investment from operating income, internal resources and bank borrowings.

As at 31 December 2019, the Group had cash and bank balances of approximately RMB10,987,000 (2018: RMB15,465,000) nearly all of which were denominated in Renminbi. The gearing ratio (defined as total interest-bearing debts divided by shareholder’s equity) was approximately 190.9% (2018: 235.5%).

During the Year, the Group did not employ any material financial instrument for hedging purposes.

FOREIGN EXCHANGE

Since the Group mainly operates in the PRC, most of the revenue and transactions arising from its operations were settled in Renminbi and the Group’s assets and liabilities are primarily denominated in Renminbi, the Directors believed that the Group would have sufficient foreign exchange to meet its foreign exchange requirements. The Group had not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and had not adopted any currency hedging policy or other hedging instruments during the Year.

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal of subsidiaries and associated companies by the Group during the Year.

CHARGE ON ASSET AND CONTINGENT LIABILITIES

As at 31 December 2019 , the investment properties with fair value of approximately RMB549,060,000 (2018: RMB787,040,000) and land under development into properties for sale of approximately RMB147,503,000 (2018: Nil) were pledged for bank and other borrowings of the Group.

Save as disclosed above, the Group had no other material charges on assets and contingent liabilities as at 31 December 2019 (2018: Nil).

COMMITMENTS

Commitments outstanding at 31 December 2019 and 2018 are as follows:

	2019	2018
	RMB'000	RMB'000
Authorised but not contracted for (note (a))	**—**	182,754
Contracted but not provided for (note (b))	**52,190**	2,611

Notes:

(a) As at 31 December 2018, the Group had authorised but not contracted for commitments for construction costs relating to land held as investment property under development.

(b) As at 31 December 2019, contracted but not provided for commitments included amounts of RMB36,753,000 and RMB15,437,000 relating to land under development into properties intended for sale and investment properties, respectively.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 17 employees (2018: 25 employees). Most of the Group's employees are based in the head office of the Group in Qingdao City of Shandong Province in the PRC.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the Year was approximately RMB3,612,000 (2018: RMB3,851,000).

EVENTS AFTER THE REPORTING PERIOD

Except as disclosed in Note 34 to consolidated financial statements, there was no material subsequent event of the Group after the Reporting Period and up to the date of the consolidated financial statements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

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

FINAL DIVIDEND

The Directors did not recommend payment of any final dividend for the Year (2018: Nil).

REPORT OF THE DIRECTORS

The Board presents their report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in Note 23 to the consolidated financial statements on page 125 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income. The Board does not recommend the payment of any dividend for the Year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the Year are set out in Note 14 to the consolidated financial statements on page 112 of the annual report.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in Note 24 to the consolidated financial statements on page 126 of the annual report.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 46 of the annual report.

As at 31 December 2019, the Company had reserves available for distribution to shareholders of approximately RMB229,181,000 (2018: RMB231,727,000).

BUSINESS REVIEW

Further discussion and analysis of the business of the Company, including a discussion of the principal risks and uncertainties the Group faces and an indication of likely future developments in the business of the Group, can be found in the section headed "Management Discussion and Analysis" as set out on pages 5 to 11 of the annual report. These discussions form part of this report of the Directors.

ENVIRONMENTAL POLICIES

The Group is devoted to promoting and maintaining the environmental and social sustainable development of the regions where it operates. As a responsible enterprise, the Group is in compliance with all the material laws and regulations in terms of the environmentally friendliness, health and safety, adopts effective measures to conserve energy and reduce waste.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the Year and up to the date of this report, as far as the Company is concerned, there was no material breach or non-compliance with applicable laws and regulations by the Group that has a significant impact on business and operations of the Group. The Directors consider such non-compliance has no significant impact on the Group's business and will make further announcement when necessary.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognize that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and its workers are provided with regular training courses on sales and marketing. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 137 of the annual report.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Chen Jun
Ms. Su Haiqing (appointed on 20 December 2019)
Mr. Chen Dezhao (resigned on 20 December 2019)

Independent non-executive Directors

Mr. Cui Haitao
Ms. Chan Chak Kwan
Mr. Liu Jin Lu

DIRECTORS' SERVICE CONTRACT

Mr. Chen Dezhao, an executive Director, had entered into a service contract on 25 May 2019 with the Company for a term of one year and ending at the conclusion of the forthcoming annual general meeting of the Company. Mr. Chen Dezhao resigned and his service contract was terminated on 20 December 2019.

Mr. Chen Jun, an executive Director, has entered into a service contract on 25 May 2019 with the Company for a term of one year and ending at the conclusion of the forthcoming annual general meeting of the Company.

Ms. Su Haiqing, an executive Director, has entered into a service contract on 20 December 2019 with the Company for a term of one year.

The three independent non-executive Directors, namely Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, have respectively entered into a service contract with the Company for a term of one year commencing on 25 May 2019 subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Directors

Executive Directors

Mr. Chen Jun（陳軍）, aged 47, is a director, general manager and legal representative of each of Qingdao Zhongtianyuan Network Technology Limited*（青島中天源網路科技有限公司）(formerly known as Qingdao Hai Yi Commercial Management Company Limited（青島海逸商業管理有限公司）), Success Advantage Limited（成益有限公司）, Qingdao Zhongtian Software Park Co., Ltd.（青島中天軟件園有限公司）, Qingdao Zhongtian Enterprise Development Co., Ltd.（青島中天企業發展有限公司）, and Qingdao Hai Yi Investment and Consultancy Co. Ltd.（青島海逸投資諮詢有限公司）, all of which are wholly-owned subsidiaries of the Company. Mr. Chen Jun was appointed, on 4 July 2018, as the legal representative and an executive director of Qingdao Supu E-business Co. Ltd.（青島速普電子商務股份有限公司）, whose shares are traded on the platform of New Over-The-Counter Market in the PRC, and Mr. Chen Jun is interested in 87.54% of the issued shares of Qingdao Supu E-business Co. Ltd.（青島速普電子商務股份有限公司）since November 2017.

Mr. Chen Jun was graduated from the People's Republic of China's Marine and Submarine College（中國人民解放軍海軍潛艇學院）. Mr. Chen Jun is also the visiting professor and instructor of Master students of School of Civil Engineering of Qingdao Technological University（青島理工大學）. Mr. Chen Jun has over 17 years of experience in corporate planning and management. Mr. Chen Jun was appointed as an executive Director of the Company on 2 November 2016. He is the son of Mr. Chen Dezhao and the spouse of Ms. Su Haiqing.

Ms. Su Haiqing（蘇海青）, Ms. Su, aged 47, graduated from the People's Republic of China's Marine and Submarine College (中國人民解放軍海軍潛艇學院). Ms. Su held various positions in Qingdao Branch, the Bank of China (中國銀行青島市分行) from September 1991 to May 1999, and worked in the International Computing Department of Shandong Province Branch of the Bank of China (中國銀行山東省分行國際計算業務部) from May 1999 to January 2008. Since February 2008, she has been the manager and supervisor of Qingdao Songlei Tennis Industry Development Co., Ltd. (青島市松雷網球實業發展有限公司). Since January 2014, she has been the supervisor of Qingdao Haiyi Property Management Limited (青島海逸物業管理有限公司). She has years of experience in corporate planning and management in China. Ms. Su Haiqing is the spouse of Mr. Chen Jun.

Independent non-executive Directors

Mr. Cui Haitao（崔海濤）("Mr. Cui"), aged 48, graduated from the Shandong Foreign Trade Vocational College（山東外貿學院）in 1993, majoring in finance and accounting. He obtained his certified public accountant qualification from the Shandong Institute of Certified Public Accountants（山東省註冊會計師協會）in 2003. He has over 20 years of accounting and finance experience. Since 2002, Mr. Cui has been a department head of Qingdao Zhongxunzhitong Limited Liability Accounting Firm*（青島仲勳志同有限責任會計師事務所）.

Mr. Liu Jin Lu（劉金祿）("Mr. Liu"), aged 59, is an independent non-executive Director and was graduated from the Beijing Sport University（北京體育大學）. Mr. Liu was the deputy head of 北京金鼎木製品廠 (Beijing Jinding Muzhipin Factory) from 1983 to 1998 and has been the general manager of 北京天頌三佳緣商貿中心 (Beijing Tiansong Sanjiayuan Commercial Centre) since 1998. Mr. Liu was appointed as an independent non-executive Director since 20 May 2010.

Ms. Chan Chak Kwan（陳澤群）("Ms. Chan"), aged 55, was graduated from Wuhan University of Technology. She has been working at Fairly Capital Company since July 2004. Prior to joining Fairly Capital Company, she worked at the Beijing branch of China National Technical IMP & EXP Corp and JC Premier Capital Limited and was mainly responsible for reorganisation and investment projects of companies in the PRC. Ms. Chan has over 20 years of management experience in the financial and corporate sector in both the PRC and Hong Kong. She specializes in corporation business development for the PRC companies in support of their financing and listing. Due to Ms. Chan's years of experience in market development and corporate finance in the PRC, she has maintained a good relationship with foreign and domestic investors, investment banks, government departments and various advisory agencies. Ms. Chan is currently the chairlady of Hong Kong Association of Women Business Owners.

Save as disclosed above, there are no relationships among the members of the Board.

DIRECTORS' REMUNERATION

The Directors' fees are subject to the approval of the shareholders of the Company (the "**Shareholders**") at general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the remuneration committee of the Company (the "**Remuneration Committee**") annually. Details of the Director's remuneration are set out in Note 10 of the consolidated financial statements on pages 103 to 104 of the annual report.

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

As at 31 December 2019, interests or short positions in the shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") are as follows:

Long position in Shares

Name of Directors	Capacity	Number of Shares interested/held	Approximate percentage of Shareholding
Chen Jun	Beneficial owner	34,660,000	8.44%
	Interest of a controlled corporation (note 1)	108,042,781	26.34%
	Interest of a controlled corporation (note 2)	124,000,000	30.23%
Ms. Su Haiqing	Interest of spouse (note 3)	266,702,781	65.01%

Notes:

(1) Fine Mean Investments Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Fine Mean Investments Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Fine Mean Investments Limited for the purposes of the SFO.

(2) Vast Yield Holdings Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Vast Yield Holdings Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Vast Yield Holdings Limited for the purposes of the SFO.

(3) Ms. Su Haiqing is the spouse of Mr. Chen Jun. Under the SFO, Ms. Su Haiqing is deemed or taken to be interested in all the Shares in which Mr. Chen Jun has, or is deemed to have, an interest for the purpose of the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors nor chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept pursuant to section 336 of the SFO:

Long position in Shares and underlying Shares of the Company

Name of substantial Shareholder	Capacity	Number of Shares interested/held	Approximate shareholding percentage
Fine Mean Investments Limited	Beneficial owner	108,042,781	26.34%
Vast Yield Holdings Limited	Beneficial owner	124,000,000	30.23%
Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) (note 1)	Security interest	238,042,781	58.03%
Zhongtai International Asset Management Limited (note 2)	Security interest	238,042,781	58.03%

Notes:

(1) According to the disclosure of interest notice filed by Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) on 31 December 2019, it had a security interest of 238,042,781 Shares.

(2) According to the disclosure of interest notice filed by Zhongtai International Asset Management Limited on 31 December 2019, it had a security interest of 238,042,781 Shares.

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any substantial Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" below, no Director during the Year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the end of the Year or at any time during the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 167 of the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. In addition, the Company has maintained Directors' liability insurance coverage for the Directors during the Year.

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the Year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2019	2018
	%	%
Percentage of purchases:		
From the largest supplier	**100.0%**	N/A
From the five largest suppliers	**100.0%**	N/A
Percentage of turnover:		
From the largest customer	**45.1%**	79.8%
From the five largest customers	**98.7%**	99.2%

None of the Directors, their associates or any Shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest customers nor suppliers.

Set out below are the details about the largest and the five largest customers of the Group for the year:

(a) Customer A is the largest customer of the Group and from which, the Group earned renovation service income of approximately RMB30,623,000 (2018: Nil) which accounted for 45.1% (2018: Nil) of the Group's revenue for the year ended 31 December 2019.

(b) Customer B is the customer of the Group from which the Group earned rental income of approximately RMB16,965,000 (2018: RMB36,494,000) which accounted for 25.0% (2018: 79.8%) of the Group's revenue for the year ended 31 December 2019.

(c) Customer C is an independent third party, to whom the Group sold an office unit, contributed a revenue of approximately RMB11,676,000 (2018: Nil) which accounted for 17.2% (2018: Nil) of the Group's revenue for the year ended 31 December 2019.

(d) Customer D is an independent third party natural gas operator which holds a concession right for the construction of natural gas pipeline networks and for distribution of natural gas in the designated areas in Qingdao, from which the Group earned a revenue from provision of financial services amounting to approximately RMB7,214,000 (2018: RMB7,736,000) which accounted for 10.6% (2018: 16.9%) of the Group's revenue for the year ended 31 December 2019.

(e) The remaining one (2018: three) of the five largest customers contributed revenue in aggregate approximately RMB545,000 (2018: RMB1,141,000) which accounted for 0.8% (2018: 2.5%) of the Group's revenue for the year ended 31 December 2019.

None of the substantial shareholders, directors of the Company or senior management of the Group has any beneficiary interest in the above customers, and none of the above customers or their beneficial owners holds 5% or more of the shares of the Company, and none of their ultimate beneficial owners are employees of the Group during the two years ended 31 December 2019 and 2018. In the opinion of the directors of the Company, all the largest and top five customers are not related parties of the Group.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2019, the Directors were not aware of any business or interest of the Directors and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this report.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre emptive rights under the Articles and the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions

The Group has entered into a leasing agreement (the "**Leasing Agreement**") with an associate of Mr. Chen Jun, a controlling shareholder of the Company. The term of the Leasing Agreement is from 1 January 2019 to 31 December 2019. Accordingly, the Leasing Agreement constituted a continuing connected transaction. Pursuant to the Leasing Agreement, a vehicle would be leased to the Group for its business purpose. The Leasing Agreement was fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements as they were on normal commercial terms and all of the applicable ratios were, in aggregate, on an annual basis, less than 5% and the annual consideration was less than HK$3,000,000. During the year, the rental expenses paid and payable under the Leasing Agreement amounted to approximately RMB143,000 (2018: RMB141,000) as disclosed in Note 30(d) to the consolidated financial statement on page 132 of the annual report.

The Directors consider that those material related party transactions disclosed in Note 30 to the financial statements did not fall or were fully exempted under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules, and hence are not required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, each being an independent non-executive Director, and Mr. Chen Dezhao (resigned on 20 December 2019), an executive Director and the chairman of the Board, were unable to attend the annual general meeting of the Company held on 31 May 2019, respectively, due to other business commitments or unexpected engagements. Mr. Chen Jun, (an executive Director) took the chair at the aforesaid annual general meeting and he was of sufficient calibre and knowledge for answering questions at the annual general meeting.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

The details of Group's compliance with the Code is set out in the Corporate Governance Report from pages 24 to 34 of the annual report.

ANNUAL GENERAL MEETING AND BOOK CLOSURE

The annual general meeting of the Company will be held on 30 June 2020 at 10:30 a.m. at 3/F, Block C, Zhongtian Building, 38 Shandongtou Road, Laoshan District, Qingdao City, Shandong Province, the PRC.

The transfer books and the register of members of the Company will be closed from 24 June 2020 to 30 June 2020, both days inclusive. During such period, no Share transfers will be effected. In order to qualify for attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 23 June 2020.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Except as disclosed in Note 34 to consolidated financial statements, the Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2019 and up to the date of this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Crowe (HK) CPA Limited ("**Crowe**"). Crowe will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re appointment.

A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe as the auditor of the Company.

On behalf of the Board

Chen Jun
Chairman

Hong Kong, 12 May 2020

CORPORATE GOVERNANCE REPORT

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, each being an independent non-executive Directors, and Mr. Chen Dezhao (resigned on 20 December 2019), an executive Director and the chairman of the Board, were unable to attend the annual general meeting of the Company held on 31 May 2019, respectively, due to other business commitments or unexpected engagements. Mr. Chen Jun an executive Director and who took the chair at the aforesaid annual general meeting of the Company, was of sufficient calibre and knowledge for answering questions at the general meeting.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. From 20 December 2019, Mr. Chen Jun had been the Chairman and Chief Executive Officer of the Company. He provided leadership to the Board and is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same individual can provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals, with three of them being independent non-executive Directors.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

The key corporate governance practices of the Group are summarised as follows:

BOARD OF DIRECTORS

Composition

The Board includes two executive Directors and three independent non-executive Directors.

Executive Directors

Chen Jun *(Chairman)*
Su Haiqing (appointed on 20 December 2019)
Chen Dezhao (resigned on 20 December 2019)

Independent Non-executive Directors

Liu Jin Lu
Chan Chak Kwan
Cui Haitao

More than one third of the Board is independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors.

Save for Mr. Chen Dezhao and Ms. Su Haiqing are the father and the spouse of Mr. Chen Jun respectively, there is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. Mr. Chen Dezhao resigned on 20 December 2019. The independent non-executive Directors, namely Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, have respectively entered into a service contract with the Company for a term of one year commencing on 25 May 2019. All the independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles.

At each annual general meeting, one third of the Directors are required to retire from office. Each Director shall retire from office once every three years. The Directors to retire in every year shall be those appointed by the Board during the Year and those who have been longest in office since their last election or re-election. New Directors appointed by the Board during the Year shall retire and submit themselves for re-election at the annual general meeting immediately following their appointments.

Ms. Su Haiqing, Mr. Cui Haitao and Ms. Chan Chak Kwan will retire from office as Directors at the forthcoming annual general meeting of the Company. Ms. Su Haiqing, Mr. Cui Haitao and Ms. Chan Chak Kwan, being eligible, offer themselves for re election pursuant to Articles 86 and 87 of the Articles.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the requirements of the Listing Rules. The Group considers all independent non-executive Directors to be independent in accordance with the Listing Rules.

Save as disclosed in the section headed "Directors' and Senior Management's Biographies" in this report, all members of the Board have no relationship with each others.

BOARD MEETINGS

The Board meets regularly. In addition to regular meetings, it meets as and when warranted by particular circumstances. A record of the Directors' attendance at the Board meetings and general meeting(s) are set out as follows:

	Attendance/ Number of General Meetings	**Attendance/ Number of Board Meetings**
Executive Directors		
Chen Jun *(Chairman)*	1/1	4/4
Su Haiqing (appointed on 20 December 2019)	0/0	0/0
Chen Dezhao (resigned on 20 December 2019)	0/1	4/4
Independent Non-executive Directors		
Liu Jin Lu	0/1	4/4
Cui Haitao	0/1	4/4
Chan Chak Kwan	0/1	2/4

Board responsibilities and delegation

The Board is responsible to the Shareholders for management and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance.

Regarding our Group's corporate governance, during the Year, the Board had performed the duties following:

- reviewed the policies and practices on corporate governance of the Group and made recommendations;
- reviewed and monitored the training and continuous professional development of Directors and senior management;
- reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements;
- reviewed and monitored the code of conduct applicable to the Directors and employees; and
- reviewed the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

CORPORATE GOVERNANCE REPORT

The Board delegates the day to day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Group. The Board gives clear directions to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Group by the management.

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. From 20 December 2019, Mr. Chen Jun had been the Chairman and Chief Executive Officer of the Company. He provided leadership to the Board and is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same individual can provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals, with three of them being independent non-executive Directors.

COMPANY SECRETARY

Mr. Tai Man Hin, Tony ("Mr. Tai"), CPA, an external service provider, has been engaged by the Company as its Company Secretary. His primary contact person at the Company is Mr. Chen Jun, the executive Director. During the Year, Mr. Tai has satisfied the requirements in respect of receiving professional trainings under Rule 3.29 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 — "Model Code for Securities Transactions by Directors of Listed Issuers" to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Specific enquiry has been made to all Directors and all Directors have confirmed that they had complied with such code of conduct during the Year.

DIRECTOR'S CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

All Directors are encouraged to and had confirmed that they had complied with the Code Provision A.6.5 of the Code during the Year, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged an in house training on the Listing Rules and the Code for Directors in the form of a seminar with provision of training materials compiled by the legal adviser. All Directors had attended the in-house training. The training covered disciplinary matters on breach of the Listing Rules and requirements on disclosure of insider information under the Listing Rules.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 25 April 2005. As at the date of this report, the Remuneration Committee comprised three independent non-executive directors, namely Mr. Liu Jin Lu *(Chairman)*, Ms. Chan Chak Kwan and Mr. Cui Haitao.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the Code and are available on the Company and the Stock Exchange's websites.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for the remuneration of Directors, reviewing and making recommendations on their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee had reviewed the Group's remuneration policy and approved the terms of executive Directors' service contracts. During the Year, the Board as a whole has determined the remuneration policy and packages of the Directors. No individual Director was allowed to participate in the procedures for deciding his/her individual remuneration package.

A record of the members' attendance at the Remuneration Committee's meeting is set out as follows:

Members of Remuneration Committee	**Attendance/ Number of Meetings**
Liu Jin Lu *(Chairman)*	2/2
Chen Dezhao (resigned on 20 December 2019)	2/2
Chan Chak Kwan	2/2
Cui Haitao	2/2

The Remuneration Committee held two meetings during the Year and members of the Remuneration Committee had performed the following duties:

- consulted the chairman of the Board and/or chief executive about their remuneration proposals for other executive Directors. The Remuneration Committee has access to independent professional advice if necessary;
- made recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewed and approved the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- reviewed and approved the terms of executive Directors' service contracts;
- made recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- made recommendations to the Board on the remuneration of non-executive Directors; and
- considered salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of Shareholders and provide transparent and real time information on the Company so as to keep the Shareholders and investors abreast of the Company's position and help them to make the best investment decision. The Company believes that maintaining good and effective communication with shareholders can facilitate the Shareholders' understanding of the business performance and strategies of the Group. The Board and senior management also recognise the responsibility of safeguarding the interest of the Shareholders. In order to safeguard the Shareholders' interest, information of the Company and the Group are delivered to the Shareholders through a number of channels, which include annual reports, interim reports, announcements and circulars. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

The Company holds an annual general meeting every year as an appropriate channel for direct communication between the Board and the Shareholders. Shareholders can raise questions directly to the Board in respect of the business performance and future development of the Group at such annual general meetings.

SHAREHOLDER'S RIGHTS

Procedures for putting forward proposals at general meeting by Shareholders

In accordance with the requirements under Article 58 of the Articles, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 88 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The minimum length of the period, during which the notices required under the Articles will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Procedures for directing Shareholders' enquiries to the Board

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

Attention: Mr. Tony Tai, Zhongtian International Limited
5th Floor, Block C, Zhongtian Building, No. 38 Shandongtou Road
Laoshan District, Qingdao City, Shandong Province
The People's Republic of China

Shareholders' enquiries and concerns are forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

INVESTOR RELATIONS

During the Year, the Company did not make any changes to the Memorandum of Association of the Company and the Articles and the current version of which is available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the responsibility to maintain appropriate and effective risk management and internal control systems in order to safeguard the interest of the Group and the Shareholders, and to review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

The Group's risk management and internal control systems comprise, among others, the relevant financial, operational and compliance controls and risk management procedures, a well-established organisational structure with clearly defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to implement the business strategies and policies adopted by the Board from time to time.

The internal audit department of the Company supported the Board and the Audit Committee in reviewing the effectiveness of risk management and internal control systems and performed its functions during the year following an annual audit plan and submitting their reports of their findings to the Board and the Audit Committee at the meetings. The Audit Committee provides independent review on effectiveness of the risk management and internal control systems of the Group and gives their recommendation to the Board. The Board is responsible for reviewing the internal audit report and approving policies and procedures designed by the management.

The Board conducted a review and assessment of the effectiveness of the Group's risk management and internal control systems and procedures during the financial year ended 31 December 2019 by way of discussions with the management of the Group, members of the Audit Committee and the external independent auditor. The Board considered major investigation findings of the external consultant on risk management and internal control matters and management's response to these findings.

The Board believes that the existing risk management and internal control systems are adequate and effective. The Board also reviewed the resources, qualification and experience of staff of the Group's accounting and financial reporting function and their training schemes and budget and was satisfied with their adequacy.

The Board also assessed the effectiveness of the Group's internal audit function and external audit process, and satisfied itself, through the work of its Audit Committee, that the internal audit function is adequately resourced and is effective at providing assurance to the Board on the relevant risks faced by the Company, and that the external audit process is effective.

The Company has its inside information policy and dissemination procedure, and has regularly reminded its Directors and employees about due compliance with all policies regarding the inside information. Pursuant to the relevant procedures, after an employee is aware of any information which may constitute an inside information, he/she should report to his/her department head or the management of the Group. Upon the Directors and management of the Group having confirmed such information is an inside information, they shall ensure such inside information be kept confidential until the disclosure of such information is appropriately approved, and the dissemination of such information should be efficiently and consistently made. The Company keeps its Directors and employees appraised of the latest regulatory updates in order to ensure the compliance with the regulatory requirements.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Group in the year of 2019 comprised fees for audit services of approximately RMB709,000.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group as well as external auditor of the Group.

The Audit Committee held two meetings during the Year to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2019). Policies in relation to financial controls, internal controls, risk management systems of the Group, and the retirement and appointment of the external auditor were reviewed by the Audit Committee at the meetings. The Audit Committee has reviewed this annual report and confirmed that this annual report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules and the Code. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

The Audit Committee comprises three independent non-executive Directors. A record of the Directors' attendance at the Audit Committee's meetings is set out as follows:

Members of the Audit Committee	**Attendance/ Number of Meetings**
Cui Haitao *(Chairman)*	2/2
Liu Jin Lu	2/2
Chan Chak Kwan	2/2

During the Year and up to the date of this report, members of the Audit Committee had performed the following duties:

- reviewed and approved the annual results of the Group for the year ended 31 December 2019 and the interim results of the Group for the six months ended 30 June 2019;
- made recommendations to the Board on the appointment of the Company's external auditor, and approved the remuneration and terms of engagement of the Company's external auditor;
- reviewed and monitored the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- monitored the integrity of the Company's financial statements and annual report and accounts, half year report and reviewed significant financial reporting judgements contained in them;
- discussed with the Company's external auditors questions and doubts arising in audit of interim and annual accounts;

- reviewed the letter to the Company's management from the Company's external auditors and the management's response;
- reviewed the statement about the Company's internal control system which included in this annual report prior to submission for the Board's approval;
- reviewed the Company's financial reporting, financial controls, internal control and risk management systems;
- discussed the risk management and internal control system with the Company's management to ensure that management has performed its duty to establish an effective internal control system;
- considered major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensured that the Company's internal audit function is adequately resourced and had appropriate standing within the Company, and reviewed and monitored its effectiveness;
- reviewed the financial and accounting policies and practices of the Group;
- reviewed the external auditor's explanatory letter to the management, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- ensured that the Board had provided a timely response to the issues raised in the external auditor's explanatory letter to the management; and
- reviewed the terms of reference of the Audit Committee and provided advice thereon to the Board and enhanced the function of supervising risk management system of the Company in accordance with the amendments to the Code and Corporate Governance Report made by the Stock Exchange.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the Year. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the Year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") on 28 March 2012, which comprises an executive Director, namely Mr. Chen Jun, and two independent non-executive Directors, namely Ms. Chan Chak Kwan and Mr. Cui Haitao. Mr. Chen Jun shall act as the chairman of the Nomination Committee. The main function of the Nomination Committee is to identify appropriate individuals qualified to become Board members and to provide advice to the Board in respect of nominating such persons to the Board.

In August 2013, the Board has adopted its board diversity policy. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be made based on merit and contribution that the selected candidates will bring to the Board.

A record of the members' attendance of the Nomination Committee during the year ended 31 December 2019 is set out as follows:

Members of the Nomination Committee	**Attendance/ Number of Meetings**
Chen Jun (appointed on 20 December 2019) *(Chairman)*	1/1
Chen Dezhao (resigned on 20 December 2019)	1/1
Chan Chak Kwan	2/2
Cui Haitao	2/2

The written terms of reference of the Nomination Committee are in line with the Code, and are available on the Company and the Stock Exchange's websites.

During the Year, the Nomination Committee has performed the following duties:

- reviewed the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identified individuals suitably qualified to become Board members and select and nominate individuals for directorships or made recommendations thereabout to the Board;
- assessed the independence of independent non-executive Directors; and
- made recommendations to the Board on the appointment or re-appointment of Directors (in particular the chairman and the chief executive of the Company) and succession planning for Directors.

INDEPENDENT AUDITOR'S REPORT

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHONGTIAN INTERNATIONAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Zhongtian International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 136, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other 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 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 (the "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 the 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 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 for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

The key audit matter	How our audit addressed the key audit matter
(a) Recoverability of loan and other receivables and interest receivable (Refer to Notes 2(h)(i), 4(a)(v), 5(b)(vi), 15 and 18 to the consolidated financial statements) At 31 December 2019, the Group had loan and other receivables and accrued interest receivables of totalling approximately RMB627 million due from an independent third-party natural gas operator ("Gas Operator"), which accounts for 41% of the Group's total assets, as further detailed in Note 15 to the consolidated financial statements. The Group considered that the credit risk of the Gas Operator has not increased significantly at 31 December 2019. Accordingly, the Group measured expected credit loss ("ECL") for the amounts receivable from the Gas Operator at an amount equal to 12-month ECL. The Group considered the current conditions and factors specific to the Gas Operator and forward looking information such as the future economic and regulatory environments related to the business of the Gas Operator, and the fair value of business and relevant assets of the natural gas project of the Gas Operator pledged as collaterals for the loan and other receivables and accrued interest receivable, based on a business valuation performed by an independent professional valuer with qualifications and experiences in valuing similar assets. Based on the assessment, the directors of the Company considered that the recoverable amount of the loan and other receivables and interest receivables was above their aggregate carrying amount and accordingly, no provision for ECLs was recognised at 31 December 2019. Due to the inherent uncertainty and complexity, significant judgements and estimates are involved in forecasting future cash flows, based on the assumptions which reflect management's view on future prospect of natural gas business and related assets as collaterals for the loan and other receivables and accrued interest receivable and in determining appropriate discount rate, forward looking factors such as current conditions of the Gas Operator and the forecast of economic conditions which are the bases for the assessment of recoverability. This is the key judgemental area that our audit is concentrated on.	We performed the following audit procedures: • Reviewing the Group's credit control and debt recovery procedures and actions taken to monitor and collect repayments from the Gas Operator; • Examining the latest management accounts of the Gas Operator as at 31 December 2019 and evaluating that its credit risk has not been significantly increased as at 31 December 2019; • Reviewing the Gas Operator's history of payments of interest on the long-term loan; • Evaluating the relevance of historical loss data as input to the ECL model; • Evaluating the historical default rate, forecast of economic conditions and forward looking information available at the reporting period end for the reasonableness of the expected credit loss rates; • Reviewing the legal opinion issued by the Company's lawyer on the legality of the arrangements under the underlying agreements and the title of the concession right for the construction and distribution of the natural gas; • Examining the terms of the pledge agreement under which the business and relevant assets of the Gas Operator have been pledged, in favour of the Group, as collaterals for the long-term loan and other receivables and accrued interest receivables; • Verifying the ownership of the Gas Operator; • Performing interviews with the top management of the Gas Operator and physical inspection on its natural gas construction sites; • Obtaining direct confirmation from the Gas Operator for the existence, accuracy and completeness of the loan and other receivables and accrued interest receivables; • Conducting diligence interview with the shareholders of the Gas Operator who have confirmed that they are not related parties of the Group or its top management; • Verifying that the shareholders of the Gas Operator are not substantial shareholders of the Company, key management or employees of the Group; • Verifying that the natural gas concession right of the Gas Operator is clean of any pledge or not subject to any encumbrances, in accordance with the natural gas concession right agreement signed between the government and the Gas Operator;

KEY AUDIT MATTERS *(Continued)*

The key audit matter	How our audit addressed the key audit matter
(a) Recoverability of loan and other receivables and interest receivable *(Continued)* The Group's policy on impairment of the long-term loan and other receivables and accrued interest receivables and the uncertainties on the accounting estimates and judgements are disclosed in Notes 2(h)(i), 4(a)(v) and 5(b)(vi) to the consolidated financial statements, respectively.	• In respect of business valuation of the natural gas project of the Gas Operator: — assessing the external valuer's independence, competence and objectivity; — evaluating the valuation methodology used; and — challenging the reasonableness of the key assumptions adopted and the discount rate used. We also assessed the adequacy of disclosures made in the consolidated financial statements for the loan and other receivables and accrued interest receivables and the provision for ECLs.
(b) Valuation of investment properties (Refer to Notes 2(d), 5(b)(i) and 13 to the consolidated financial statements) The fair value of the Group's investment properties of approximately RMB549 million at 31 December 2019 were determined by the directors of the Company with reference to the professional valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being an independent firm of professional valuers which has, amongst its staff, fellow members of chartered surveyors with recent experiences and qualifications in the category and locations of similar properties being valued. Fair value loss of approximately RMB38 million on the Group's investment properties was recognised and charged to consolidated statement of profit or loss for the year. The outcome of valuations for the Group's investment properties are dependent on the selection of valuation approaches and key assumptions that require significant judgements and estimates made by the management of the Group and the valuer. The valuation methodologies and key assumptions applied by the valuer in determining the fair value of the Group's investment properties at 31 December 2019 have been disclosed in Note 13 to the consolidated financial statements.	Our procedures performed include: • Assessing the external valuers' independence, competence and objectivity; • Assessing the appropriateness of the valuation methodologies and approaches for the Group's investment properties at 31 December 2019; • Reviewing and challenging the reasonableness and relevance of the assumptions and input data adopted by the valuer in the valuations for the investment properties with reference to our knowledge of the property market data like the capitalised rental income yield, prevailing market rentals and recent transaction prices for similar properties in the similar conditions and locations where the Group's investment properties are situated; • Checking mathematical accuracy of calculation for the fair value loss of the investment properties and related deferred tax credit arising from fair value changes of the Group's investment properties; and • Assessing the disclosures made in the consolidated financial statements in respect of the valuation of the Group's investment properties.

KEY AUDIT MATTERS *(Continued)*

The key audit matter	How our audit addressed the key audit matter
(c) Recognition of rental income and impairment of rentals receivable	
(Refer to Notes 2(q)(i), 2(h)(i), 5(a)(iii), 5(b)(vi), 6(a) 18(c)(i) and 31 to the consolidated financial statements) On 18 May 2019, the Group and a tenant entered into a lease agreement to lease certain commercial and office units and certain carparks located in Qingdao (the "Leased Properties"), for a lease period of two years from 1 June 2019 to 31 May 2021, pursuant to which, all the right of use related to the leased properties had been passed to the tenant since 1 June 2019. During the year ended 31 December 2019, the Group recognised rental income (net of value-add-tax) of approximately RMB16.8 million in accordance with the terms of the lease agreement and, on a straight line basis, over the lease period. At 31 December 2019, rentals receivable amounted to approximately RMB16.5 million due for settlement on 1 June 2020 in accordance with the terms of the lease agreement, for which no provision for ECLs was made. As security for the rental settlement, a hotel company, being wholly-owned subsidiary of the tenant, has provided a corporate guarantee in favour of the Group that the hotel company shall use all its assets, including but not limited to its hotel properties, as securities for the repayment of the outstanding rental owing by the tenant to the Group at 31 December 2019. This may give rise to the risk of bad debt losses arising from unfavourable changes in the abilities of the tenant and the hotel company as a guarantor to settle the outstanding rentals receivable from the tenant after year end. The Group measured the ECLs on the rental receivables using the simplified approach and calculates the ECLs based on lifetime ECLs. The Group considered the historical credit loss experience, adjusted for forward looking factors specific to the tenant and the economic environment. The Group also considered financial abilities of the hotel company as a guarantor and recoverable amount of its corporate guarantee, particularly the surplus of market value of its hotel properties, based on a valuation performed near the year end by an independent professional valuer, less its debts.	We performed the following audit procedures: — Reviewing the legal opinions issued by the PRC lawyer on legality of the lease agreement and the Group's entitlement to the rental income under the lease agreement; — Reviewing the terms of the lease agreement to identify no condition precedent remained unsatisfied at and since the inception of the lease and during the year; — Recalculating the amount of rental income recognised for the year, in accordance with the terms of the lease agreement, net of the amount for value-added-tax chargeable on the rentals generated on the leased properties, in accordance with the applicable VAT regulations and rules; — Enquiring management of any dispute with the tenant, assessing the written confirmation reply directly obtained from the tenant and reviewing correspondences with the tenant for any potential dispute; — Verifying the ultimate beneficial owner of the tenant who is neither a substantial shareholder of the Company nor an employee of the Group; — Reviewing the Group's credit control and debt recovery procedures and actions taken to monitor and collect the rentals receivable; — Assessing ageing analysis of rentals receivable from the tenant and updated creditworthiness of the tenant; — Reviewing the guarantee agreement made between the hotel company (as a guarantor) and the Group, and assessing the financial abilities of the hotel company and the tenant to fully settle the outstanding rentals receivable, including but not limited to, assessing the financial position of the hotel company from open public sources and evaluating past rental settlement history of the tenant; — Reviewing and challenging the management's assessment on ECL on rentals receivable, taking into past rental settlement history and creditworthiness of the tenant, and expected recoverable amount of the corporate guarantee provided by the hotel company as a guarantor for the full repayment of outstanding rentals owing by the tenant to the Group;

KEY AUDIT MATTERS *(Continued)*

The key audit matter	How our audit addressed the key audit matter
(c) Recognition of rental income and impairment of rentals receivable *(Continued)*	
Based on the assessment, the directors of the Company considered that the rentals receivable can be recovered in full and accordingly, no provision for lifetime ECLs on the rentals receivable was recognised at 31 December 2019. Management's judgement and inherent estimation uncertainty are involved in recognising the rental income and determining whether or not provision for the lifetime ECLs on rentals receivable from the tenant is required at the reporting period end.	— Verifying the ownership of the hotel company as a guarantor and an indirect wholly-owned subsidiary of tenant and performing physical inspection on its hotel properties; — Performing due diligence interviews with the ultimate beneficial owner and the top management of tenant, which is the sole beneficial owner of the hotel company, for confirming the existence, accuracy and completeness of the outstanding rentals payable by the tenant to the Group, and the details and nature of the guarantee provided by the hotel company in favour of the Group; — Obtaining direct confirmation reply from the tenant for the existence, accuracy and completeness of the outstanding rentals owing to the Group at the year end; — In respect of valuation of the hotel properties of the guarantor which is a wholly-owned subsidiary of tenant: — assessing the external valuer's independence, competence and objectivity; — evaluating the valuation methodology used; and — evaluating the reasonableness of the key assumptions adopted. We also considered the adequacy of disclosures made in the consolidated financial statements for the rental income and rentals receivable recognised.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 12 May 2020

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019** **RMB'000**	2018 RMB'000
Revenue	6(a)	**67,873**	45,705
Cost of renovation services rendered		**(25,776)**	—
Cost of property sold		**(10,855)**	—
Other revenue, income and other net gains	7	**42,179**	33,010
Gain on land expropriation	13(b)	**48,777**	—
Fair value loss on investment properties	13	**(38,079)**	(13,304)
Other operating costs		**(1,314)**	(415)
Reversal of/(provision for) impairment loss on prepayment for construction costs		**2,000**	(2,000)
Reversal of impairment loss on trade receivables		**—**	3,237
Administrative expenses		**(16,245)**	(35,906)
Profit from operations		**68,560**	30,327
Finance costs	8(a)	**(51,431)**	(48,238)
Profit/(loss) before taxation	8	**17,129**	(17,911)
Income tax credit/(expenses)	9(a)	**47,296**	(27,651)
Profit/(loss) for the year attributable to owners of the Company		**64,425**	(45,562)
Other comprehensive (loss)/income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		**(777)**	(132)
Item that will not be reclassified to profit or loss:			
Revaluation surplus on property, plant and equipment, net of deferred tax		**—**	981
Total other comprehensive (loss)/income for the year		**(777)**	849
Total comprehensive income/(loss) for the year			
Attributable to owners of the Company		**63,648**	(44,713)
Earnings/(loss) per share (expressed in RMB cents)			
Basic and diluted	12	**15.7**	(11.1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Investment properties	13	**549,060**	787,040
Fixed assets			
— Property, plant and equipment	14	**814**	1,138
— Leasehold land held under operating lease	14	**—**	—
Loan and other receivables	15	**484,128**	613,500
		1,034,002	1,401,678
Current assets			
Land under development into properties for sale	17	**147,503**	—
Loan and other receivables	15	**137,406**	—
Prepayment for construction costs	16	**140,850**	—
Trade and other receivables	18	**55,937**	61,384
Cash and cash equivalents	19(a)	**10,987**	15,465
		492,683	76,849
Current liabilities			
Trade and other payables	20	**92,962**	62,513
Amount due to a former director	30(a)	**876**	603
Amount due to ultimate controlling party of the Company	30(b)	**22,448**	21,064
Tax payable	21(a)	**10,126**	6,569
Bank and other borrowings	22	**290,300**	83,300
		416,712	174,049
Net current assets/(liabilities)		**75,971**	(97,200)
Total assets less current liabilities		**1,109,973**	1,304,478
Non-current liabilities			
Bank and other borrowings	22	**513,550**	720,850
Deferred tax liabilities	21(b)	**191,258**	242,111
		704,808	962,961
Net assets		**405,165**	341,517

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Capital and reserves			
Share capital	24	**3,667**	3,667
Reserves	25	**401,498**	337,850
Total equity		**405,165**	341,517
Total assets		**1,526,685**	1,478,527

Approved and authorised for issue by the board of directors of the Company on 12 May 2020 and signed on its behalf by:

Chen Jun
Director

Su Haiqing
Director

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company						
		Reserves					
	Share capital	Share premium	Exchange reserve	Property revaluation reserve	Retained earnings	Sub-total	Total
	Note 24	Note 25(a)	Note 25(b)	Note 25(c)			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 January 2018	3,667	328,194	(3,660)	1,652	56,377	382,563	386,230
Changes in equity for 2018:							
Loss for the year	—	—	—	—	(45,562)	(45,562)	(45,562)
Other comprehensive loss for the year:							
Exchange difference on translation of financial statements of foreign operations	—	—	(132)	—	—	(132)	(132)
Revaluation surplus immediately before transfer of property, plant and equipment to investment properties, net of deferred tax	—	—	—	981	—	981	981
Total comprehensive loss for the year	—	—	(132)	981	(45,562)	(44,713)	(44,713)
At 31 December 2018 and 1 January 2019	3,667	328,194	(3,792)	2,633	10,815	337,850	341,517
Changes in equity for 2019:							
Profit for the year	—	—	—	—	64,425	64,425	64,425
Other comprehensive loss for the year:							
Exchange difference on translation of financial statements of foreign operations	—	—	(777)	—	—	(777)	(777)
Total comprehensive income for the year	—	—	(777)	—	64,425	63,648	63,648
At 31 December 2019	3,667	328,194	(4,569)	2,633	75,240	401,498	405,165

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Operating activities			
Profit/(loss) before taxation		**17,129**	(17,911)
Adjustments for:			
Interest income from loan receivable	7	**(40,203)**	(33,413)
Interest income from bank deposits	7	**(237)**	(109)
Imputed interest on income receivable from provision of financial services	7	**(933)**	—
Finance costs	8(a)	**51,431**	48,238
Gain on land expropriation	13(b)	**(48,777)**	—
Reversal of impairment loss on trade receivables		**—**	(3,237)
(Reversal of impairment loss)/impairment loss on prepayment for construction cost		**(2,000)**	2,000
Fair value loss on investment properties	13	**38,079**	13,304
Depreciation and amortisation	14	**324**	407
		14,813	9,279
Changes in working capital			
Decrease in inventories		**—**	29
Increase in property held for sale and land under development into properties for sale		**(3,648)**	—
Increase in prepayment for construction costs	16	**(140,850)**	—
Increase in trade and other receivables		**(27,279)**	(39,909)
Increase in trade and other payables		**32,044**	34,802
Increase in amount due to a former director		**273**	280
Increase in amount due to ultimate controlling party of the Company		**1,384**	5,820
Exchange difference		**(777)**	(132)
Cash generated from operations		**(124,040)**	10,169
Bank interest received	7	**237**	109
Land appreciation tax paid		**(1,595)**	(1,493)
Net cash (used in)/generated from operating activities		**(125,398)**	8,785

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Investing activities			
Interests received		**65,828**	33,413
Refund of payments for construction costs of land under development		**2,000**	43,000
Payments for expenditure on investment properties and property, plant and equipment		**(31,954)**	(299)
Land expropriating compensation received	13(b)	**136,777**	—
Net cash generated from investing activities		**172,651**	76,114
Financing activities			
Proceeds from bank and other borrowings	19(b)	**83,000**	10,000
Repayments of bank and other borrowings	19(b)	**(83,300)**	(46,300)
Interests paid	19(b)	**(51,431)**	(58,475)
Net cash used in financing activities		**(51,731)**	(94,775)
Net decrease in cash and cash equivalents		**(4,478)**	(9,876)
Cash and cash equivalents at beginning of the year		**15,465**	25,341
Cash and cash equivalents at end of the year	19(a)	**10,987**	15,465

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 December 2003 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 22 September 2004. The addresses of the registered office and principal of business of the Company are disclosed in the corporate information to the annual report.

The principal business activities of the Group are property development, property leasing and investment, provision of renovation services and financial services in the People's Republic of China (the "**PRC**").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "**Group**").

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). These financial statements are presented in RMB, rounded to the nearest thousand, except for per share data.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at the fair value as explained in the accounting policies set out below:

— investment properties (Note 2(d))

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

(c) Subsidiaries

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries *(Continued)*

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see Note 2(h)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 2(q)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in Note 2(f).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less any accumulated depreciation and any accumulated impairment losses (see Note 2(h)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	Buildings situated on leasehold land are depreciated over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease	
—	Motor vehicles	5 years
—	Furniture, fixtures and equipment	5 years
—	Computer equipment	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policies applicable from 1 January 2019

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

(i) As a lessee (Continued)

(A) Policies applicable from 1 January 2019 (Continued)

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term. Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(e) and 2(h)(ii)), except for the following types of right-of-use asset:

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with Note 2(j).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

(A) Policies applicable from 1 January 2019 *(Continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group presents right-of-use assets that do not meet the definition of investment property within 'property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see Note 2(d)); and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see Note 2(d)) or is held for development or sale.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. Otherwise, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(q)(i).

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets

(i) Credit losses from loan and trade and other receivables

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

— financial assets measured at amortised cost (including cash and cash equivalents, and loan and trade and other receivables).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

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

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

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

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

— variable-rate financial assets: current effective interest rate;

— lease receivables: discount rate used in the measurement of the lease receivable;

— loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

Measurement of ECLs *(Continued)*

ECLs are measured on either of the following bases:

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

General approach *(Continued)*

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

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at the end of each reporting period. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

Significant increases in credit risk *(Continued)*

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

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

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(q)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

Write-off policy

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other assets

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

— property, plant and equipment, including right-of-use assets, if any;

— leasehold land held under operating lease; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

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

— Reversals of impairment losses

In aspect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 2(h)(i) and (ii)).

(i) Loan and trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

— Property under development for sale

Cost and net realisable values are determined as follows:

— Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of interests in freehold and leasehold land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 2(s)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables (including amounts due to directors and the ultimate controlling party of the Company) are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(h)(i).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Provisions and contingent liabilities

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

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

(q) Revenue recognition

Income is classified by the Group as revenue when it arises from the provision of services or the use of the Group's assets by tenants under leases in the ordinary course of the Group's business.

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

Depending on the terms of the contract, control of the goods or services may be transferred over time or a point in time. Control of the goods or services is transferred over time if the Group's performance:

(i) provides the benefits received and consumed simultaneously by the customer;

(ii) creates or enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation, which is measured based on direct measurements of the value of individual goods or services transferred by the Group to the customer. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition *(Continued)*

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, 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 with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

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

(i) Rental income from operating leases

Rental income under operating leases is recognised when the rights of use of the leased assets are passed to the tenant and is credited to the profit or loss on a straight line basis over the terms of the relevant lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral rate of the aggregate net lease payment receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Revenue from provision of financial services

Revenue from provision of financial services is recognised when the financial services are rendered and on a straight-line basis over the term period of the relevant agreement. For fixed-price contracts, revenue from services is recognised in accordance with the terms of the relevant agreement and based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition *(Continued)*

(iv) Renovation services

Revenue from the provision of renovation services is recognised over time, using an output method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The output method recognises revenue on the basis of direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised under the contract.

(v) Sale of completed properties

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

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

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision maker ("CODM"), being the Group's most senior executive management, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued the following new HKFRS, amendments to HKFRSs and an interpretation that are first effective for the current accounting period of the Group.

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

Except for the application of HKFRS 16, none of the developments had material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16, Leases *(Continued)*

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, there is no newly capitalised leases as all the operating leases of the Group are those with lease terms end within 12 months.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements in this regard.

c. Lessor accounting

The Group leases out a number of investment properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17. The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements in this regard.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments by categories

	2019 RMB'000	2018 RMB'000
Financial assets		
At amortised cost:		
— Loan and other receivables (including loan principal interest, service income receivables)	**627,118**	644,709
— Trade and other receivables (excluding prepayments and loan interest receivables as included in the figure above)	**50,190**	29,834
— Cash and cash equivalents	**10,987**	15,465
	688,295	690,008
Financial liabilities		
At amortised cost:		
— Trade and other payables (excluding receipt, in advance and other tax payable)	**50,585**	23,268
— Amount due to a former director	**876**	603
— Amount due to ultimate controlling party of the Company	**22,448**	21,064
— Bank and other borrowings	**803,850**	804,150
	877,759	849,085

The Group has exposure to the credit risk, liquidity risk, interest rate risk and currency risk arising from financial instruments. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk

(i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

(ii) The Group's credit risk is primarily attributable to loan and trade and other receivables and cash and cash equivalents. In order to minimize the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Ongoing credit evaluation is performed on the financial condition of the debtors. These evaluations focus on the debtors' past history of making payments when due and current ability to pay, and take into account information specific to the debtor as well as pertaining to the economic environment in which the debtor operates. Trade receivables are usually due within 10-30 days from the date of billing. For debtors with balances past due, further credit would not be granted until all outstanding balances are settled. Normally, the Group does not obtain collateral from its customers. Loan and interest receivable and service income receivables are due ranging from around 0.5 to 2.5 years (2018: 1.5 to 3.5 years) after the end of the reporting period. The Group has a back-to-back project loan receivable of RMB600,000,000 (2018: RMB600,000,000), together with accrued interest receivable of RMB5,584,000 (2018: RMB31,209,000) and service income receivable of RMB21,534,000 (2018: RMB13,500,000) owing from an independent third-party debtor, as further detailed in Note 15.

(iii) The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. As at 31 December 2019, 93% (2018: 96%) and 100% (2018: 100%) of the total trade, loan and interest receivables, and service income receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loan and other receivables, and trade and other receivables are set out in Notes 15 and 18, respectively.

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's cash and cash equivalents are placed with creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(v) Maximum exposure and year-end staging as at 31 December 2019 and 2018

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 year-end staging classification. The amounts presented are net carrying amounts after provision for ECLs for financial assets.

	2019				
	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Loan and other receivables (note b)	**627,118**	**—**	**—**	**—**	**627,118**
Trade receivables (note a)	**—**	**—**	**—**	**49,943**	**49,943**
Other receivables	**247**	**—**	**—**	**—**	**247**
Cash and cash equivalents	**10,987**	**—**	**—**	**—**	**10,987**
	638,352	**—**	**—**	**49,943**	**688,295**

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(v) Maximum exposure and year-end staging as at 31 December 2019 and 2018 *(Continued)*

	2018				
	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Loan and other receivables (note b)	644,709	—	—	—	644,709
Trade receivables (note a)	—	—	—	29,577	29,577
Other receivables	257	—	—	—	257
Cash and cash equivalents	15,465	—	—	—	15,465
	660,431	—	—	29,577	690,008

(a) For trade receivables and contract assets, the Group applies the simplified approach for measuring the lifetime ECLs on individual basis if the amounts are significant, or collective basis using the provision matrix, as disclosed below.

	As at 31 December 2019				
	Lifetime ECL rate	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/No
Not past due — Individual assessment (note below)	0.00%	49,887	—	49,887	No
Past due over 6 months — Individual assessment	0.00%	56	—	56	No
Past due over 1 year — Collective assessment	100%	1,611	(1,611)	—	Yes
		51,554	(1,611)	49,943	

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(v) Maximum exposure and year-end staging as at 31 December 2019 and 2018 *(Continued)*

	As at 31 December 2018				
	Lifetime ECL rate	**Gross carrying amount RMB'000**	**Lifetime ECL RMB'000**	**Net carrying amount RMB'000**	**Credit impaired Yes/No**
Past due over 6 months — Individual assessment (note below)	0%	29,577	—	29,577	No
Past due over 1 year — Collective assessment	100%	1,611	(1,611)	—	Yes
		31,188	(1,611)	29,577	

Note: Included in trade receivables at 31 December 2019 was approximately RMB16,508,000 (2018: RMB29,577,000) being rentals receivable from a tenant. An indirect wholly-owned subsidiary of this tenant, being a hotel company, has provided an irrevocable corporate guarantee in favour of the Group for full settlement of any outstanding rentals owing by to the Group. No ECL was provided on this rental receivable for the two years ended 31 December 2019 and 2018.

At 31 December 2019, there was also a trade debt of RMB33,379,000 (2018: Nil) in respect of renovation service segment for which the debtor settled RMB25,000,000 to the Group subsequent to 31 December 2019.

(b) Loan and other receivables and interest receivables due from a debtor, for which there was no significant increase in credit risk as at 31 December 2019 by reference to the information available on the financial position and forecast of future cash flows from the debtor. ECLs of these receivables have been determined as at 31 December 2019, by reference to expected recoverable amount of the collaterals which was above the aggregate carrying amounts receivable from this debtor and the probability of its default is considered as low.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

At 31 December 2019, the Group has net current assets of approximately RMB75,971,000 (2018: net current liabilities of RMB97,200,000) which included obligations of amount due to a former director and amount due to ultimate controlling party of the Company of approximately RMB876,000 (2018: RMB603,000) and RMB22,448,000 (2018: RMB21,064,000), respectively. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The directors of the Company are of the opinion that the Group will be able to obtain necessary funds for financing its future working capital and financial requirements in the foreseeable future.

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019						
Trade and other payables	**50,585**	**—**	**—**	**—**	**50,585**	**50,585**
Amount due to a former director	**876**	**—**	**—**	**—**	**876**	**876**
Amount due to ultimate controlling party of the Company	**22,448**	**—**	**—**	**—**	**22,448**	**22,448**
Bank and other borrowings	**332,023**	**160,558**	**389,119**	**1,393**	**883,093**	**803,850**
	405,932	**160,558**	**389,119**	**1,393**	**957,002**	**877,759**
2018						
Trade and other payables	23,268	—	—	—	23,268	23,268
Amount due to a director	603	—	—	—	603	603
Amount due to ultimate controlling party of the Company	21,064	—	—	—	21,064	21,064
Bank and other borrowings	90,496	213,599	518,192	3,354	825,641	804,150
	135,431	213,599	518,192	3,354	870,576	849,085

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings and loan receivable at the end of the reporting period:

	2019		2018	
	Effective interest rate%	**RMB'000**	Effective interest rate%	RMB'000
Fixed rate borrowings:				
Bank borrowings	**4.35-8.00**	**83,000**	4.35-6.20	58,000
Other borrowings	**6.49**	**600,000**	6.49-11.00	610,000
		683,000		668,000
Variable rate borrowings:				
Bank borrowings	**4.75-6.37**	**120,850**	4.75–6.37	136,150
Total borrowings		**803,850**		804,150
Fixed rate borrowings as a percentage of total borrowings		**85.0%**		83.0%
Fixed rate long-term loan receivable	**6.49**	**600,000**	6.49	600,000

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable-rate borrowings, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained earnings by approximately RMB906,000 (2018: RMB1,021,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analyses above have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2018.

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through bank deposits, trade and other receivables, trade and other payables and amounts due to directors and a the ultimate controlling party of the Company that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily Hong Kong dollar.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities that are denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year-end date.

	2019	2018
	RMB'000	RMB'000
Hong Kong dollar:		
Trade and other receivables	**220**	259
Cash and cash equivalents	**206**	218
Trade and other payables	**(1,628)**	(1,377)
Amount due to a former director	**(876)**	(603)
Amount due to ultimate controlling party of the Company	**(13,843)**	(10,656)
Overall exposure arising from recognised assets and liabilities	**(15,921)**	(12,159)

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit/(loss) after tax (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase on profit after taxation and retained earnings RMB'000**	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase on profit after taxation and retained earnings RMB'000
Hong Kong dollar	**5%**	**(796)**	5%	(608)
	(5%)	**796**	(5%)	608

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2018.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement

Financial assets and liabilities measured at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2019 and 2018.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in Note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(a) Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Going concern basis

The directors of the Company are satisfied that the Group has sufficient cash resources to satisfy the Group's working capital and other financial obligations for the next twelve months from the end of the reporting period. Under such circumstances, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis was not appropriate, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to make provision for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. Such adjustments may have a significant consequential effect on the profit for the year and net assets of the Group.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(ii) Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and considered the relevant factors, including but not limited to the development plans of the local government, which affected the Group's determination of the business model for each of its investment properties on whether the objective is to consume substantially all of the economic benefits embodied in the investment properties over time through use or through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have presumed that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale. As a result, the Group has recognised the deferred taxes on changes in fair value of investment properties on the basis that the Group is subject to enterprise income tax, value-added tax and land appreciation tax in the PRC. The carrying amount of deferred liabilities on investment properties at 31 December 2019 was approximately RMB191,258,000 (2018: RMB242,111,000).

(iii) Recognition of rental income and impairment assessment of rentals receivable from leasing properties

On 26 October 2015, Qingdao Zhongtian Software Park Co., Ltd. ("Zhongtian Software Park"), an indirect wholly-owned subsidiary acquired by the Company in March 2016, entered into a lease agreement with a tenant pursuant to which all the commercial and office units, with total floor area of 12,484 square meters, and certain carparks of Zhongtian Software Park located in Qingdao, the PRC had been leased to the tenant and the rights of use of all the leased properties had been passed to the tenant since 1 January 2016 and during the lease period from 1 January 2016 to 31 December 2018 (the "2015 Lease Agreement"). The Company has sought legal opinion from a PRC lawyer which opined that the 2015 Lease Agreement had been legally valid and enforceable in the PRC and Zhongtian Software Park shall be entitled to receive all the rentals from the tenant during the lease period under the 2015 Lease Agreement. Rental income from the Leased Properties were recognised when the rights of use of the Leased Properties had been passed to the tenant since 1 January 2016 and were amortised and credited to the consolidated profit or loss on a straight-line basis over the lease period from 1 January 2016 to 31 December 2018 under the 2015 Lease Agreement, which expired on 31 December 2018.

After negotiations were made with the tenant subsequent to 31 December 2018, on 18 May 2019, Zhongtian Software Park and the tenant entered into a new lease agreement (the "2019 Lease Agreement") under which, the commercial and office units, with total floor area of 9,449 square meters, and certain carparks have been leased to the tenant for the period from 1 June 2019 to 31 May 2021. The rights of use of the leased properties under the 2019 Lease Agreement have been passed to the tenant since 1 June 2019.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(iii) Recognition of rental income and impairment assessment of rentals receivable from leasing properties *(Continued)*

As the construction of the leased properties of Zhongtian Software Park were completed prior to 30 April 2016, the management of Zhongtian Software Park considered that it was entitled to the issue of invoices at VAT rate of 5% under the relevant applicable VAT rules and regulations. However, due to the disputes between Zhongtian Software Park and the tenant as further disclosed in Note 31 to the consolidated financial statements, for prudence's sake, the Group applied the standard VAT rate of 9% (2018: 10% to 11%) on the rentals receivable from the tenant.

During the year ended 31 December 2019, rental income (exclusive of VAT at the standard rate of 9% (2018: 10% to 11%) was recognised on the straight-line basis over the lease period under the relevant lease agreement.

During the year ended 31 December 2019, all the rentals receivable under the 2015 Lease Agreement that were brought forward from 31 December 2018 had been fully settled by the tenant. In respect to the 2019 Lease Agreement, the tenant made partial payments for rentals of the leased properties totalling RMB1,800,000, leaving RMB16,508,000 unpaid and payable to Zhongtian Software Park as at 31 December 2019 which will be due for settlement on 1 June 2020 in accordance with the terms of the 2019 Lease Agreement. An indirect wholly-owned subsidiary of the tenant, being a hotel company (the "Hotel Company"), has provided an irrevocable undertaking guarantee in favour of Zhongtian Software Park that the Hotel Company shall use all its assets, including but not limited to its hotel properties, as securities for the full settlement of the outstanding rentals owing by the tenant to Zhongtian Software Park. In the opinion of the directors of the Company, the Hotel Company has adequate net assets and abilities to settle the outstanding rentals owing by the tenant to Zhongtian Software Park, taking into account a professional valuation on the hotel properties owned by the Hotel Company conducted by an independent valuer in December 2019, and the related debts of the Hotel Company. After considering the historic full settlement of rentals under the 2015 Lease Agreement received from the tenant and the irrevocable corporate guarantee provided by an indirect wholly-owned subsidiary of the tenant for full settlement of remaining the rentals receivable from the tenant, the directors of the Company are of the opinion that no provision for impairment on the remaining rentals receivable from the tenant was required as at 31 December 2019.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(iii) Recognition of rental income and impairment assessment of rentals receivable from leasing properties *(Continued)*

Based on the information and documents made available to the Group, the tenant has been beneficially owned and ultimately controlled by an independent third-party individual (the "Tenant Owner"), over whom the top management of the Group and/or controlling shareholders of the Company have no control or significant influence, and the Tenant Owner is not a substantial shareholder of the Company. Accordingly, the directors of the Company considered that the tenant is not a related party of the Group.

On 10 October 2016, the leased properties of Zhongtian Software Park was accredited as Makerspaces（眾創空間）by the Ministry of Science and Technology（科學技術部）of the PRC and as such, rental income from leasing the properties of Zhongtian Software Park may be subject to exemption of value-added tax ("VAT") and property taxes if the conditions, as prescribed in the circular (Cai Shui [2016] No.89 — the Circular about the Tax Policies on Science and Technology Hackerspace)（財稅[2016]89號 關於科技企業孵化器稅收政策的通知）issued by State Administration of Taxation（國家稅務總局）of the PRC on 11 August 2016, are fulfilled. As the tenant could not meet with all the prescribed conditions as a qualifying tenant under the circular, the rental income received and receivable from the tenant will not be exempted from paying VAT and property taxes. The directors of the Company considered that adequate provisions have been made for the VAT and property taxes arising from rental income received and receivable from the tenant.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty

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

(i) Fair value of investment properties

Investment properties, including those completed properties (2018: completed properties and land held as investment property under development), are carried at their fair values in the consolidated statement of financial position, details of which are disclosed in Note 13. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent firm of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties included in the consolidated statement of financial position and corresponding adjustments to the changes in fair value reported in the consolidated profit or loss. As at 31 December 2019, the carrying amount of investment properties was approximately RMB549,060,000 (2018: RMB787,040,000).

(ii) Land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures, or at designated rate as promulgated by the relevant tax authorities. The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(iii) Income tax and deferred taxation

The Group is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made. Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(iv) Depreciation of property, plant and equipment and impairment of property, plant and equipment

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management of the Group review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. As at 31 December 2019, the carrying amount of property, plant and equipment was approximately RMB814,000 (2018: RMB1,138,000).

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value in use calculations or fair value less cost of disposal. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to such items such as level of turnover and amount of operating costs.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(v) Impairment of interests in subsidiaries

The Company makes impairment on interests in subsidiaries when the related recoverable amounts of the investments in subsidiaries, with reference to the net asset values of the subsidiaries, are estimated to be less than their carrying amounts. As at 31 December 2019, the carrying amount of interests in subsidiaries was approximately RMB211,500,000 (2018: RMB211,500,000).

(vi) Provision of ECL for loan and trade and other receivables

The Group uses provision matrix to calculate ECL for loan and trade and other receivables by groupings of various debtors that have similar loss patterns. The provision rates are based on the Group's historical default rates taking into consideration of reasonable and supportable forward-looking information that is available without undue cost or effort. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. If credit risks of loan and trade and other receivables have significantly increased or credit impaired, they are assessed for lifetime ECL individually. The provision of ECL is sensitive to changes in estimates. The information about the allowance for ECL and the Group's loan and trade and other receivables are disclosed in Notes 4(a)(v), 15 and 18, respectively.

6. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the rental income from investment properties, revenue from sale of a property, revenue from provision of financial services and renovation services. Revenue excludes value added tax or other sales tax and is after deduction of any trade discounts. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2019	2018
	RMB'000	RMB'000
Gross rental income from investment properties	**18,360**	37,969
Revenue from sale of a property	**11,676**	—
Revenue from provision of financial services	**7,214**	7,736
Revenue from provision of renovation services	**30,623**	—
	67,873	45,705

(b) Segment information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being executive directors of the company as the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and performance assessment, the Group has identified the following three (2018: two) reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Property segment: this segment includes property development, investment and leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently, all of the Group's investment properties are located in the PRC.

— Financial service segment: provision of services in connection with financing and procurement arrangements in the PRC, details of which are disclosed in Note 15.

— Renovation service segment: provision of services in connection with arranging renovation projects in the PRC.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocation of resources between segments, the Group's CODM monitors the results, assets and liabilities of each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segment and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment operating results". Segment operating profit/loss includes the operating profit/loss generated by the segment without allocation of central administration costs. Taxation charge is not allocated to reportable segment.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

For the year ended 31 December 2019

	Property RMB'000	Financial service RMB'000	Renovation service RMB'000	Total RMB'000
Reportable segment revenue from external customers	30,036	7,214	30,623	67,873
Reportable segment results	7,719	8,147	4,847	20,713
Interest income	237	41,136	—	41,373
Gain on land expropriation	48,777	—	—	48,777
Cost of renovation services rendered	—	—	(25,766)	(25,766)
Cost of property sold	(10,855)	—	—	(10,855)
Depreciation and amortisation	254	—	—	254
Finance costs	(11,228)	(40,203)	—	(51,431)
Change in fair value of investment properties	(38,079)	—	—	(38,079)
Reportable segment assets	855,579	627,119	33,379	1,516,077
Reportable segment liabilities	(461,894)	(604,195)	(29,744)	(1,095,833)

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

For the year ended 31 December 2018

	Property RMB'000	Financial service RMB'000	Renovation service RMB'000	Total RMB'000
Reportable segment revenue from external customers	37,969	7,736	—	45,705
Reportable segment results	(24,502)	7,736	—	(16,766)
Interest income	109	33,413	—	33,522
Depreciation and amortisation	(423)	—	—	(423)
Finance costs	(14,825)	(33,413)	—	(48,238)
Change in fair value of investment properties	(13,304)	—	—	(13,304)
Reportable segment assets	822,061	644,709	—	1,466,770
Reportable segment liabilities	(508,338)	(603,135)	—	(1,111,473)

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2019 RMB'000	2018 RMB'000
Revenue		
Total reportable segment revenue	**67,873**	45,705
Elimination of inter-segment revenue	**—**	—
Consolidated revenue	**67,873**	45,705
Profit or loss		
Reportable segment results	**20,713**	(16,766)
Unallocated other corporate expenses	**(3,584)**	(1,145)
Consolidated profit/(loss) before taxation	**17,129**	(17,911)
Assets		
Total reportable segment assets	**1,516,077**	1,466,770
Unallocated cash and cash equivalents	**10,236**	11,300
Other unallocated corporate assets	**372**	457
Consolidated assets	**1,526,685**	1,478,527
Liabilities		
Total reportable segment liabilities	**1,095,833**	1,111,473
Unallocated income tax payable	**1,100**	2,214
Unallocated corporate liabilities	**24,587**	23,323
Consolidated liabilities	**1,121,520**	1,137,010

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(iii) Geographical information

In determining the Group's geographical information, revenues and results are attributed to the geographical location based on the location of the customers, and assets are attributed to the geographical location based on the location of the assets. As the Group's major operations and markets including location of the non-current assets are all located in the PRC, no further geographical information is provided.

(iv) Information from major customers

Revenue from external customers contributing 10% or more of the total revenue from the Group is as follows:

	2019 RMB'000	2018 RMB'000
Customer A — renovation service segment	**30,623**	N/A
Customer B — property segment	**16,796**	36,494
Customer C — property segment	**11,676**	N/A
Customer D — financial service segment	**7,214**	7,736

N/A — Not applicable, as there was no revenue from each of these customers for the last year ended 31 December 2018.

(c) At 31 December 2019, there was no unsatisfied performance obligation in respect of the renovation service segment.

7. OTHER REVENUE, INCOME AND OTHER NET GAINS

	2019 RMB'000	2018 RMB'000
Interest income from loan receivable (note below)	**40,203**	33,413
Interest income from bank deposits	**237**	109
Imputed interest on income receivable from provision of financial services	**933**	—
Interest income on financial assets measured at amortised cost	**41,373**	33,522
Exchange gain/(loss)	**467**	(590)
Sundry income	**339**	78
	42,179	33,010

Note: The interest income is the same as the interest payable on the back-to-back loan arrangement, as further detailed in Note 15.

8. PROFIT/(LOSS) BEFORE TAXATION

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

		2019 RMB'000	2018 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings (note below)	**51,431**	48,238
(b)	**Staff costs (including directors' remuneration)**		
	Salaries, wages and other benefits	**3,227**	3,396
	Contributions to defined contribution retirement plans	**385**	455
		3,612	3,851
(c)	**Other items**		
	Auditor's remuneration		
	— audit services	**709**	685
	Depreciation of property, plant and equipment	**324**	371
	Amortisation of leasehold land held under operating lease	**—**	36
	Gross rental income from investment properties less direct outgoings of RMB201,000 (2018: RMB248,000)	**(18,159)**	(37,721)

Note: Included in the interest of bank and other borrowings was RMB 40,503,000 (2018: RMB 33,413,000) accrued on the back-to-back loan arrangement as further disclosed in Note15.

9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2019 **RMB'000**	2018 RMB'000
Current tax — PRC Enterprise Income Tax		
— provision for current year	**3,557**	782
Deferred taxation:		
— origination and reversal of temporary differences (Note 21(b))	**(50,853)**	26,869
Income tax (credit)/expenses	**(47,296)**	27,651

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2018: 25%).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2019 and 2018, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the two years.

9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(b) Reconciliation between tax expenses and accounting profit/(loss) at the applicable tax rates:

	2019 RMB'000	2018 RMB'000
Profit/(loss) before taxation	**17,129**	(17,911)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to the profit in the tax jurisdictions concerned	**4,544**	(4,147)
Tax effect of non-taxable income	**(11,964)**	—
Tax effect of non-deductible expenses	**1,917**	662
Effects of non-taxable fair value loss on investment properties	**9,520**	3,326
Effect on utilisation of tax losses	**(723)**	—
Tax effect on unrecognised tax losses	**263**	743
Effects of the temporary differences recognised	**(50,853)**	26,869
Tax effect on unrecognised temporary differences	**—**	198
Income tax (credit)/expenses	**(47,296)**	27,651

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

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

	2019			
Name of directors	Fees	Salaries and other benefits	Retirement scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Chen Jun	—	566	6	572
Su Haiqing (appointed on 20 December 2019)	—	8	—	8
Chen Dezhao (resigned on 20 December 2019)	—	256	—	256
Independent non-executive directors				
Chan Chak Kwan	18	—	—	18
Cui Haitao	20	—	—	20
Liu Jin Lu	20	—	—	20
	58	830	6	894

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS *(Continued)*

	2018			
Name of directors	Fees	Salaries and other benefits	Retirement scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Chen Dezhao	—	256	—	256
Chen Jun	—	548	6	554
Independent non-executive directors				
Chan Chak Kwan	18	—	—	18
Cui Haitao (Appointed on 28 February 2018)	17	—	—	17
Liu Jin Lu	18	—	—	18
Chen Wen Ping (Retired on 25 May 2018)	6	—	—	6
	59	804	6	869

There was no amount paid during the years ended 31 December 2019 and 2018 to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are the directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and other benefits	**820**	562
Contributions to retirement benefits scheme	**59**	62
	879	624

The emoluments of individuals other than directors with the highest emoluments are within the following bands:

	2019 **Number of individuals**	2018 Number of individuals
Nil to HK$1,000,000 (equivalent to approximately RMB882,000) (2018: Nil to RMB854,000)	**3**	3

During the years ended 31 December 2019 and 2018, no emoluments were paid to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office and no bonus was paid or payable by the Group to the five highest paid individuals based on the performance of the Group.

12. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of RMB64,425,000 (2018: loss of RMB45,562,000) and the weighted average number of 410,209,122 (2018: 410,209,122) ordinary shares in issue during the year, calculated as follows:

(i) Profit/(loss) for the year attributable to owners of the Company

	2019	2018
	RMB'000	RMB'000
Profit/(loss) for the year	**64,425**	(45,562)

(ii) Weighted average number of ordinary shares of the Company

	2019	2018
Weighted average number of ordinary shares	**410,209,122**	410,209,122

(b) Diluted earnings/loss per share

For the years ended 31 December 2019 and 2018, diluted earnings/loss per share are same as basic earnings/loss per share because the Company had no dilutive potential ordinary shares outstanding.

13. INVESTMENT PROPERTIES

	Completed properties RMB'000	Land held as investment property under development RMB'000	Total RMB'000
At 1 January 2018	560,300	230,600	790,900
Transferred from property, plant and equipment	9,160	—	9,160
Addition	—	284	284
Loss from fair value change	(2,420)	(10,884)	(13,304)
At 31 December 2018 and 1 January 2019	567,040	220,000	787,040
Addition	31,869	85	31,954
Land expropriation (note (b))	—	(88,000)	(88,000)
(Loss)/gain from fair value change	(38,994)	915	(38,079)
Transferred to property held for sale	(10,855)	—	(10,855)
Transferred to land under development into properties for sale (note (b))	—	(133,000)	(133,000)
At 31 December 2019	549,060	—	549,060

Notes:

(a) The analysis of carrying amounts of investment properties is as follows:

	2019 RMB'000	2018 RMB'000
In Qingdao, the PRC		
— Commercial	**549,060**	787,040

All the investment properties of the Group are held for rental purposes and/or capital appreciation in future.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(b) The land previously held as investment property under development was situated in Qingdao, the PRC and held under a medium term lease of 40 years. As at 31 December 2018, it was the intention of the Group to develop the above land held as investment property under development into a commercial complex for rental purposes and/or capital appreciation.

On 20 May 2019, the People's Government of Qingdao City (High-tech Zone) officially approved the Agreement on Recovering the Land Use Right of State-owned Construction Land (Qing Gao Tu Chu Shou Zi [2019] No. 8) made between Qingdao Municipal State-owned Land Resources and Housing Management Bureau (High-tech Zone) and the Group for the purpose of expropriating the land use right of 36,311 square meters state-owned construction land out of the land parcel of 91,165 square meters located at No. 877 Huihai Road held by the Group into land reserve of the local government. The land expropriating compensation in aggregate amounted to RMB136,777,000 was settled in cash by the Committee of Hetao Sub-district Office on Land Requisition and Reconstruction for supporting projects at the area adjacent to the Hongdao Station (河套街道辦事處紅島站周邊配套工程徵地拆遷建設工作指揮部) (the "Committee"), resulting in a gain on land expropriation of RMB48,777,000 for the year ended 31 December 2019. The remaining land use right of the state-owned construction land of 54,854 square meters still belongs to the Group.

The land held as investment property under development was revalued on 20 May 2019 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being an independent firm of valuers, who has amongst its staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair value of land held as investment property under development is revalued by reference to recent transaction prices of similar land, based on the direct comparison approach.

To capitalise on the benefits of the change in the revised government town planning for the district where the Group's remaining land is situated, the Group has changed its overall plan for developing its remaining land into residential and commercial properties intended for sale which, within its normal operating cycle, has been reclassified as land under development into properties for sale (Note 17) under current assets since 20 May 2019.

(c) All of the Group's investment properties were revalued on 31 December 2019 and 2018 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being an independent firm of valuers, who has amongst its staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair values of completed properties were arrived at by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties, where appropriate, by reference to market evidence of transaction prices for the similar properties in the same locations and conditions. The completed properties are currently leased to third parties under operating leases. The fair value of land held as investment property under development at 31 December 2018 was revalued by reference to recent transaction prices of similar land, based on the direct comparison approach.

The change in fair value with a loss of RMB38,079,000 (2018: RMB13,304,000) is recognised in profit or loss for the year ended 31 December 2019. The investment properties have pledged to banks, an other financial institution and a trust scheme for bank and other borrowings of the Group, as further detailed in Note 22.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) Fair value measurements of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

		Fair value measurements as at 31 December 2019 categorised into		
	Fair value as at 31 December 2019 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Recurring fair value measurement				
Investment properties:				
Commercial — PRC	**549,060**	**—**	**—**	**549,060**

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) Fair value measurements of investment properties *(Continued)*

(i) Fair value hierarchy (Continued)

	Fair value as at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Investment properties:				
Commercial — PRC	787,040	—	—	787,040

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The senior management of the Group had discussions with the valuers on the valuation assumptions and valuation results when the valuations for the Group's investment properties were performed at the respective reporting dates.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) Fair value measurements of investment properties *(Continued)*

(ii) Information about Level 3 fair value measurements

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

	Valuation techniques	Significant unobservable input	Range 2019	Range 2018
Commercial use – commercial units	Income approach	Prevailing daily market rents per square meter	**RMB9.0**	RMB8.8
		Reversionary yield	**7.5%**	7.4%
Commercial use – office units	Income approach	Prevailing daily market rents per square meter	**RMB3.9-5.4**	RMB4.1–5.4
		Reversionary yield	**5.7-8.0%**	5.7–7.8%
Commercial use – car parks	Income approach	Prevailing monthly market rents per parking space	**RMB960**	RMB850
Land under development (for commercial complex)	Direct comparison approach	Prevailing market price per square meter	**N/A**	RMB1,257–1,417

14. FIXED ASSETS

	Property, plant and equipment						
	Building	Motor vehicles	Furniture, fixture and equipment	Computer equipment	Sub-total	Leasehold land held under operating lease	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2018	4,928	3,217	548	97	8,790	3,872	12,662
Additions	—	—	—	15	15	—	15
Transferred to investment properties	(4,928)	—	—	—	(4,928)	(3,872)	(8,800)
At 31 December 2018 and 1 January 2019	—	3,217	548	112	3,877	—	3,877
Additions	—	—	—	—	—	—	—
At 31 December 2019	—	3,217	548	112	3,877	—	3,877
Accumulated depreciation, amortisation and impairment							
At 1 January 2018	409	2,277	118	20	2,824	322	3,146
Charge for the year	47	210	104	10	371	36	407
Transferred to investment properties	(456)	—	—	—	(456)	(358)	(814)
At 31 December 2018 and 1 January 2019	—	2,487	222	30	2,739	—	2,739
Charge for the year	—	210	104	10	324	—	324
At 31 December 2019	—	2,697	326	40	3,063	—	3,063
Carrying amount							
At 31 December 2019	—	520	222	72	814	—	814
At 31 December 2018	—	730	326	82	1,138	—	1,138

Note:

During the year ended 31 December 2018, the leasehold land and building were leased to an independent party and accordingly, they had been reclassified as investment properties with a fair value of RMB9,160,000 at the date of change in use as investment properties upon inception of a new lease.

15. LOAN AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Loan receivable *(note)*	**600,000**	600,000
Interests receivable	**5,584**	31,209
Income receivable from provision of financial services *(note)*	**21,534**	13,500
Loan and other receivables carried at amortised costs	**627,118**	644,709
Less: Amount classified under current assets included in trade and other receivables *(Note 18)*	**(5,584)**	(31,209)
Less: Amount classified under current assets as loan and other receivables	**(137,406)**	—
Non-current assets	**484,128**	613,500

Note:

On 17 July 2017, Qingdao Zhongtian Enterprises Development Co., Ltd ("Qingdao Zhongtian"), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement (the "Construction and Procurement Agreement") with a third party natural gas operator (the "Gas Operator") which holds a concession right for the construction of natural gas pipeline networks and for distribution of natural gas in the designated areas in Qingdao (the "Natural Gas Project"), the PRC, and another third party supplier of materials and equipment (the "Supplier") for construction of the Natural Gas Project, for a term of 10 years. In accordance with the commercial substance of the arrangements under the Construction and Procurement Agreement, as clarified by a supplemental agreement dated 26 March 2018 ("Supplemental Agreement") made between Qingdao Zhongtian and the Gas Operator, during the year ended 31 December 2017, Qingdao Zhongtian provided the financial services to the Gas Operator and obtained a loan of RMB600,000,000 (the "Project Loan") from an independent third party trust scheme (Note 22), which was then transferred, at the instructions of the Gas Operator, to the Supplier as advanced payments made by the Gas Operator for the purchase costs of materials and equipment acquired and/or to be acquired from the Supplier, in connection with the construction of the Natural Gas Project of the Gas Operator. The Project Loan was obtained by Qingdao Zhongtian from the trust scheme on a back-to-back basis for the Gas Operator. Out of the proceeds of the Project Loan of RMB600,000,000 obtained from the trust scheme, The Gas Operator (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000, representing 20% of the Project Loan, to the trust scheme. The Gas Operator has provided an unlimited corporate guarantee in favour of the trust scheme for the repayments of the principals of the entire Project Loan and the interest accruing at the applicable effective rate of 6.49% per annum on the Project Loan, which shall be the obligations of the Gas operator for repaying to the trust scheme. The Gas Operator shall repay Qingdao Zhongtian for the entire Project Loan, at each instalment of RMB120,000,000, RMB120,000,000 and RMB360,000,000 on 31 May 2020, 31 May 2021 and 31 May 2022, respectively. The interests accrued thereon shall be repaid on a quarterly basis. The principals of Project Loan receivable from the Gas Operator, together with the interest accrued thereon and service charge as detailed below, are secured by the collateral of the business and its relevant assets of the Natural Gas Project of the Gas Operator, based on a pledge agreement entered into between the Gas Operator and Qingdao Zhongtian on 18 June 2018.

15. LOAN AND OTHER RECEIVABLES *(Continued)*

Note: *(Continued)*

In consideration of the services rendered by Qingdao Zhongtian, the Gas Operator shall pay Qingdao Zhongtian a fee, as financial service income, which is recognised on a daily basis at RMB24,658 (inclusive of value-added tax) per day and straight-line basis over the contract term period of 10 years. During the year ended 31 December 2019, financial service income of RMB9,000,000, net of value-added tax of RMB1,104,000 (2018: RMB1,264,000) and discounting effect of RMB682,000 (2018: Nil), amounting to RMB7,214,000 (2018: RMB7,736,000) was recognised and credited to the profit or loss for the year. At 31 December 2019, the income receivable from provision of financial services of RMB21,534,000 (2018: RMB13,500,000) will be settled in the schedules same as those for the principals of the project loan as mentioned above.

At the reporting period end, the Group assessed recoverability of the long-term loan and interest receivables, together with the service income receivable, totalled approximately RMB627,118,000 (2018: RMB644,709,000), taking into account current conditions and factors specific to the Gas Operator and forward looking information such as the forecast of future economic environment and government policies, the recoverable amount of the business and its relevant assets of the Gas Operator pledged in favour of the Group, based on a valuation performed by CHFT Advisory And Appraisal Limited, an independent professional valuer with qualifications and experiences in valuing similar assets.

Based on the assessment, the directors of the Company considered that the recoverable amount of the long-term loan and interest receivable and the service income receivable was above the aggregate of their carrying amounts and accordingly, no provision for ECLs on these financial assets was made as at 31 December 2019 and 2018.

16. PREPAYMENT FOR CONSTRUCTION COSTS

	2019 **RMB'000**	2018 RMB'000
Prepayment for construction costs *(note)*	**140,850**	—

Note:

During the year ended 31 December 2019, the Group entered into a new construction contract with a main contractor, which is an independent third party, for the construction of the land (Note 17) into residential units and commercial properties intended for sale. In accordance with the terms of the construction contract, during the year ended 31 December 2019, the Group made prepayments of approximately RMB140,850,000 to the main contractor.

17. LAND UNDER DEVELOPMENT INTO PROPERTIES FOR SALE

Land under development into properties for sale represents land previously classified as investment properties, which was reclassified as land under development into properties for sale since 20 May 2019 as the Group has changed its overall business plan for developing the land into residential and commercial properties intended for sale within its normal operating cycle, plus any additional costs incurred for the development of the land.

18. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**51,554**	31,188
Less: Allowance for expected credit losses *(note b)*	**(1,611)**	(1,611)
Trade receivables, net *(note a and note c)*	**49,943**	29,577
Loan interest receivables *(Note 15)*	**5,584**	31,209
Other receivables	**247**	257
Trade and other receivables classified as financial assets at amortised cost	**55,774**	61,043
Prepayments	**163**	341
	55,937	61,384

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables, based on date of revenue recognition, and net of allowance for expected credit losses, is as follows:

	2019 RMB'000	2018 RMB'000
0–30 days	**35,994**	3,162
31–60 days	**2,615**	3,162
61–90 days	**2,615**	3,162
91–180 days	**7,846**	9,485
181–365 days	**873**	10,606
	49,943	29,577

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Movements in the allowance for expected credit losses

	2019 RMB'000	2018 RMB'000
At 1 January	**1,611**	4,848
Reversal of impairment loss	**—**	(3,237)
At 31 December	**1,611**	1,611

At each reporting period end, an impairment analysis is performed to measure ECLs on an individual basis if the receivable is significant, or collective basis. The calculation of ECLs reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting period end about the past events, current conditions and forecasts of future economic conditions.

As at 31 December 2019, trade receivables of the Group overdue over 1 year amounting to RMB1,611,000 (2018: RMB1,611,000) were collectively determined to be impaired. During the year ended 31 December 2018, the Group received settlements of RMB3,237,000 for the these trade receivables for which full allowances were made in previous years and accordingly, reversal specific allowances for doubtful debts of RMB3,237,000 were recognised to the consolidated profit or loss for the year ended 31 December 2018.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2019	2018
	RMB'000	RMB'000
Current or undue	**49,887**	—
Past due but not impaired:		
— Over 3 months to 1 year past due	**56**	29,577
	49,943	29,577

(i) As at 31 December 2019, included in trade receivables (net of allowance for expected credit losses) were approximately RMB16,508,000 being rentals receivable from a tenant which leased all the commercial and office units and certain carparks of Qingdao Zhongtian Software Park Co., Ltd. ("Zhongtian Software Park") located in Qingdao (the "Leased Properties") for which all the rights of use of all the Leased Properties had been passed to the tenant since 1 June 2019 under the 2019 Lease Agreement entered into by Zhongtian Software Park, an indirect wholly-owned subsidiary and the tenant on 18 May 2019, the tenant made partial payments for rentals of the Leased Properties totalling RMB1,800,000, leaving the remaining rentals, receivable of RMB16,508,000 outstanding as at 31 December 2019 which will be due for settlement on 1 June 2020 in accordance with the 2019 Lease Agreement. An indirect wholly-owned subsidiary of the tenant, being a hotel company (the "Hotel Company"), has provided an irrevocable corporate guarantee in favour of Zhongtian Software Park that the Hotel Company shall use all its assets, including but not limited to its hotel properties, as securities for the full settlement of any outstanding rentals owing by the tenant to Zhongtian Software Park. In the opinion of the directors of the Company, the Hotel Company has adequate net assets and abilities to settle the outstanding rentals owing by the tenant to Zhongtian Software Park, taking into account the professional valuation on market value of the hotel properties owned by the Hotel Company conducted by an independent valuer, and the related first mortgaged debts of the Hotel Company. After considering the rentals past payment history from the tenant thus far and the irrevocable corporate guarantee provided by an indirect wholly-owned subsidiary of the tenant for full settlement of the remaining rentals of RMB16,508,000 receivable from the tenant, the directors of the Company are of the opinion that no provision for ECLs on the remaining rentals receivable from the tenant was required at 31 December 2019.

(ii) During the year ended 31 December 2019, the tenant had fully settled the outstanding rentals receivable of RMB29,577,000 brought forward from 31 December 2018 and under the old lease agreement dated 26 October 2015 which expired on 31 December 2018.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(c) Trade receivables that are not impaired *(Continued)*

(iii) Based on the information and documents made available to the Group, during the lease period of the aforesaid Lease Agreements, the tenant has been beneficially owned and ultimately controlled by an independent third party individual (the "Tenant Owner"). The ultimate owner of the tenant is not an employee of the Group, and based on the available information made to the Group, is not a substantial shareholder of the Company and is neither subject to control nor significant influence of the controlling shareholders of the Company and top management of the Group during the year and up to the date of approval of the consolidated financial statements. Accordingly, the directors of the Company considered that the tenant is not a related party of the Group.

(iv) At 31 December 2019, the net balance of the trade receivables of RMB49,943,000 (2018: RMB29,577,000) were related to property segment of RMB16,564,000 (2018: RMB29,577,000) and renovation service segment o RMB33,379,000 (2018: Nil), out of which, Nil and RMB25,000,000 were subsequently received from the related customer after 31 December 2019, respectively. There was no significant increase in credit risks of these trade receivables of RMB49,943,000 (2018: RMB29,577,000) at 31 December 2019 and 2018. No provision for ECLs on these trade receivables was made at 31 December 2019 (2018: Nil).

19. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
(a) Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows:		
Cash at bank and on hand	**10,987**	15,465

(b) Reconciliation of liabilities arising from financing activities

	Interest payables RMB'000 (Note 20)	Bank and other borrowings RMB'000 (Note 22)
At 1 January 2018	11,410	840,450
Interests recognised and charged to profit or loss	48,238	—
Changes from financing cash flows:		
— proceeds from bank and other borrowings	—	10,000
— repayments of bank and other borrowings	—	(46,300)
— interests paid	(58,475)	—
At 31 December 2018 and 1 January 2019	1,173	804,150
Interests recognised and charged to profit or loss	51,431	—
Changes from financing cash flow:		
— proceeds from bank and other borrowings	—	83,000
— repayments of bank and other borrowings	—	(83,300)
— interests paid	(51,431)	—
At 31 December 2019	1,173	803,850

20. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**30,575**	2,567
Other payables and accruals	**18,837**	19,528
Loan interest payables *(note)*	**1,173**	1,173
Financial liabilities at amortised cost	**50,585**	23,268
Receipts in advance	**540**	617
Other tax payables		
— value-added tax and property tax payables	**31,552**	27,127
— land appreciation tax payables	**8,013**	9,609
— others	**2,272**	1,892
	41,837	38,628
	92,962	62,513

Note:

Included in loan interest payable is an amount of RMB1,173,000 (2018: RMB1,173,000) payable to a trust scheme (as defined in Note 22) at the end of the reporting period.

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

20. TRADE AND OTHER PAYABLES *(Continued)*

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade payables, based on the invoice date (or date of recognition, if earlier), is as follows:

	2019 **RMB'000**	2018 RMB'000
0-30 days	**28,095**	—
Over 1 year	**2,480**	2,567
	30,575	2,567

21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position

	2019 **RMB'000**	2018 RMB'000
At beginning of the year	**6,569**	5,788
Provision for current tax	**3,557**	781
At end of the year	**10,126**	6,569

21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Land under development into properties for sale	**Investment properties**	**Leasehold land and buildings**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	—	213,267	1,779	215,046
Effect of temporary differences recognised on revaluation of land and buildings	—	—	196	196
Transfer upon reclassification from owner-occupied property to investment properties	—	1,975	(1,975)	—
Charged to profit or loss (Note 9(a))	—	26,869	—	26,869
At 31 December 2018 and 1 January 2019	—	242,111	—	242,111
Transfer upon reclassification from investment properties to land under development into properties held for sale	35,125	(35,125)	—	—
Credited to profit or loss (Note 9(a))	(1,082)	(49,771)	—	(50,853)
At 31 December 2019	34,043	157,215	—	191,258

Deferred tax credit for the year ended 31 December 2019 included approximately RMB50,853,000 related to reversal of deferred tax liabilities arising from the land expropriation by the government, as further detailed in Note 13(b), which is tax exempted according to the relevant regulations and tax rules in the PRC, and the fair value loss on investment properties.

21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(c) Deferred tax assets not recognised

As at 31 December 2019, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB4,308,000 (2018: RMB6,025,000) due to the unpredictability of future profits stream against which the tax losses can be utilised. The tax losses will expire in the coming one to five years. Except for the above, the Group did not have other material unrecognised deferred tax assets.

22. BANK AND OTHER BORROWINGS

As at 31 December 2019, the Group had bank and other borrowing as follows:

	2019 **RMB'000**	2018 RMB'000
Secured bank borrowings	**203,850**	194,150
Secured borrowing from an other financial institution	**—**	10,000
Secured borrowing from a trust scheme	**600,000**	600,000
	803,850	804,150

At 31 December 2019, interest-bearing bank and other borrowings were due for repayment as follows:

	2019 **RMB'000**	2018 RMB'000
Carrying amounts repayable:		
Within 1 year	**290,300**	83,300
After 1 year but within 2 years	**134,300**	207,300
After 2 years but within 5 years	**377,900**	510,400
After 5 years	**1,350**	3,150
	803,850	804,150
Less: Current portion	**(290,300)**	(83,300)
Non-current portion	**513,550**	720,850

As at 31 December 2019, bank and other borrowings were interest bearing at 4.35% to 8.00% per annum (2018: 4.35% to 11.00%) per annum.

22. BANK AND OTHER BORROWINGS *(Continued)*

A bank borrowing of RMB10,350,000 (2018: RMB12,150,000) has been secured by certain investment properties (Note 13). Bank borrowings of RMB193,500,000 (2018: RMB182,000,000) have been secured by certain investment properties (Note 13) and guaranteed by Mr. Chen Jun, the director and ultimate controlling party of the Company.

Borrowings amounting to RMB600,000,000 (2018: RMB600,000,000) and Nil (2018: RMB10,000,000) payable to the trust scheme and an other financial institution, respectively, have been secured by land under development into properties for sale (2018: certain investment properties of the Group), entire equity interest of Qingdao Zhongtian (2018: Nil) and personal guarantees provided by Mr. Chen Jun and Ms. Su Haiqing, being the directors of the Company. As part of the arrangements for the other borrowing of RMB600,000,000 obtained from the trust scheme to which the Gas Operator (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000 which is subordinated to the remaining scheme fund of RMB480,000,000 contributed by the other independent third party beneficiary of the trust scheme, the Gas Operator has also provided an unlimited guarantee in favour of the trust scheme for the repayments of the borrowing of RMB600,000,000 (2018: RMB600,000,000) and the interests thereon at the effective applicable rate of 6.49% per annum, payable by Qingdao Zhongtian, as referred to Note 15. The principals of the borrowing from the trust scheme will be repaid by Qingdao Zhongtian by the following instalments:

— RMB120,000,000 on 28 June 2020;

— RMB120,000,000 on 28 June 2021; and

— RMB360,000,000 on 28 June 2022

which shall be repaid by the Gas Operator to Qingdao Zhongtian, as referred to Note 15.

In the opinions of the directors of the Company, neither the Company, the Group, any of directors of the Company nor the top management of the Group has any beneficial interests in and relationship with all the fund contributors and beneficiaries of the trust scheme, including the Gas Operator.

23. SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is registered capital unless otherwise stated.

Name	Form of business structure	Class of shares held	Place of incorporation and business	Particulars of issued and paid up capital	Interest held directly	Interest held indirectly	Principal activities
Success Advantage Limited	Limited liability company	Ordinary	British Virgin Islands (the "BVI")	100 shares of US$1 each	100%	—	Investment holding
New East Glory Limited	Limited liability company	Ordinary	The BVI	1 share of US$1 each	100%	—	Investment holding
Great Miracle Holdings Limited	Limited liability company	Ordinary	The BVI	1 share of US$1 each	—	100%	Investment holding
Zhongtian Innovation Group Limited (formerly known as Shan Dong Travel Services Holdings Limited)	Limited liability company	Ordinary	Hong Kong	10,000 shares	—	100%	Investment holding
青島中天源網絡科技有限公司*	Wholly foreign-owned enterprise	Registered	The PRC	US$423,200	—	100%	Sale of intelligent electronic products and furniture and fixtures and investment holding
Qingdao Hai Yi Investment and Consultancy Co., Ltd.#	Limited liability company	Registered	The PRC	RMB25,000,000	—	100%	Property investment
Golden Century Trade Limited	Limited liability company	Ordinary	The BVI	1 share of US$1 each	—	100%	Investment holding
Best Sight Limited	Limited liability company	Ordinary	Hong Kong	1 share of HK$1 each	—	100%	Investment holding
Qingdao Zhongtian Enterprise Development Co., Ltd.*	Wholly foreign-owned enterprise	Registered	The PRC	RMB170,876,000	—	100%	Property development and investment holding
Qingdao Zhongtian Huili Technology Development Company Limited*	Wholly foreign-owned enterprise	Registered	The PRC	RMB50,000,000	—	100%	Investment holding
Qingdao Zhongtian Innovation Company Limited#	Limited liability company	Registered	The PRC	RMB100,000,000	—	100%	Investment holding
Qingdao Zhongtian Software Park Co., Ltd.#	Limited liability company	Registered	The PRC	RMB10,000,000	—	100%	Property development, leasing and investment

* Registered under the laws of the PRC as a wholly foreign-owned enterprise.

\# Registered under the laws of the PRC as a limited liability company.

24. SHARE CAPITAL

	2019 No. of shares '000	2019 Amount HK$'000	2018 No. of shares '000	2018 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000

	2019 No. of shares '000	2019 Amount RMB'000	2018 No. of shares '000	2018 Amount RMB'000
Issued:				
Ordinary shares of HK$0.01 each				
At 1 January and 31 December	**410,209**	**3,667**	410,209	3,667

25. RESERVES

The Group

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

The Company

Details of the changes in the Company's individual components of reserves between the beginning and the end of the year are set out below:

	Share premium RMB'000 (Note 25(a))	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2018	328,194	(93,077)	235,117
Loss for the year	—	(3,390)	(3,390)
At 31 December 2018 and 1 January 2019	328,194	(96,467)	231,727
Loss for the year	—	(2,546)	(2,546)
At 31 December 2019	328,194	(99,013)	229,181

25. RESERVES *(Continued)*

Nature and purpose of reserves are as follows:

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Exchange reserve

The exchange reserve represents foreign exchange differences arising from the translation of the financial statements denominated in foreign currencies other than RMB.

(c) Property revaluation reserve

During the year ended 31 December 2013, certain properties previously occupied by the Group as owner-occupied properties were transferred to investment properties, and a revaluation surplus of RMB2,203,000 was credited to property revaluation reserve to account for the difference between the carrying amounts and the fair values of the properties at the date of change in use, determined using market comparison approach by an independent firm of valuers, net of tax liability of RMB551,000 arising from gain on revaluation of properties.

During the year ended 31 December 2018, an owner-occupied property was reclassified to investment properties with a revaluation surplus of RMB1,177,000, which was credited to property revaluation reserve representing the difference between the carrying amount and the fair value of the property at the date of change in use as investment property at the inception of a new lease, determined using market comparison approach by an independent firm of valuers, net of tax liability of RMB196,000 arising from gain on revaluation of the property.

25. RESERVES *(Continued)*

(d) Distributability of reserves

The Company's reserves available for distribution represent the share premium and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, as at 31 December 2019, the Company had reserves available for distribution to equity shareholders of RMB229,181,000 (2018: RMB231,727,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of cash and cash equivalents and equity.

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 2018.

26. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

27. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Authorised but not contracted for (note (a))	—	182,754
Contracted but not provided for (note (b))	52,190	2,611

Note:

(a) As at 31 December 2018, the Group had authorised but not contracted for capital commitments for construction costs relating to land held as investment property under development.

(b) At 31 December 2019, contracted but not provided for capital commitment included amounts of RMB36,753,000 and RMB15,437,000 relating to land under development into properties for sale and properties held as investment properties, respectively.

28. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2019, the Group's total future minimum lease receivables and payables under non-cancellable operating leases are as follows:

	2019 RMB'000	2018 RMB'000
As lessor:		
Within 1 year	32,178	1,402
After 1 year but within 5 years	16,236	3,099
Over 5 years	204	684
	48,618	5,185
As lessee:		
Within 1 year	201	192

28. COMMITMENTS UNDER OPERATING LEASES *(Continued)*

Operating lease receivables represent rentals receivable by the Group for its investment properties under operating lease arrangements, with leases negotiated for 2 to 10 years (2018: 3 to 10 years) and rentals are fixed over the lease terms and do not include contingent rentals.

Operating lease payables represent rentals payable by the Group for its office and a vehicle for business purpose. Leases are principally negotiated for 1 year and rentals are fixed over the lease terms and do not include contingent rentals.

29. PLEDGED OF ASSETS

As at 31 December 2019 and 2018, the Group's properties with the following carrying amounts were pledged to secure bank and other borrowings (Note 22).

	2019	2018
	RMB'000	RMB'000
Investment properties (Note 13)	**549,060**	787,040

30. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the directors are of the view that related parties of the Group include the following individuals:

Name of related party	Relationship with the Group
Chen Jun	Executive director and chief executive officer of the Company, legal representative and director of the PRC subsidiaries, spouse of Su Haiqing, and ultimate controlling party of the Company
Su Haiqing	Executive director of the Company since 20 December 2019, spouse of Chen Jun
Chen Dezhao	Executive director of the Company till 20 December 2019, father of Chen Jun
榮陞投資有限公司	Chen Jun, an executive director of the Company, has beneficial interest
青島海逸物業管理有限公司	Chen Dezhao, an executive director of the Company, and his spouse, Wang Guiju, have beneficial interests
輝利融資有限公司	Chan Chak Kwan, an independent non-executive director of the Company, has beneficial interests

Apart from those as disclosed elsewhere in the consolidated financial statements, the Group has the following related party balances and transactions:

(a) Amount due to a former director

	2019 RMB'000	2018 RMB'000
Chen Dezhao	**876**	603

The amount due is unsecured, interest-free and repayable on demand.

(b) Amount due to ultimate controlling party of the Company

	2019 RMB'000	2018 RMB'000
Chen Jun	**22,448**	21,064

The amount due is unsecured, interest-free and repayable on demand.

30. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due (to)/from related companies

			Maximum amount outstanding	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
青島海逸物業管理有限公司	**(99)**	116	**116**	116
輝利融資有限公司	**—**	6	**6**	6
	(99)	122		

These amounts have been included in other receivables under trade and other receivables.

(d) Transactions with related companies

Name of party	Nature of transactions	**2019 RMB'000**	2018 RMB'000
榮陞投資有限公司	Rental expense	**143**	141
青島海逸物業管理有限公司	Management fee	**66**	68
輝利融資有限公司	Legal and professional fee	**79**	17

As at 31 December 2019, the total minimum lease payments under non-cancellable operating lease payable to a related Company is as follows:

	2019 RMB'000	2018 RMB'000
榮陞投資有限公司		
Within 1 year	**143**	141

In the opinion of the directors of the Company, the above transactions were carried out in the normal course of the Group's business and conducted at the terms mutually agreed between the Group and the respective parties.

30. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in Note 10 is as follows:

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**888**	863
Post-employment benefits	**6**	6
	894	869

31. CONTINGENCIES

Zhongtian Software Park, an indirect wholly-owned subsidiary of the Company, has a dispute on the applicable VAT rate to be applied with its tenant which leased certain premises of the Group under the relevant lease agreements. After 1 April 2016 when the business tax was replaced by value-added tax ("VAT") in the PRC, under the applicable VAT rules and regulations, Zhongtian Software Park can opt to pay the VAT on rental income generating from the leased properties, which were completed before 30 April 2016, at the applicable rate of 5%. However, the tenant insists that Zhongtian Software Park shall issue the VAT invoices on the rentals at the newly applicable VAT rate ranging from 9% to 11% as for those properties completed after 1 May 2016. Due to the fact that Zhongtian Software Park and the tenant have been in disagreement as to the type of VAT invoices regarding the rental income generated after 1 May 2016, Zhongtian Software Park has not yet issued the all relevant VAT invoices to the tenant and therefore, Zhongtian Software Park has not yet paid the relevant VAT and property taxes arising from the rental income received and receivable from the tenant.

In the opinion of the Directors of the Company, adequate provisions for VAT and property tax and other levies arising from rental income received and receivable from the tenant have been made in the consolidated financial statements for the years ended 31 December 2019 and 2018.

32. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 RMB'000	2018 RMB'000
Non-current asset			
Interests in subsidiaries, at cost less impairment		**211,500**	211,500
Current assets			
Other receivables		**218**	214
Amounts due from subsidiaries		**36,926**	36,151
Cash and cash equivalents		**187**	199
		37,331	36,564
Current liabilities			
Other payables		**1,620**	1,369
Amount due to a former director		**876**	603
Amount due to a subsidiary		**80**	78
Amount due to ultimate controlling party of the Company		**13,407**	10,620
		15,983	12,670
Net current assets		**21,348**	23,894
Net assets		**232,848**	235,394
Capital and reserves			
Share capital	24	**3,667**	3,667
Reserves	25	**229,181**	231,727
Total equity		**232,848**	235,394

33. POSSIBLE IMPACT OF NEW STANDARD AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these consolidated financial statements, the HKICPA has issued the following new standard and amendments which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements.

HKFRS 17	Insurance Contracts[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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

Except for the amendments to HKFRSs mentioned below, the directors anticipate that the application of the new standard and all other amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of a Business

HKAS 1 was amended in 2015 to clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements. On the other hand, an entity should consider whether it is necessary to provide disclosures in addition to those specifically required by an HKFRS in order to help users understand the impact of a particular transaction or event on the entity's financial position and financial performance.

The amendments also highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. In particular, an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements will make the material information less visible and will therefore make the financial statements less understandable.

34. EVENT AFTER THE REPORTING PERIOD

The COVID-19 outbreak since the end of 2019 has brought about additional uncertainties to the Group's operating environment and may have impact on the Group's operations and financial position. However, the actual impacts could not be estimated as the situation continues to evolve. The Group has been closely monitoring the impact from the COVID-19 epidemic on the Group's businesses and has commenced to put in place various measures.

As of the date of approval of the consolidated financial statements, the directors of the Company consider that there is no material uncertainty as a result of COVID-19 outbreak that may cast a doubt on the Group's ability to carry on its business as a going concern in the next twelve months.

Save as disclosed above, there has been no other material event affecting the Group since the end of reporting period.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and amended to conform with current year's presentation.

36. ULTIMATE CONTROLLING PARTY

At the end of the reporting period and up to the date of approval for the consolidated financial statements, the ultimate controlling party of the Company is Mr. Chen Jun.

FINANCIAL SUMMARY

For the year ended 31 December 2019

	For the year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Results					
Revenue	3,855	31,414	43,429	45,705	**67,873**
Profit/(loss) before income tax	(7,384)	85,926	112,149	(17,911)	**17,129**
Income tax expense	(203)	(28,982)	(28,668)	(27,651)	**47,296**
Profit/(loss) for the year attributable to owners of the Company	(7,587)	56,944	83,481	(45,562)	**64,425**

	As at 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Assets and liabilities					
Total assets	179,669	739,071	1,502,523	1,478,527	**1,526,685**
Total liabilities	(38,452)	(436,003)	(1,116,293)	(1,137,010)	**(1,121,520)**
	141,217	303,068	386,230	341,517	**405,165**

PARTICULARS OF PROPERTIES

Address	Use	Lease Term	Approximate gross floor area	Group's interest
11 commercial units, 23 office units, 243 underground car parking spaces and an underground storage unit of Zhongtian Building No. 38 Shandongtou Road Laoshan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	22,176 sq.m. (2018: 22,749 sq.m.)	100%
All office units on Level 19 (currently known as 21st Floor) Huaren International Building No. 2 Shandong Road Shinan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	1,511 sq.m (2018: 1,511 sq.m.).	100%
A parcel of land No. 877 Huihai Road Chengyang District Qingdao City Shandong Province The PRC	Residential and commercial use (2018: Commercial use)	Medium-term lease	54,854 sq.m (2018: 91,165 sq.m.)	100%
Unit 2707 of Yang Guang Building No. 61 Xianggang Middle Road Shinan District Qiangdao City Shandong Province The PRC	Commercial use	Medium-term lease	365 sq.m. (2018: 365 sq.m.)	100%