新明中国控股

XINMING CHINA

XINMING CHINA HOLDINGS LIMITED

新明中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code：2699

Annual Report 2019

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Chen Chengshou *(Chairman and Chief Executive Officer)*
Mr. Feng Cizhao
Mr. Pu Wei

Non-Executive Director

Ms. Gao Qiaoqin
Mr. Chou Chiu Ho

Independent Non-Executive Directors

Mr. Gu Jiong
Mr. Lo Wa Kei, Roy
Mr. Fong Wo, Felix

AUDIT COMMITTEE

Mr. Lo Wa Kei, Roy *(Chairman)*
Mr. Gu Jiong
Mr. Fong Wo, Felix

REMUNERATION COMMITTEE

Mr. Gu Jiong *(Chairman)*
Mr. Fong Wo, Felix
Mr. Lo Wa Kei, Roy

NOMINATION COMMITTEE

Mr. Chen Chengshou *(Chairman)*
Mr. Gu Jiong
Mr. Fong Wo, Felix

AUTHORIZED REPRESENTATIVES

Mr. Chou Chiu Ho
Mr. Kam Chun Ying Francis

COMPANY SECRETARY

Mr. Kam Chun Ying Francis

REGISTERED OFFICE

Clifton House 75
Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS IN THE PRC

Block I, 5th Floor
Hengli Building
No. 5 Huang Long Road, Hangzhou
Zhejiang Province, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Nos 21-22 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE ADDRESS

http://www.xinm.com.cn

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre,
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Wenzhou Bank, Hangzhou Branch
Ping An Bank, Hangzhou Huanglong Branch
Agricultural Bank of China, Hangzhou Huanglong Branch
United Bank, Kangqiao Branch
United Bank, Sijiqing Branch

AUDITOR

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY

Jingtian & Gongcheng LLP

LISTING INFORMATION

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 02699)

CHAIRMAN'S STATEMENT

To all shareholders,

I hereby announce the annual results of Xinming China Holdings Company (the "Company" or "Xinming China"), for the year ended 31 December 2019 (the "Year under Review"), on behalf of the board (the "Board") of directors (the "Director") of the Company.

During the Year under Review, total revenue of the Company (together with its subsidiaries, the "Group") amounted to approximately RMB163.3 million, representing a decrease of approximately 73.9 % from approximately RMB624.8 million for the corresponding period of last year. The loss attributable to shareholders of the Company amounted to approximately RMB117.0 million, representing a decrease of approximately RMB159.9 million from approximately RMB42.9 million for the corresponding period of last year, mainly due to the provision for the interest penalty of approximately RMB127.5 million relating to certain default and cross-default borrowings according to the contract terms.

During the Year under Review, loss per share were approximately RMB0.062 (31 December 2018: earnings per share amounted to approximately RMB0.023). As at 31 December 2019, the total assets of the Group amounted to approximately RMB6,743.5 million (31 December 2018: approximately RMB6,836.6 million (restated)); total liabilities were approximately RMB4,763.5 million (31 December 2018: approximately RMB4,744.1 million (restated)); total equity was approximately RMB1,980.0 million (31 December 2018: approximately RMB2,092.5 million (restated)); and net asset value per share was approximately RMB1.05 (31 December 2018: approximately RMB1.11).

In 2019, the economy in China developed steadily. The Gross Domestic Product reached RMB99 trillion, posting a year-on-year increase of 6.1% based on comparable prices. From a quarterly perspective, the year-on-year growth rate was 6.4% in the first quarter, 6.2% in the second quarter, 6.0% in the third quarter and 6.0% in the fourth quarter. It can be seen that the economic growth rate is developing toward a trend of steady progress. In early 2019, the control measures of Chinese government was relaxed for a short period and the market sentiment was once bullish. Subsequently the Political Bureau of the state emphasized "no speculation on housing" and "One Policy for One City" in the meetings held in April and July respectively, aiming at "stabilizing land prices, housing prices and expectations". Each local government was required to refine the execution and implementation of the policies in accordance with the features of the cities and the real estate markets and deepen the regulation and control of "One Policy for One City". In the whole year, about 595 policies on real estate were introduced to ensure the smooth operation of the market. The credit and land policies were tightened in many regions and transaction management measures such as restrictions on purchase were strengthened. In this frequently regulated atmosphere, house sales nationwide still amounted to nearly RMB16 trillion in 2019, representing a year-on-year increase of 6.5% (the prior year: a year-on-year increase of 12.2%). But the overall sales growth slowed. In addition, the national sales area of commercial housing was 1,715,580,000 sq.m., also recording a slight decrease of 0.1%. We believe that the real estate market has gradually stabilized after many of control measures.

CHAIRMAN'S STATEMENT

During the Year under Review, the Group recorded property sales of RMB99.6 million, representing a decrease of approximately 82.4% as compared to the same period last year, which was attributable to (i) Xinming • Children's World (the "Shanghai Project") was affected by the trade war between China and the United States, resulting in the investment promotion activities of the foreign-invested brands not being carried out smoothly and commercial properties were not sold as scheduled temporarily, thus leading to the Shanghai Project failing to contribute to the revenue for the Year under Review; (ii) Chongqing Xinming • China South-western City (the "Chongqing Project"), which was originally intended to be pre-sold in the second half of 2019, was also affected by the strengthened local control in the second half of the year and the outbreak of the novel coronavirus epidemic. Pre-sale will be delayed to 2020. Furthermore, the commencement of the construction of the Chongqing Project was also delayed owning to the epidemic; (iii) Shandong Tengzhou Xingmeng International Commercial City (the "Shandong Project") also failed to carry out pre-sale as scheduled due to the failure to promptly obtain the relevant environmental protection documents issued by the local government; (iv) Hangzhou Xinming • Children's World (the "Hangzhou Project") sold out the remaining inventory in the Year under Review, and the property sales of the project for this period amounted to approximately RMB71.0 million, representing a decrease of approximately 77.0%.

During the Year under Review, the Group delivered Gloss Floor Area ("GPA") of approximately 12,211.7 sq.m., representing a decrease of approximately 83.6% as compared to the area of the sold properties for the corresponding period of last year. The average selling price as a whole during the Period decreased, due to the significant decrease in revenue and GPA delivered, resulting from the proportion of sales from Hangzhou of 2019 is lower than that of 2018. As at 31 December 2019, the property portfolio of the Group comprised 16 property development projects in various cities in the PRC. These projects were at different stages of development, with an aggregate GFA of approximately 1,019,185 sq.m., of which, approximately 478,805 sq.m. of the GFA was completed, approximately 55,145 sq.m. of the GFA was under development and approximately 480,235 sq.m. of the GFA was held for future development.

PROSPECTS

Looking ahead, the real estate market will be still under adjustment in 2020. "One Policy for One City" will be the major direction of the PRC government to establish a long-term effective mechanism for the steady and healthy development of the real estate market. In 2019, the GFA held for sale of the commercial housing in China dropped to 498 million sq.m., representing a year-on-year decrease of 4.9%. compared with the drop of 11% in 2018. It is believed that the destocking in the market had taken effect which supported the housing price. Due to the strict control on mortgage loan, it is expected that the housing price in first-tier cities will tend to getting stable; the local governments in second-tier cities continue to issue favourable policies on attracting talents which is believed to benefit population and purchasing power in the future; and in the third-and-fourth-tier cities, due to the economic downturn, the local real estate markets also face challenges, the pressure of de-stocking increases, causing the developers to turn their attention back to first- and second-tier cities. In terms of housing price, it is expected that the housing price in first-tier cities will increase slightly, mainly due to the strict policy approval. In second-tier cities, the low average housing price and attraction of technical personnel drives the development of housing market and gives room for rising. In third- and fourth-tier cities, benefiting from the economic spillover of surrounding core cities, relatively more affordable housing and less real estate control policies, the housing price will increase to a certain extent.

CHAIRMAN'S STATEMENT

However, in the first quarter of 2020, the novel coronavirus epidemic continues, we believe that the epidemic will lead to an overall economic downturn in PRC, as the macroeconomic fundamentals become unstable due to the getting worse from market shutdown. The real estate industry could always drive the economic stabilization, therefore, the probability of short-term easing regulation on real estate industry in the future is high. It is expected that the easing of regulation on real estate involves two aspects: firstly, easing of financial policy, including monetary policy and bank credit policy. Secondly, in the circumstance that the sales does not meet the expectation, certain local governments will ease the purchase and sales restriction policy, further making up for the weak trading in the first quarter.

In the coming year, Xinming China will accelerate the sale of inventories and continue to develop the child-centric real estate in response to market demand for the high-end, innovative industrial real estate with more ancillary facilities and strive to provide comprehensive products and services for maternity, baby & children (MBC) market and keep the MBC theme. We believe that "My Babini" brand has gradually grown and pursued the path of MBC-themed industrial property operations. The Group will grasp all kinds of financing opportunities under the current low-interest environment, and will pay close attention to investment opportunities in different industries, so as to improve the position of Group in the real estate industry.

DEVELOPMENT STRATEGIES

INTEGRATED LIFESTYLE AND MBC-THEMED CONVENIENT SHOPPING MODE

The Group will respond to the latest home shopping habits and continue to actively develop commercial complexes with the theme of lifestyle, building materials and children, and will implement various measures to further control costs and enhance efficiency. The Group will continue to seize opportunities as they arise on the back of favorable government policies, while seeking to actively expand new land investment projects with promising growth potential in a greater diversity of regions. The Group will continue to expand the brand to China's first- and second-tier cities and other fast-growing regions.

STRENGTHEN INTERNAL MANAGEMENT AND PREVENTING RISKS

The Group will closely monitor market developments, exercise strict risk control, strengthen its material control management and promote the sustainable and healthy development of the Company.

In order to further enhance the internal control and business management, the Group engages professional talents to greatly enhance the internal control and corporate governance level of the Group.

FOCUS ON PERSONNEL TRAINING, INNOVATION AND HUMAN RESOURCES MANAGEMENT

The Group will gradually improve its personnel training and encourage innovation, strengthen its workforce through a combination of learning, training and practicing, and actively introduce high-level international talents; progressively build and train an overseas personnel team, improve the performance appraisal system for the responsible persons of subsidiary enterprises of the Group.

CHAIRMAN'S STATEMENT

SUMMARY

Looking ahead, against the backdrop of cooling down of China-US trade war, the rampancy of novel coronavirus, the slowdown of the growth of global economy and trade in 2020, it is expected that the Chinese economy will tend to rise after decline and improve steadily. In order to counter the influence of the novel coronavirus epidemic, the PRC government is likely to issue the policy to ease control in the short term, thus making up for the weak trading in the first quarter. But for the whole year, "One Policy for One City" will be deeply and fully implemented in Chinese real estate industry, the long-term regulation mechanism of keeping land price, housing price and market expectation steady will be adopted to promote a stable and healthy development of real estate market. Under the government control, it is expected that the housing price in third-and fourth-tier cities will return to a reasonable level and housing price in first- and second-tier cities will still lead the growth in the whole country. We believe that Shanghai Project and Chongqing Project will benefit from such development trend.

I would like to take this opportunity to express my heartfelt gratitude to the Board, and on behalf of the Board, extend thanks to our management and all staff members for their continuous efforts in the previous year. I would also like to thank our shareholders for their support and trust placed in us.

Xinming China Holdings Limited
Chairman and Chief Executive Officer
Chen Chengshou

Hangzhou, China
15 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW AND OPERATION MANAGEMENT

In 2019, China's GDP almost reached RMB100 trillion, representing a year-on-year increase of 6.1%. With regard to the Chinese real estate market, data published by the National Bureau of Statistics demonstrates that in 2019, nationwide housing sales increased 6.5% year-on-year to nearly RMB16 trillion. Total floor area sold declined 0.1% year-on-year to 1,716 million sq.m.. Such statistics reflect that the market has gradually stabilized. The GFA held for sale of the commercial housing in China recorded a continued year-on-year decrease of 5%, while the national investment in real estate development increased by 9.9% as compared to that of the last year.

As of 31 December 2019, the transaction scale of commercial residential buildings still recorded a decrease. The housing prices and transaction volume in first-tier cities remained stable, while the supply in second-tier cities may increase significantly, driven by the demand. As a result of the introduction of a great number of technical talents, local governments were more concerned on the supply plans based on the local inventories and characteristics of population mobility, which led to an increase in the land supply in these cities and a strong performance of the residential market, rendering an upside potential for the housing prices. Except for certain major cities, it is expected that both the supply and transaction volume in third- and fourth-tier cities will decrease, but the prices in these cities will keep rising, benefiting from the economic spillover effect from surrounding core cities, more affordable housing and lesser real estate regulation policies. Although the overall market climate kept flat, we believe the market is only experiencing a temporary structural correction; the potential purchasing power and repeat purchase rates of the property market are still substantial. As a result, the Group is still actively looking for investment opportunities in various industries, with the intention of increasing profits and catering to the society's demand for housing.

In the meantime, the development concepts of industrial real estate have put increasing emphasis on issues in relation to the ecosystem, childcare, environmental protection, and smart city, and infuse city lifestyle into office areas; all of which will be the core values of industrial real estate. Xinming China will continue to develop the child-centric real estate in response to the market's expectation.

BUSINESS REVIEW

During the Year under Review, the Group recorded a total revenue of approximately RMB163.3 million, representing a decrease of approximately RMB461.5 million or 73.9% from approximately RMB624.8 million in 2018. The delivered sales and GFA sold were approximately RMB99.6 million and 12,211.7 sq.m., respectively, representing a decrease of approximately RMB467.6 million or approximately 82.4% from approximately RMB567.2 million and approximately 74,635.0 sq.m., respectively, in 2018. The average selling price for sales was RMB8,159.3 per sq.m., representing an increase of approximately 7.4% year-on-year, which was mainly because the proportion of sales from Hangzhou Xinming was lower in 2019 as compared to 2018.

Loss attributable to the shareholders of the Company amounted to approximately RMB117.0 million, representing a decrease of approximately RMB159.9 million from profit of approximately RMB42.9 million in 2018 (restated), mainly due to the provision of interest penalty of approximately RMB127.5 million relating to certain default and cross-default borrowings according to the contract terms. Loss per share was approximately RMB0.062 (2018: profit of approximately RMB0.023).

During the Year under Review, the Board did not recommend payment of final dividend for the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019, total assets of the Group amounted to approximately RMB6,743.5 million (31 December 2018: approximately RMB6,836.6 million (restated)); total liabilities were approximately RMB4,763.5 million (31 December 2018: approximately RMB4,744.1 million (restated)); total equity was approximately RMB1,980.0 million (31 December 2018: approximately RMB2,092.5 million (restated)); and net assets per share were approximately RMB1.05 (31 December 2018: approximately RMB1.11).

Property Development

As at 31 December 2019, the Group's property portfolio consisted of 16 property development projects with an aggregate GFA of approximately 2,237,825 sq.m. under various stages of development in various cities in the PRC.

The summary of the portfolio of our property development projects as at 31 December 2019 is as follows:

				COMPLETED				UNDER DEVELOPMENT			FUTURE DEVELOPMENT			
Project	Location	Existing use	Site area	GFA Completed	Saleable GFA	Nonsaleable GFA	Saleable GFA in remaining unsold	GFA under development	Saleable GFA	Saleable GFA pre-sold	Planned GFA	Estimated date of completion	Estimated stage of completion	Equity attributable to the Group
			(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)			(%)
Completed														
Taizhou Xinming Peninsular			205,807	463,509	394,552	68,957	3,033	–	–	–	–	–	–	
Phase 1	Xinming Peninsula, West Road, Baiyunshan, Jiaojiang District, Taizhou City	Residential, Commercial	86,667	189,387	157,005	32,382	2,883	–	–	–	–	–	–	100%
Phase 2 – Stage 1	Xinming Peninsula, West Road, Baiyunshan, Jiaojiang District, Taizhou City	Residential, Commercial	66,600	121,498	111,723	9.775	36	–	–	–	–	–	–	100%
Phase 2 – Stage 2	Xinming Peninsula, West Road, Baiyunshan, Jiaojiang District, Taizhou City	Residential, Commercial	52,540	152.624	125,824	26,800	113	–	–	–	–	–	–	100%
Xinming International Household Products Mall and Exhibition Center	No. 8, North Section, Taizhou Boulevard, Jiaojiang District; No. 27 Building, No. 8, North Section, Taizhou boulevard, Jiaojiang District, Taizhou City	Commercial	131,768	207,908	100.151	107,757	886	–	–	–	–	–	–	100%
Xinming Lijiang Garden	Xinming Lijiang Garden, No.8, North Section, Taizhou Boulevard, Jiaojiang District, Taizhou City	Residential, Commercial	63.431	210,988	177,466	33.522	3,637	–	–	–	–	–	–	100%
Wenshang Times • Red Star Macalline Household Products Market	No. 1990, East Ring Boulevard, Jiaojiang District, Taizhou City	Commercial	11,000	67,239	–	67,239	–	–	–	–	–	–	–	100%
Wenshang Times • Xinming Household Decorations and Fittings City	No. 1990, East Ring Boulevard, Jiaojiang District, Taizhou City (Xinming Household Decorations and Fittings City)	Commercial	44,871	67,251	44,415	22,836	22,734	–	–	–	–	–	–	100%
Wenshang Times • Xinming Apartment	No. 1990-1, East Ring Boulevard, Jiaojiang District, Taizhou City	Residential	10,263	39,941	35,605	4,336	1,227	–	–	–	–	–	–	100%

Project	Location	Existing use	COMPLETED					UNDER DEVELOPMENT			FUTURE DEVELOPMENT			
			Site area (sq.m.)	GFA Completed (sq.m.)	Saleable GFA (sq.m.)	Nonsaleable GFA (sq.m.)	Saleable GFA in remaining unsold (sq.m.)	GFA under development (sq.m.)	Saleable GFA (sq.m.)	Saleable GFA pre-sold (sq.m.)	Planned GFA (sq.m.)	Estimated date of completion	Estimated stage of completion	Equity attributable to the Group (%)
Shandong Xingmeng International Commercial City	Xingmeng International Commercial City, Wulitunzhuanpan, Tengzhou City, Shandong Province	Commercial	37,814	62,664	60,288	2,376	54,367	—	—	—	—	—	—	75%
Shanghai Xinming • Children's World	No. 699, Liuxiang Road, Nanxiang Town, Jiading District, Shanghai Municipality	Commercial	39,720	186,904	138,179	48.725	50,861	—	—	—	—	—	—	79%
Hangzhou Xinming • Children's World	No.698, Xiaohe Road, Gongshu District, Hangzhou	Commercial	30,499	147,754	147,754	—	33,870	—	—	—	—	—	—	100%
Under Development														
China South-western City Phase 1	Distribution Center, China South – western City, No. 229, Five Star Avenue, Dazu District, Chongqing	Commercial	175,531	248,286	170.862	77.424	15,203	25,516	—	—	—	—	100%	95%
Shandong Xingmeng International Commercial City	Xingmeng International Commercial City, Wulitunzhuanpan, Tengzhou City, Shandong Province	Commercial	23,200	—	—	—	—	29,629	26,176	10,127	—	—	100%	75%
Future Development														
Shandong Xingmeng International Commercial City*	Xingmeng International Commercial City, Wulitunzhuanpan, Tengzhou City, Shandong Province	Commercial	78,171	—	—	—	—	—	—	—	179,080	N/A	—	75%
China South-western City Phase 2	Distribution Center, China South – western City, No. 229, Five Star Avenue, Dazu District, Chongqing	Residential	44,321	—	—	—	—	—	—	—	110,803	N/A	—	95%
China South-western City Phase 3	Distribution Center, China South – western City, No. 229, Five Star Avenue, Dazu District, Chongqing	Residential	20,569	—	—	—	—	—	—	—	51,422	N/A	—	95%
China South-western City Phase 3#	Distribution Center, China South – western City, No. 229, Five Star Avenue, Dazu District, Chongqing	Commercial	92,620	—	—	—	—	—	—	—	138,930	N/A	—	95%
Total			**1,009,584**	**1,702,445**	**1,269,272**	**433,173**	**185,818**	**55,145**	**26,176**	**10,127**	**480,235**			

Note:

* The Group is negotiating with the government to turn the undeveloped commercial land of 23,341 sq.m. in the Shandong Xingmeng project into residential land.

\# The Group is negotiating with the government to turn the undeveloped commercial land of 92,620 sq.m. in the Chongqing Xinming China South-western City into residential land.

Property Sales

During the Year under Review, the Group recorded property sales of approximately RMB99.6 million, representing a decrease of approximately RMB467.6 million or approximately 82.4% as compared to approximately RMB567.2 million in 2018. Total GFA delivered during the Year under Review was approximately 12,211.7 sq.m., representing a decrease of approximately 83.6% as compared to 2018. Property sales remained the largest revenue source to the Group, representing approximately 61.0% of its total revenue. Property sales decreased during the Year under Review, mainly due to (i) despite the Group adjusted marketing strategy in the third quarter and added lifestyle and building material elements to enrich the original theme in the fourth quarter for Shanghai Xinming Children's World ("Shanghai Project"), Shanghai Project recorded no revenue during the Year under Review as tenant sourcing was affected by the China-United States trade war in the first half of the year and there were termination of tenancy agreements in the second half of the year; (ii) the sales target of Chongqing Xinming • China South-western City ("Chongqing Project") and Taizhou Xinming Peninsular, Xinming Lijiang Garden and Wenshang Times (collectively referred to as "Taizhou Projects") set for 2019 was adversely affected due to the impact of China-United States trade war, and the tenant sourcing activity could not be proceeded properly due to the strengthening of housing regulation by the local governments in the second half of the year and the low market investment sentiment; (iii) as the marketing strategy of Hangzhou Xinming • Children's World ("Hangzhou Project") was adjusted, such that part of unsold areas were leased out in the short term during the Year under Review, the property sales of the project only recorded approximately RMB71.0 million during the period, representing a decrease of approximately 77.0% as compared with the same period of last year.

The following table summarizes the property projects of the Group sold during the Year under Review:

Projects	**Location**	**Sale GFA** (sq.m.)	**Income** (RMB million)	**Average selling price** (RMB/sq.m)
Taizhou Xinming Peninsular				
Phase 1	Taizhou	55.6	0.2	3,763.2
Phase 2 — Stage 2	Taizhou	—	0.9	—
Xinming Lijiang Garden	Taizhou	2,071.1	10.3	4,975.9
Wenshang Times • Xinming Apartment	Taizhou	—	0.4	—
Shanghai Xinming Children's World	Shanghai	(372.8)	(2.2)	5,983.4
Hangzhou Xinming • Children's World	Hangzhou	4,608.8	71.0	15,416.9
Chongqing Xinming • China South-western City Phase 1	Chongqing	4,070.6	12.3	3,019.5
Xingmeng International Commercial City	Tengzhou	1,778.4	6.7	3,757.8
Total		12,211.7	99.6	8,159.3

Property Leasing

The Group carries out property leasing business through leasing its commercial properties held for investment and leasing the sold commercial properties leased back from third parties by the Group. As at 31 December 2019, the actual area leased out was approximately 190,450.8 sq.m., representing approximately 88.7% of the Group's total investment properties held-for-lease and the sold commercial properties leased back from third parties purchasers.

During the Year under Review, the rental income was approximately RMB63.7 million, representing an increase of approximately RMB 6.1 million or 10.6% as compared to approximately RMB57.6 million in 2018, mainly due to the increase in the rental income from Red Star Macalline Exhibition Center under Taizhou Property resulting from the rise in the unit rent and the increase in the rental income from the Chongqing Xinming EasyHome project resulting from the increase in the rentable area.

The following table summarizes the commercial properties held by the Group for investment during the Year under Review:

	As at 31 December 2019				
	Total GFA (sq.m.)	Leasable area (sq.m.)	Leased area (sq.m.)	Average occupancy (%)	Rental income for the year ended 31 December 2019 RMB (million)
Commercial investment properties for rental purpose					
(1) No. 1990, East Ring Boulevard, Jiaojiang District, Taizhou City	67,239.46	64,450.00	56,716.00	88.0%	29.2
(2) No. 8, North Section, Taizhou Boulevard, Jiaojiang District, Taizhou City	101,163.31	62,163.36	60,920.09	98.0%	15.5
(3) China South – western City, No. 229, Five Star Avenue, Dazu District, Chongqing	62,281.82	43,737.35	31,053.52	71.0%	10.6
(4) No. 1990, East Ring Boulevard, Jiaojiang District, Taizhou City	44,414.71	24,536.47	18,637.73	76.0%	8.4

Note: All properties were located in the PRC, and were held under medium term lease.

Land Reserves

As at 31 December 2019, the Group's property portfolio consisted of 16 property development projects located in a number of cities throughout China. These projects was at various stages of development, with total GFA amounted to approximately 1,010,185 sq.m., of which approximately 474,805 sq.m. was completed, approximately 55,145 sq.m. was under development, and approximately 480,235 sq.m. was held for future development.

The following table summarizes the Group's land reserve by geographical location as at 31 December 2019:

Location	Saleable GFA remaining unsold/GFA held for investment (sq.m.)	GFA Under development (sq.m.)	Planned GFA for future development (sq.m.)	Total land reserve (sq.m.)	Proportion to the total land reserve (%)
Taizhou	199,919	—	—	199,919	19.8%
Shanghai	99,586	—	—	99,586	9.9%
Chongqing	87,063	25,516	301,155	413,734	41.0%
Tengzhou	54,367	29,629	179,080	263,076	26.0%
Hangzhou	33,870	—	—	33,870	3.4%
Total	474,805	55,145	480,235	1,010,185	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking forward to the year 2020, China's economic growth is expected to inevitably experience a slowdown due to the deceleration of global economic growth and the novel coronavirus (COVID-19) epidemic. Therefore, it is possible that the monetary policies and purchase & sales restriction policies on the China's property market will be loosened in the short run. However, the "One Policy for One City" will remain as the main theme of the Chinese government on real estate market. Under this policy, it is expected that the housing prices in the third-and-fourth tier cities will return to a reasonable level, but due to the continuous effect of the prevention of the COVID-19 epidemic, the progress of development and sales of residential buildings in first-and-second tier cities will slow down, and thus it is believed that the housing sales will underperform in the short term and the trading volume will be affected to some extent. Xinming China will take this opportunity to make investment in various industries, accelerate the sale of inventories and proactively develop the comprehensive home and maternal, baby and child-centric real estate to improve the placement strategy of the Group.

FINANCIAL REVIEW

Revenue

The Group's revenue is primarily generated from property sales and property leasing services, which contributed approximately 61.0% and 39.0%, respectively, to the revenue for 2019 during the Year under Review of approximately RMB163.3 million. Property sales remained the major revenue source of the Group, which recorded a decrease of approximately RMB467.6 million as compared to approximately RMB567.2 million (restated) for the same period of last year. Property sales decreased mainly due to the slow progress of sales activities resulting from the impact of China-United States trade war, strengthening of housing regulation by the local governments in the second half of the year and the low market investment sentiment.

Cost of sales

During the Year under Review, the Group's cost of sales was approximately RMB110.3 million, representing a decrease of approximately RMB233.8 million or approximately 67.9% as compared to approximately RMB344.1 million in the last year. The decrease was primarily attributable to the significant decrease in the total GFA of properties delivered during the Year under Review as compared with last year, which led to the relative decrease in the cost of sales.

Gross profit

During the Year under Review, the gross profit amounted to approximately RMB53.0 million, representing a decrease of approximately RMB227.7 million or 81.1% as compared to approximately RMB280.7 million in the last year. The gross profit margin was approximately 32.4%, representing an decrease of approximately 12.5% as compared to approximately 44.9% in the last year. The decrease in gross profit was mainly due to the release of excessive provisions for construction costs of the Taizhou Xinming Peninsular, Xinming Lijiang Garden and Wenshang Times projects during the Year under Review, resulting from the adjustment of internal engineering structure in 2018, which led to a decrease in cost of sales and an increase in gross profit margin.

Other income and gains

Other income and gains during the Year under Review amounted to approximately RMB1.1 million, decreased by approximately RMB2.1 million or approximately 65.6% as compared to approximately RMB3.2 million in the last year, mainly due to the significant reduction in bank interest and exchange gain.

Distribution and administrative expenses

During the Year under Review, the selling and administrative expenses amounted to approximately RMB70.3 million, representing a decrease of approximately RMB61.1 million or approximately 46.5% as compared to approximately RMB131.4 million in the last year, mainly due to a substantial decrease in property sold during the period which led to a decrease in sales commission and marketing costs of RMB29.5 million. Administrative expense decreased by approximately RMB23.6 million as compared to last year, mainly because of the decrease in staff costs.

Other expenses

Other expenses during the Year under Review was approximately RMB183.2 million, representing a substantial increase of approximately RMB146.1 million or 393.8% as compared to approximately RMB37.1 million in the last year (restated), mainly due to the provision of interest penalty of approximately RMB127.5 million relating to certain default and cross-default borrowings according to the contract terms, the provision of impairment of completed properties held for sale approximately RMB9.7 million and comprehensive fines and compensations of approximately RMB44.6 million.

Change in fair value of investment properties

During the Year under Review, the gain on change in fair value of investment properties amounted to approximately RMB146.8 million, representing an increase of approximately RMB79.0 million or approximately 116.5% as compared to the gain on change in fair value of investment properties of approximately RMB67.8 million in the last year, mainly due to the increase in fair value gains of the investment properties under the Shanghai Project of approximately RMB105.1 million, resulting from the reclassification of properties held for sale to investment properties as a result of the Group's adjustment in its real estate development strategy, integrating the lifestyle and mother-child concept to enhance the value of property lease and improve asset quality.

Finance costs

During the Year under Review, the net interest expense amounted to approximately RMB2.6 million, representing a decrease of approximately RMB4.3 million as compared to approximately RMB6.9 million of last year.

Operating loss

During the Year under Review, the operating loss amounted to approximately RMB46.8 million, representing a decrease of approximately RMB174.9 million or approximately 136.5% as compared to the operating profit of approximately RMB128.1 million in the last year. The decrease was mainly due to the decrease in the revenue from property sales and the provision of bank overdue penalties.

Income tax expenses

During the Year under Review, the income tax expenses amounted to approximately RMB65.7 million, representing a significant decrease of approximately RMB40.9 million or approximately 38.4% as compared to approximately RMB106.6 million in the last year, mainly due to the decrease in income tax and land appreciation tax of RMB71.5 million. On the contrary, deferred tax was increased by approximately RMB30.6 million.

Loss attributable to the shareholders

During the Year under Review, the loss attributable to the shareholders amounted to approximately RMB117.0 million, representing a significant decrease of approximately RMB159.9 million as compared to a profit of RMB42.9 million in the corresponding period of last year (restated). The basic loss per share amounted to approximately RMB0.062 per share (2018: basic earnings per share of approximately RMB0.023 per share).

Cash flows

As at 31 December 2019, cash and bank deposits of the Group, including restricted cash, were approximately RMB185.0 million in aggregate (31 December 2018: approximately RMB581.3 million (restated)), representing a decrease of approximately RMB396.3 million or approximately 68.2%, mainly due to interest payments and operational project cost.

Pursuant to the exclusive management and operation agreement entered into between the Company's certain commercial properties with third party purchasers, the Company is required to pay certain percentages of the selling price of the property to the purchasers regardless whether such properties were rented out by the Company or they were generating rental income. Based on the terms of the existing exclusive management and operation agreements and lease agreements as at 31 December 2019, during the period from 1 January 2019 to 1 July 2019, the Group's maximum net cash outflow was approximately RMB22 million in 2019 pursuant to the exclusive management and operation agreement entered into by the Company. We are not obliged to pay any agreed fees for the period from 1 July 2019 to 30 June 2024 under the exclusive management and operation agreements which we had entered into as at 31 December 2015.

Borrowings

As at 31 December 2019, the total other borrowings of the Group were approximately RMB1,890.3 million, representing a decrease of approximately RMB76.8 million as compared to approximately RMB1,967.1 million as at 31 December 2018.

The borrowings repayable within one year of the Group was approximately RMB1,890.3 million, representing an increase of approximately RMB624.1 million as compared to approximately RMB1,266.2 million as at 31 December 2018. Borrowings repayable after one year was nil, representing a decrease of approximately RMB700.8 million as compared to approximately RMB700.8 million as at 31 December 2018.

Trade receivables, prepayments, other receivables and other assets

As at 31 December 2019, the sum of trade receivables, prepayments, other receivables and other assets of the Group were approximately RMB213.2 million, representing an increase of approximately RMB80.4 million as compared to approximately RMB132.8 million as at 31 December 2018 (restated), mainly due to increase in other receivables.

Trade payables, contract liabilities and other payables and accruals

As at 31 December 2019, the sum of trade payables, contract liabilities and other payables and accruals of the Group was approximately RMB1,154.9 million, representing an increase of approximately RMB73.4 million as compared to approximately RMB1,081.5 million (restated) as at 31 December 2018. The increase was mainly due to the provision for interest penalty of approximately RMB127.5 million relating to certain default and cross-default borrowings according to the contract terms.

Assets and liabilities

As at 31 December 2019, the total assets of the Group were approximately RMB6,743.5 million, representing a decrease of approximately RMB93.1 million as compared to approximately RMB6,836.6 million as at 31 December 2018(restated). The total current assets were approximately RMB3,321.4 million, representing approximately 49.2% (31 December 2018: approximately 52.8%) of the total assets, with a decrease of approximately RMB287.7 million as compared to approximately RMB3,609.1 million as at 31 December 2018 (restated). However, the total non-current assets were approximately RMB3,422.1 million, representing approximately 50.8% (31 December 2018: approximately 47.2%) of the total assets, with an increase of approximately RMB194.6 million as compared to approximately RMB3,227.5 million as at 31 December 2018.

As at 31 December 2019, the total liabilities of the Group were approximately RMB4,763.5 million, representing an increase of approximately RMB19.4 million as compared to approximately RMB4,744.1 million as at 31 December 2018 (restated). The total current liabilities were approximately RMB4,234.0 million, representing approximately 88.9% (31 December 2018: approximately 69.5%) of the total liabilities, with an increase of approximately RMB938.0 million as compared to approximately RMB3,296.0 million as at 31 December 2018 (restated). However, the total non-current liabilities were approximately RMB529.5 million, representing approximately 11.1% (31 December 2018: approximately 30.5%) of the total liabilities, with a decrease of approximately RMB918.6 million as compared to approximately RMB1,448.1 million as at 31 December 2018.

As at 31 December 2019, the net current liabilities of the Group were approximately RMB912.6 million, representing a decrease of approximately RMB1,225.7 million as compared to the net current assets of approximately RMB313.1 million as at 31 December 2018 (restated).

Current ratio

As at 31 December 2019, the current ratio of the Group, being the ratio of the current assets divided by the current liabilities, was 0.78:1 (31 December 2018: 1.09:1).

Gearing ratio

As at 31 December 2019, the gearing ratio of the Group was calculated based on net debt divided by the sum of total equity and net debt. The Group's net debt consists of interest-bearing bank and other borrowings and convertible bonds, less cash and cash equivalents. Total equity includes equity attributable to owners of the parent and non-controlling interests. The gearing ratio was 50.0% (31 December 2018: 51.3%).

Convertible bonds

Pursuant to the general mandate, on 1 June 2018, the Group issued convertible bonds in amount of HK$300 million for a term of two years. The bonds bear interest at a rate of 6.5% plus 1% handling fee per annum, and the interest is payable in arrears every half year. The bonds can be converted into shares at the conversion price of HK$1.39 per conversion share at any time on and after the issue date and up to the close of business on the business day immediately preceding the maturity date. For details, please refer to the Company's announcement dated 15 May 2018.

As calculated based on the conversion price at HK$1.39 per conversion share, a maximum of 215,827,338 Shares will be allotted and issued if the conversion rights attached to outstanding convertible bonds are fully exercised, representing approximately 11.49% of the then issued share capital of the Company on 31 December 2019 and approximately 10.30% of the issued share capital of the Company enlarged by the shares issued upon conversion of outstanding convertible bonds.

The convertible bonds are guaranteed by the Controlling Shareholder, Mr. Chen Chengshou and the non-executive director, Ms. Gao Qiaoqing, pursuant to a deed of guarantee, and secured by Xinxing Company Limited by 940,000,000 shares of the Company held by Xinxing Company Limited, a company controlled by Mr. Chen Chengshou.

Mr. Chen has undertaken to, for so long as any convertible bonds remains outstanding, directly or indirectly hold 50% of the entire issued share capital of the Company, and shall not directly or indirectly sell, transfer or otherwise dispose of his equity interests in the Company or any part thereof in the absence of prior written consent of the subscriber of the convertible bonds.

The actual use of proceeds as of 31 December 2019 (inclusive) sets out below:

Intended use	Intended allocation of net proceeds from the issuance of bonds	Utilisation up to 31 December 2018	Utilisation up to 31 December 2019	Unutilised amount as at 31 December 2019
	HK' million	*HK' million*	*HK' million*	*HK' million*
Project development				
The Shandong Xingmeng International Commercial City Project	152.2	152.2	152.2	—
The China South-western City Project	147.8	147.6	147.8	—
Total	300.0	299.8	300.0	—

As at 31 December 2019, the Proceeds have been fully utilised.

Significant investments

During the Year under Review, the Group has no significant investment.

Material acquisitions and disposals of subsidiaries

During the Year under Review, the Group acquired three subsidiaries. On 18 September 2019, the Group acquired 100% interests in Hangzhou Pengyue Trading Company Limited ("Hangzhou Pengyue") and Hangzhou Zhiyao Trading Company Limited ("Hangzhou Zhiyao") from the Controlling Shareholder, Mr. Chen Chengshou and a related party, Xinming Group Limited. Hangzhou Pengyue and Hangzhou Zhiyao are engaged in trading investment. The acquisition was made as part of the Group's strategy to reduce its related party transactions and strengthen internal integration. The transaction considerations for the acquisition were in the form of cash, with RMB1,000 and RMB1,000 paid on the acquisition date, respectively. On 30 October 2019, the Group acquired Zhejiang Jinghang Investment Management Co., Ltd* (浙江靜航投資管理有限公司) ("Zhejiang Jinghang") from individual shareholders. The purchase consideration for the acquisition was in the form of cash, with RMB84,000 paid on the acquisition date.

Guarantees on mortgage facilities

As at 31 December 2019, the Group provided guarantees over the mortgage loans of certain purchasers of approximately RMB28.9 million (31 December 2018: approximately RMB28.0 million).

Assets guarantees

As at 31 December 2019, the Group has pledged and restricted deposits in the bank deposits of RMB2.8 million (31 December 2018: RMB537.7 million). In addition, partial other borrowings of the Group were secured by the Group's certain properties under development, completed properties held for sale, investment properties and the equity interest in certain subsidiaries of the Group, and jointly guaranteed by the controlling shareholder of the Group, Mr. Chen Chengshou ("Mr. Chen"), Mr. Chen's children and the non-executive Director, Ms. Gao Qiaoqin, the Group's related company, Xinming Group Limited, and other minority shareholders of certain subsidiaries of the Group free of charge.

Capital expenditure

During the Year under Review, the Group's total capital expenditure was approximately RMB0 million (31 December 2018: approximately RMB4.4 million).

Capital commitments

As at 31 December 2019, the capital commitments related to activities of properties under development was approximately RMB274.3 million (31 December 2018: approximately RMB27.1 million).

Exposure to exchange rate fluctuations

The Group operates mainly in Renminbi, and certain bank deposits of the Group are dominated in Hong Kong dollars. Save for above disclosed, the Group was not exposed to any material exchange rate fluctuations risk and did not enter into foreign currency hedging policies. However, the Group will monitor closely the foreign exchange risk and may, as the case may be and depending on the trend of foreign currencies, consider to apply significant foreign currency hedging policies in the future.

Employees and remuneration policy

As at 31 December 2019, the Group has a total of 146 employees (31 December 2018: total 170 employees). Total staff costs, including Directors' emoluments, of the Group were approximately RMB27.5 million (2018: RMB42.4 million).The decrease is mainly due to the decrease of staff in Shanghai and Hangzhou Project as completion of construction cycle. The Group continued to promote the upgrading of talents, cultivating and recruiting excellent talents with sales and management experience, improving the allocation system of remuneration linked to performance and maintaining harmonious labor relations. The remuneration of employees of the Group will be based on their performance, experience and the prevailing market remuneration. Moreover, the Group has also adopted a share option scheme and a share award scheme.

For details of the share option scheme and the share award scheme, please refer to the sections headed ("Share Option Scheme") and ("Share Award Scheme") in this report.

Contingent liabilities

As at 31 December 2019, the Company had guarantees in respect of mortgage facilities granted to purchasers of the Group's properties of approximately RMB28.9 million (31 December 2018: approximately RMB28.0). Particulars of contingent liabilities as at 31 December 2019 are set out in note 34 to the consolidated financial statements.

AUDITOR'S MODIFIED OPINION

The Auditor does not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the *Basis for Disclaimer of Opinion* section of their report, it is not possible for them to form an opinion on these consolidated financial statements. In all other respects, in their opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in note 2.1 to the consolidated financial statements, the Group incurred a net loss of RMB112,518,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB912,615,000. In addition, as at 31 December 2019, interest payments of RMB60,434,000 relating to certain borrowings of the Group of a principal amount of RMB1,119,573,000 ("In Default Borrowings") were not paid in accordance with the repayment schedules pursuant to the borrowing agreements. These constituted events of defaults which resulted in cross-default of certain borrowings other than those mentioned above, amounting to a principal amount of RMB770,770,000 ("Cross-default Borrowings") as at 31 December 2019. As at the date of approval of these financial statements, interest of RMB117,537,000 relating to the In Default Borrowings and the Cross-default Borrowings was overdue. These conditions, together with other matters disclosed in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the consolidated financial statements. The validity of the going concern assumption on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully negotiating with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with interest payments in default, including those with cross-default terms; (ii) successfully negotiating for the renewal of or extension for repayment of outstanding borrowings, including those with overdue principals and interests; (iii) successfully negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future and (iv) successfully accelerating the pre-sale and sale of properties under development and completed properties and speeding up the collection of outstanding sales proceeds, and controlling costs and containing capital expenditure so as to generate adequate net cash inflows.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

THE MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER OF OPINION

During the course of audit of the consolidated financial statements of the Group for the year ended 31 December 2019, the Auditor had raised concern on the Group's ability to continue as a going concern. In order to address this concern, the Company has, among other things, taken the following steps: (i) negotiating with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with interest payments in default, including those with cross-default terms; (ii) negotiating with various financial institutions on the renewal of or extension for repayment of outstanding borrowings, including those with overdue principals and interests; (iii) negotiating with various financial institutions to identify various options for additional financing the Group's working capital and commitments in the foreseeable future; (iv) accelerating the pre-sale and sale of properties under development and completed properties and speeding up the collection of outstanding sales proceeds; and controlling costs and containing capital expenditure so as to generate adequate net cash inflows; and (v) procuring and negotiating the preliminary terms with large property development enterprises for the sale of individual property development projects at a price deemed appropriate. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2019 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to obtain the necessary funding and achieve the plans and measures above. The Group's ability to continue as a going concern would depend upon whether the Group is able to obtain financing when required, the attainability depends on the performance of the Group and whether the Group is able to generate sufficient cash flow from operations and plans to control costs, the attainability depends on the market performance. Despite the effort made by the Company to address the concern, the Auditor issued the disclaimer of opinion. The management of the Company has considered the Auditor's rationale and understood their consideration in arriving the disclaimer of opinion.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The members of the Audit Committee had critically reviewed the basis for disclaimer of opinion, the Management's position concerning the basis for disclaimer of opinion and measures taken by the Company for addressing the basis for disclaimer of opinion. The Audit Committee agreed with the Management's position based on the reasons above. Moreover, he Audit Committee requested the Management to take all necessary actions to address the effect on the basis for disclaimer of opinion to procure no such disclaimer of opinion to be made in the next financial year. The Audit Committee had also discussed with the Auditor regarding the financial position of the Group, measures taken and to be taken by the Company, and considered the Auditor's rationale and understood their consideration in arriving the disclaimer of opinion.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Chengshou, aged 54, was appointed as the executive Director, chairman, chief executive officer, chairman of nomination committee and the authorized representative of the Company on 16 January 2014. Mr. Chen ceased to be an authorized representative of the Company as a result of his intention to concentrate on his other role on the Board of Directors on 5 February 2020. He is the founder of the Group and primarily responsible for corporate strategic planning and overall business development of the Group. Mr. Chen had over 30 years of experience in the real estate industry. He has been the chairman of the board of 台州市新明房地產開發有限公司 (Taizhou City Xinming Real Estate Development Company Limited*) since February 2007 and the director of certain subsidiaries of the Group. Mr. Chen has been first participated in the management of the property development business in the PRC since June 2001 when he was appointed as chairman of 杭州桃源山莊房地產開發有限公司(Hangzhou Taoyuan Shanzhuang Property Development Limited*) ("Taoyuan Property").

Mr. Chen is the chairman of 杭州市來杭投資企業(商會)聯合會(Hangzhou City Chamber of Commerce for Enterprises Invested in Hangzhou), a committee member of the standing committee of 浙江省工商聯(Federation of Industry & Commerce of Zhejiang Province*), the vice-chairman of 杭州公共外交協會(Hangzhou Public Diplomacy Association*), a committee member of the 中國人民政治協商會議第十一屆杭州市委員會(Eleventh Hangzhou City Committee of the Chinese People's Political Consultative Conference*), the honorary chairman of the 杭州市溫州商會(Hangzhou City Wenzhou Chamber of Commerce*), the chairman of the 全國泰順企業家聯誼會(Nationwide Taishun Entrepreneurs Fellowship Association*) and the vice chairman of 杭州市總商會(Hangzhou City Chamber of Commerce*). He was appointed as the deputy director of the market committee of 中國商業聯合會(Chinese General Chamber of Commerce*) in March 2013. He has also been a director of Wenzhou Bank since November 2012 and a part-time tutor of master degree in international business of Zhejiang University(浙江大學) since February 2014.

Mr. Chen was awarded "「傑出杭商」(Excellent Entrepreneur of Hangzhou*)" in October 2016, "「2013-2015年度溫商回歸突出貢獻人物」(Outstanding Contribution of Entrepreneurs of Wenzhou for years 2013 to 2015*)" in September 2016, "'十二五'浙江房地產十大風雲人物(Top ten in Zhejiang Real Estate Industry in the "十二五"*)" in June 2016, "世界溫商百名風雲人物—在外傑出溫商三十人榮譽 (Worldwide Outstanding 30 people of Entrepreneur of Wenzhou (External)*)" in February 2016; "「世界溫州人年度人物」(Wenzhou People of the Year*)" and "「世界溫商百名風雲人物」(One Hundred Excellent Entrepreneur of Wenzhou*)"in December 2014; "品質杭商(Entrepreneur with Good Character of Hangzhou*)" jointly by 中共杭州市委(Hangzhou Municipal Committee of the Communist Party of China*) and 杭州市人民政府(The People's Government of Hangzhou*) in October 2013, "「誠信溫商」傑出代表(Outstanding Representative of Credible Entrepreneurs of Wenzhou*)" jointly by 溫州市委宣傳部(Promotion Department of Wenzhou Municipal Committee of the Communist Party of China *) and 溫州市信用辦公室(Wenzhou Credibility Office*) in August 2011, "優秀社會主義事業建設者(Outstanding Builder of Socialist Undertaking*)" jointly by 中共杭州市委(Hangzhou Municipal Committee of the Communist Party of China*) and 杭州市人民政府(The People's Government of Hangzhou*) in September 2010 and "關愛員工優秀企業家(Staff Caring Excellent Entrepreneur*)" jointly by 杭州市總工會(Federation of Trade Union of Hangzhou*) and 杭州市工商聯合會(Hangzhou Federation of Industry and Commerce) in December 2009.

Mr. Chen obtained a graduation certificate in Administrative Management (through online courses) from Huazhong University of Science and Technology(華中科技大學)in the PRC in July 2013. Mr. Chen obtained Executive Master degree in Business Administration from CheungKong Graduate School of Business(長江商學院)in the PRC in September 2015. Mr. Chen obtained a Master degree in Business Administration from Tsinghua University in April 2018.

Mr. Feng Cizhao, aged 45, was appointed as an executive Director with effect from 31 October 2015.

Mr. Feng graduated from Zhejiang University of Finance & Economics (浙江財經學院) and obtained his college degree in accounting in 2005, and then obtained the MBA degree from Zhejiang Gongshang University (浙江工商大學) in 2013.

Mr. Feng has extensive experiences in financing and management. He served as deputy chief financial officer of Taidi Holdings Group Co. Ltd.* (泰地控股集團有限公司) from August 2011 to September 2015. He worked with the finance department of Shaoxing Wantong Real Estate* (紹興萬通房產) and Margaret Business Management Company* (瑪格麗特商業管理公司) (both subsidiaries of Taidi Holdings Group Co. Ltd.* (泰地控股集團有限公司)) as the chief financial officer from September 2006 to July 2011. Mr. Feng acted as the head of office for Hangzhou Qingcheng Real Estate Development Co., Ltd.* (杭州青城房地產開發有限公司) from October 2002 to September 2006. He held several positions in Zhejiang Quzhou Transportation Group Co., Ltd.* (浙江衢州汽車運輸集團有限公司) from July 1996 to September 2002, including accountant with the planning and finance department of Zhejiang Quzhou Transportation Group Co., Ltd.* (浙江衢州汽車運輸集團有限公司), finance manager with the cargo container company and the automobile repair company under Zhejiang Quzhou Transportation Group Co., Ltd.* (浙江衢州汽車運輸集團有限公司).

Mr. Pu Wei, aged 46, was appointed as an executive Director on 5 February 2020.

Mr. Pu graduated from Jilin University in the PRC majoring in administrative management. Mr. Pu is currently a member of the Standing Committee of the Wuxi Chinese People's Political Consultative Conference, a director of the China Social Assistance Foundation, a standing director of the Federation of HK Jiangsu Community Organisations (香港江蘇社團總會) and a director of the Association of Overseas Affairs of Jiangsu Province (江蘇省海外聯誼會).

Mr. Pu has extensive experience in the management of real estate and energy related companies in the PRC. He was the executive director and chief operating officer and co-chief executive officer of Enviro Energy International Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1102) (formerly known as SYS Solutions Holdings Limited) from January 2017 to November 2017. He has been the supervisor of Wuxi Everbright Energy Technology Development Co., Ltd.* (無錫市光大能源科技發展有限公司) since July 2003.

NON-EXECUTIVE DIRECTOR

Ms. Gao Qiaoqin, aged 51, was appointed as our non-executive Director on 10 June 2014. She is responsible for advising on overall strategic planning of our Group, but she doesn't participate in the day-to-day management of our Group's business operation. She has over 10 years of experience in the real estate industry.

Ms. Gao obtained a graduation certificate in computer information management (through online courses) from Huazhong University of Science and Technology (華中科技大學) in the PRC in June 2005.

Ms. Gao is the spouse of Mr. Chen, who is the chairman, executive Director and chief executive officer of the Company.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chou Chiu Ho, aged 38, was appointed as an executive director and the authorized representative of the Company on 5 February 2020 and was subsequently re-designated from an executive director of the Company to a non-executive Director and the authorized representative of the Company on 1 May 2020.

Mr. Chou obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University in November 2003. Mr. Chou was admitted as a member of the Hong Kong Institute of Certified Public Accountant in November 2011. He was also admitted as a member of the Association of Chartered Certified Accountants in November 2010 and subsequently a fellow member in November 2015.

Mr. Chou has over 10 years of experience in accounting and auditing. Prior to joining the Group, he worked in H.C. Watt & Company Limited from September 2003 to January 2006, and served as intermediate auditor before he left the company. He then joined PricewaterhouseCoopers from January 2006 to December 2010. From January 2011 to March 2012, Mr. Chou worked as the head of corporate services of Beijing Sports and Entertainment Industry Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1803) (formerly known as ASR Logistics Holdings Limited). Since April 2013, Mr. Chou has been working as the financial controller of Millennium Pacific Group Holdings Limited (a company listed on GEM, stock code: 8147) ("MP Group"), and he has also been working as the company secretary since March 2017. Mr. Chou also served as the chief financial officer of HF Financial Group Limited (currently known as HF Finance Group (China) Limited) (and subsequently transferred to HF Management (China) Limited) from January 2015 to July 2016. He has been the company secretary and financial controller of Prime Intelligence Solutions Group Limited (a company listed on GEM, stock code: 8379) since September 2015 and November 2016, respectively. Since September 2017, Mr. Chou has been the director of Archon Prime Strategic Investment (Group) Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fong Wo, Felix, BBS, JP, aged 69, was appointed as an independent non-executive Director, a member of audit committee, nomination committee and remuneration committee on 8 June 2015. He is a consultant of King & Wood Mallesons, a global law firm headquartered in Asia. Mr. Fong has practiced law for over 30 years and is a member of the Law Societies of Hong Kong, Canada and England.

Mr. Fong has been serving as an independent non-executive director of a number of companies listed on the Hong Kong Stock Exchange, including Greenland Hong Kong Holdings Limited (formerly known as SPG Land (Holdings) Limited) (stock code: 337), Guangdong Land Holdings Limited (formerly known as Kingway Brewery Holdings Limited) (stock code: 124), Sheen Tai Holdings Group Company Limited (stock code: 1335), Wuxi Biologics (Cayman) Inc. (stock code: 2269) and Television Broadcasts Limited (stock code: 511). From May 2010 to the end of May 2016, he also served as an independent non-executive director of China Oilfield Services Limited (stock code: 2883: HK; 601808: SHA), whose shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. Mr. Fong is the immediate past Chairman of the Hong Kong Advisory Council on Food and Environmental Hygiene and a member of the Hong Kong Communication Authority. Mr. Fong was an independent non-executive director of China Investment Development Limited (formerly known as Temujin International Investments Limited) (stock code: 204) from April 2011 to July 2018. Mr. Fong was also an independent non-executive director of Evergreen International Holdings Limited (stock code: 238) from November 2012 to March 2020.

)Mr. Fong received his engineering degree from McMaster University in Canada in June 1974 and his Juris Doctor degree from Osgoode Hall Law School in Toronto in June 1978. Mr. Fong was admitted as a barrister in Ontario, Canada in 1980, a solicitor in England and Wales in 1986 and in Hong Kong in 1987. Mr. Fong is appointed by the Ministry of Justice of China as one of the China-appointed Attesting Officers in Hong Kong.

Mr. Gu Jiong, aged 47, was appointed as an independent non-executive Director, the chairman of remuneration committee, a member of audit committee and nomination committee on 8 June 2015. He is the independent non-executive director of Chen Xing Development Holdings Limited (stock code: 2286), the independent non-executive director of Ascletis Pharma Inc. (stock code: 1672), the independent non-executive director of DaFa Properties Group Limited (stock code: 6111), the independent non-executive director of Amlogic (Shanghai) Co., Ltd. (stock code: 688099: SHA) and the independent non-executive director of Mulsanne Group Holding Limited (stock code: 1817) and Tu Yi Holding Company Limited (stock code: 1701). Mr. Gu has been the chief financial officer of China Media Capital, an investment fund specialized in media and entertainment investments in China and globally, and 華人文化有限責任公司 (Huaren Wenhua Limited Liability Company*), an investment platform specialized for media and entertaining investment, since September 2013 and October 2015, respectively. He served as the chief financial officer in BesTV New Media Co., Ltd (stock code: 600637), whose shares are listed on Shanghai Stock Exchange, from January 2010 to August 2013. He worked in UT Starcom Inc. (stock code: UTSI), whose shares are listed on NASDAQ, from April 2004 to December 2009; he served as the chief financial officer before he left the firm. Mr. Gu worked in Ernst & Young's Shanghai office from July 1995 to April 2004; he was the senior manager of the audit department when he left the firm.

Mr. Gu has been a non-practising member of the Chinese Institute of Certified Public Accountants since April 2004. Mr. Gu obtained a bachelor degree in finance management from Fudan University in the PRC in July 1995.

Mr. Lo Wa Kei, Roy, aged 48, was appointed as an independent non-executive Director, a member of the Remuneration Committee, and the chairman of audit committee on 8 June 2015. Mr. Lo has extensive experience in auditing, accounting and finance. Mr. Lo is a managing partner of SHINEWING (HK) CPA Limited, which is a full service accounting and consulting firm engaged in the provision of, among others, audit and business advisory services.

Mr. Lo has been serving as an independent non-executive director of a number of companies listed on the Stock Exchange, including Sun Hing Vision Group Holdings Limited (stock code: 125), China Zhongwang Holdings Limited (stock code: 1333), Sheen Tai Holdings Group Company Limited (stock code: 1335), China Oceanwide Holdings Limited (previously known as "Hutchison Harbour Ring Limited") (stock code: 715), China Tonghai International Financial Limited (previously known as Wah Fu International Holdings Limited) (stock code: 952), Wan Kei Group Holdings Limited (stock code: 1718) and G-Resources Group Limited (Stock Code: 1051). He also served as an independent non-executive director of North Mining Shares Company Limited (previously known as "Sun Man Tai Holdings Company Limited") (stock code: 433), a company listed on the Hong Kong Stock Exchange, from September 2004 to November 2015.

Mr. Lo received a bachelor's degree in business administration from the University of Hong Kong in November 1993 and a master's degree in professional accounting from Hong Kong Polytechnic University in November 2000. He is a certified public accountant, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of CPA Australia and an associate of the Institute of Chartered Accountants in England and Wales. Mr. Lo was the fellow member of the Shanghai Pudong New Area Committee of the Chinese People's Political Consultative Conference and also the founding executive vice president and council member of the Hong Kong Independent Non-Executive Director Association, the president of CPA Australia (Greater China Division) 2019.

SENIOR MANAGEMENT

Mr. Kam Chun Ying Francis, aged 53, was appointed as one of the secretaries to the Board of the Group and the Company Secretary by the Company in July 2016 and Chief Investment Officer in January 2017, mainly responsible for internal control and risk management matters, organisation of rules of procedures of Board meeting and general meeting, listing compliance supervision and keeping close investor relations and communication. Before joining the Company, Mr. Kam has been served as the qualified accountant of Chongqing Machinery & Electric Co., Ltd. (重慶機電股份有限公司) (stock code: 02722), a company listed on the main board of Hong Kong Stock Exchange, since 2008. He has served as the chief risk officer of Precision Technologies Group (PTG) Limited of UK from July 2013 to June 2019. Mr. Kam was the financial controller of TFH Management Limited in 2006, and was responsible for finance operations and corporate compliance in both the private and listed companies within that group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant. He has over 30 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants in the United Kingdom since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

Mr. Fu Shixuan, aged 46, was appointed as the general manager of Shandong Xingmeng Property Limited (山東興盟置業有限公司), a subsidiary of the Company, in July 2017. He is mainly responsible for the development and management of the entire project of Shandong Xingmeng Real Estate. Mr. Fu graduated from Shandong Management University (山東省工會管理幹部學院) in Economics and Trade in June 1994.

Mr. He Yi, aged 47, has been acted as director of general engineer office of the Company since September 2018, mainly responsible for engineering and design management of the Company. Mr. He joined Xinming Group Limited and served as director of general engineer office since September 2018. Mr. He graduated from Nanchang University (南昌大学), majoring in Industrial and Civil Construction.

Ms. Ji Hefei, aged 38, has been acted as Human Resources Director of the Company since November 2016, mainly responsible for human resources management, administrative management, information and logistic management. Ms. Ji joined Xinming Group Limited, which was the holding company of the Group's operating subsidiaries before listing of the Company ("XG Limited") and served as HR officer since April 2006. In July 2015, Ms. Ji was re-designated to the Company from XG Limited. Ms. Ji graduated from information management and information system in Zhejiang Sci-Tech University in July 2006.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Jie, aged 46, was appointed as the chief executive officer of the Group in October 2017, mainly responsible for the overall operation and management of the Group and the formulation and implementation of overall strategy of the Company. Mr. Li joined XG Limited in October 2006 and has ever served as general manager of XG Limited's subordinate company Zhejiang Xinming Property Services Limited, XG Limited's president assistant, full-time assistant for XG Limited's president, general manager and executive president of Shandong Xingmeng Property Limited. Mr. Li obtained MBA from Business School, Netherlands in July 2012.

Ms. Quan Xiaolin, aged 49, was appointed as an executive Director on 10 June 2014. She is mainly responsible for risk management and general secretarial matters of the Board. Ms. Quan resigned executive Director of the Company on 12 June 2016, but still serves as one of the joint secretaries to the Board, mainly responsible for general secretarial matters of the Board. Ms. Quan joined XG Limited in October 2004 and was re-designated to the Company from XG Limited in July 2015. Ms. Quan obtained a graduation certificate in Financial Accounting from Zhejiang Radio & Television University (浙江廣播電視大學) in the PRC in January 2002.

Mr. Wu Xiaojun, aged 38, served as the controller of cost management department of the Company since September 2019, mainly responsible for the cost management of the Company. Mr. Wu joined XG Limited and served as deputy manager of cost management department since February 2014. Mr. Wu graduated from Jiangxi Vocational College of Economics and Management (江西經濟管理職業學院), majoring in engineering cost.

Mr. Wu Wenwu, aged 50, served as project deputy general manager of the Company's subsidiary Chongqing Xinming Property Limited since August 2018, mainly responsible for the full project development management of Chongqing Xinming Property Limited. Mr. Wu joined XG Limited and served as installation engineer, manager of engineering department, deputy general manager for project in October 2005.

Ms. Wu Yaqin, aged 41, has been served as project general manager of the Company's subsidiary Hangzhou Xinming Property Limited since April 2014 and served as vice president of the Group since January 2019, mainly responsible for the project development and management of Hangzhou Xinming Property. Ms. Wu joined XG Limited and served as marketing manager since August 2005. Ms. Wu graduated from Zhejiang University (浙江大學) in July 2001, majoring in accounting.

Ms. Zengna, aged 32, served as regional head of Taizhou Xinming Property Investment Co., Ltd. (台州新明置業投資有限公司), a subsidiary of the Company, in August 2017, and is mainly responsible for the development and management of the entire project in the Taizhou regional project. Ms. Zeng joined XG Limited in March 2007 and has successively served as the head of human resources and administration, head of Sales Department, sales manager, sales and marketing director, and vice president of marketing of the subsidiary companies of XG Limited. Ms. Zeng graduated from Chongqing Normal University (重慶師范學院) in July 2006, majoring in tourism management.

DIRECTORS' REPORT

The Directors present to the Shareholders the directors' report together with the audited consolidated financial statements of the Group for the Year under Review.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the current and continuing principal activities of the Group are property development, property investment and property leasing during the Year under Review. The principal activities and other particulars of its subsidiaries as at 31 December 2019 are set out in Note 1 to the consolidated financial statements.

As required by the Schedule 5 of the Hong Kong Companies Ordinance, business review regarding business of the Group can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 4 to 9 and page 11. An indication of possible future development in the Group's business can be found in the Management Discussion and Analysis set out on page 16 of this annual report. This discussion forms part of this directors' report.

BUSINESS REVIEW

Compliance with Laws and Regulations

To the best of the knowledge of the Board and the management, the Group complied with the relevant laws and regulations which constitutes material impact on the business and operation of the Company and its subsidiaries in all material respects during the year ended 31 December 2019.

Due to the nature of the business of the Group, the Directors are of the opinion that no specific laws and regulations related to environmental protection has significant impact on the operations of the Group. Environmental protection policies and performance regarding the Group are set out in "Environmental, Social and Governance Report" on pages 76 to 92.

Relationship with Employee, Customers and Suppliers

Remuneration packages are for employees generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including pension and performance related bonus.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Relationship with customers is the fundamental of business. The Group fully understands this principle and thus maintains close relationship with customers to fulfill their immediate and long-term need, and the Group is striving to maintain fair and cooperative relationship with suppliers. Details are set out in "Environmental, Social and Governance Report".

PRINCIPAL RISKS AND UNCERTAINTIES

(1) Intensified competition may materially and adversely affect our business, results of operations and financial condition

Competition within the PRC real estate industry is intense. Both domestic and overseas property developers have entered the property development markets in cities where we have operations. Some of them may have more financial, marketing, technical or other resources than us. Competition among property developers may cause an increase in land premium and raw material costs, shortages in quality construction contractors, surplus in property supply leading to decreasing property prices, further delays in issuance of governmental approvals, and higher costs to attract or retain skilled employees. If we fail to compete effectively, our business, results of operations and financial condition may be materially and adversely affected.

(2) PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects

All of our revenue during the Year under Review was derived from our operations in the PRC. We anticipate that China will remain our primary market in the foreseeable future. Accordingly, our business, prospects, results of operation and financial position are, to a significant extent, subject to the economic, political and legal developments of the PRC.

The PRC economy differs from the economies of most of the developed countries in many aspects, including political structure, government involvement and control of housing policies.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For nearly three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. However, the PRC government continues to exercise significant control over the PRC economy through allocating resources, restricting capital flow and foreign exchange, setting monetary and fiscal policies, imposing industrial policies and various directives, providing government grants and other preferential treatment to particular industries and companies. We cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on our current or future business, results of operations and financial position. Moreover, even if new policies may benefit or damage the real estate developers in the long term, we cannot assure you the accuracy of the forecasts on the business and financial condition.

(3) Interest rate risk may aggravate the debt costs of the Group

The main source of loan of the Group is derived from bank loans. Therefore, the benchmark interest rate announced by the People's Bank of China will directly affect the Group's debt costs. Changes in future interest rates will have a certain impact on the Group's debt costs.

(4) Uncertainties from the environmental policies

As the Group is subject to the intensive monitoring and control from the PRC and its environmental policies related to production and operation, we shall comply with a number of environmental protection laws and regulations concerning air, water quality, waste disposal, energy consumption, public health and safety, and receive inspections from the relevant national environmental protection departments. Currently, the Group has met the national environmental protection standards. However, if the national environmental policies are adjusted with higher environmental protection standards, our investment in environmental protection will increase and that may adversely affect our results of operations. We will spare no effort in minimizing the potential adverse effects on our environmental performance despite the uncertainties from the policies and environments that are impossible to predict and our inexperience of risk management in environmental protection. The Company's current directions, measures and analyses regarding environmental policies are set out in the ESG report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year under Review are set out in the consolidated statement of comprehensive income on pages [84 to 85].

FINAL DIVIDEND

The Board did not propose to declare a final dividend for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 19 June 2020 (Friday) to 24 June 2020 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to attend and vote at the annual general meeting ("AGM"), all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 18 June 2020 (Thursday)].

SEGMENT INFORMATION

An analysis of the Group's revenue and profit or loss for the Year under Review contributed by its principal activities is set out in Note 4 to the financial statements. Details of the segment information can be found in the Management Discussion and Analysis set out pages [10 to 14] of this annual report.

FIVE YEARS' FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on pages [202 and 203], which does not constitute part of these consolidated financial statements.

ISSUED CAPITAL

Details of the issued capital of the Company during the Year under Review are set out in Note [29] to the financial statements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the Year under Review.

INVESTMENT PROPERTIES

For the year ended 31 December 2019, the change of the Company and the Group's investment properties were set out in note [15] of the financial statement.

RESERVES

Movements in the reserves of the Group and the Company during the Year under Review are set out on page 192 and pages [214 to 215] and in [Note 30 and Note 44] to the financial statements respectively.

CHARITABLE DONATIONS

During the Year under Review, charitable donations of the Group was approximately RMBNil million (2018: approximately RMB1 million).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of Cayman Islands where the Company is incorporated.

TAX RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holdings in the Shares of the Company.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's top five customers accounted for 21% (2018: 9%) of the Group's total revenue and the top five suppliers accounted for 72% (2018: 32%) of the Group's total purchases for the Year under Review. In addition, the Group's largest supplier accounted for 51% (2018: 23%) of the total purchases for the Year under Review. All transactions between the Group and relevant supplies and customers were carried out on normal commercial terms.

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had any interest in the major customers and suppliers noted above.

DIRECTORS

The Directors of the Company in the year and up to the date of this Directors' Report are:

Executive Directors

Mr. Chen Chengshou *(Chairman and CEO)* (appointed on 16 January 2014)
Mr. Feng Cizhao (appointed on 31 October 2015)
Mr. Chou Chiu Ho (appointed on 5 February 2020 and re-designated as non-executive Director on 1 May 2020)
Mr. Pu Wei (appointed on 5 February 2020)

Non-executive Director

Ms. Gao Qiaoqin (appointed on 10 June 2014)
Mr. Chou Chiu Ho (re-designated on 1 May 2020)

Independent Non-executive Directors

Mr. Fong Wo, Felix (appointed on 8 June 2015)
Mr. Gu Jiong (appointed on 8 June 2015)
Mr. Lo Wa Kei, Roy (appointed on 8 June 2015)

According to article 108 (a) of the Articles of Association of the Company: "Notwithstanding any other provisions in these articles, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for reelection. The Company at the general meeting at which a Director retires may fill the vacated office."

According to article 112 of the Articles of Association of the Company: "The Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the Shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed under this Article shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting."

Mr. Chou Chiu Ho, the non-executive Directors of the Company. Mr. Pu Wei, the executive Directors of the Company, Mr. Fong Wo, Felix and Mr. Lo Wa Kei, Roy, the independent non-executive Directors of the Company, will retire from office as the Directors at the AGM and being eligible, offer themselves for re-election.

SERVICE CONTRACTS OF DIRECTORS

Mr. Chen Chengshou, an executive Director, entered into a service agreement with the Company for a term of three years from 6 July 2015 ("Listing Date"), which will renew and prolong for one year automatically after the expiry of the appointment, during which such service agreements can be terminated by not less than three months prior written notice to the other party and subject to the early termination provisions contained therein.

Ms. Gao Qiaoqin, the non-executive Director; Mr. Gu Jiong, Mr. Lo Wa Kei, Roy and Mr. Fong Wo, Felix, the independent non-executive Directors, each entered into a letter of appointment with the Company for a term of three years from the Listing Date.

Mr. Chou Chiu Ho, the non-executive Director, entered into a letter of appointment with the Company for a term of three years from 1 May 2020, during which such letters of appointment can be terminated by not less than three months prior written notice to the other party and subject to the early termination provisions contained therein.

Mr. Feng Cizhao, an executive Director, entered into a service agreement with the Company for a term of three years from 31 October 2015, which will renew and prolong for one year automatically after the expiry of the appointment, during which such service agreement can be terminated by not less than three months prior written notice to the other party and subject to the early termination provisions contained therein.

Mr. Pu Wei, as an executive director, entered into a service agreement with the Company for a term of three years from 5 February 2020, which will renew and prolong for one year automatically after the expiry of the appointment, during which such service agreement can be terminated by not less than three months prior written notice to the other party and subject to the early termination provisions contained therein.

In accordance with the Articles of Association and Appendix 14 to the Listing Rules, not less than one-third of the Directors shall retire from office by rotation annually. No directors being proposed for re-election at the AGM has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

The Directors' fees are determined by the Remuneration Committee with reference to directors' duties, responsibilities and operating results of the Company, which are subject to the review of the Board and shareholders' approval at annual general meetings. Please refer to note 8 to the Financial Statements on pages [138 to 140] of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on the Listing Date. As at the date of this annual report, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required to be recorded in the register referred to therein pursuant to section 352 of the SFO; or (c) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in the shares and underlying shares:

The Company

Name of Directors	Capacity/Nature of interest	Number of shares/ underlying shares	Approximate percentage of the issued share capital of the Company (%)
Mr. Chen Chengshou	Interest of controlled corporation (Note 1)	1,340,900,000 (L)	71.38%
Ms. Gao Qiaoqin	Interest of spouse (Note 2)	1,340,900,000 (L)	71.38%
Mr. Feng Cizhao	Beneficial owner (Note 3)	129,000 (L)	0.007%

(L): represents long positions

Notes:

1. 1,340,900,000 shares are registered in the name of Xinxing Company Limited which is wholly-owned by Mr. Chen.
2. Ms. Gao is the spouse of Mr. Chen. Under the SFO, Ms. Gao is deemed to be interested in the same number of shares in which Mr. Chen is interested in.
3. Those shares are award shares granted by the Board on 7 April 2016 pursuant to the Share Award Scheme and have been fully vested.

Associated corporation — Xinxing Company Limited

Name of Directors	Nature of interest	Number and class of securities in the associated corporation	Approximate percentage of interest in the associated corporation
Mr. Chen Chengshou	Beneficial owner	1 share(1)	100%
Ms. Gao Qiaoqin	Interest of spouse	1 share(2)	100%

Notes:

(1) The disclosed interest represents the interests in the associated corporation, Xinxing Company Limited, which is held as to 100% by Mr. Chen as at the date of this annual report.

(2) Ms. Gao is the spouse of Mr. Chen. By virtue of the SFO, Ms. Gao is deemed to be interested in the 1 share of Xinxing Company Limited held by Mr. Chen.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

The register of substantial Shareholders maintained by the Company pursuant to section 336 of the SFO shows that, as at the date of this annual report, the following Shareholders, other than those disclosed in the section headed "Directors' and Chief Executives' Interest in the Securities of the Company", had notified the Company of its interests and/or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interest in the Company

Name of substantial Shareholders	Capacity/nature of interest	Number of shares/ underlying shares	Approximate percentage of the issued share capital of the Company
Xinxing Company Limited (Note 1)	Beneficial owner	1,340,900,000 (long position)	71.38%
Central Huijin Investment Ltd (Note 2)	Person having a security interest in shares Interest in a controlled corporation	940,000,000 (long position) 215,827,338 (long position)	50.04% 11.49%
China Construction Bank Corporation (Note 2)	Person having a security interest in shares Interest in a controlled corporation	940,000,000 (long position) 215,827,338 (long position)	50.04% 11.49%
Chance Talent Management Limited (Note 2)	Person having a security interest in shares Beneficial owner	940,000,000 (long position) 215,827,338 (long position)	50.04% 11.49%

Notes:

1. Xinxing Company Limited is wholly-owned by Mr. Chen.

2. Chance Talent Management Limited has a security interest in 940,000,000 shares of the Company and an interest in 215,827,338 underlying shares of the Company, which may be issued by the Company upon conversion of the convertible bonds issued by the Company in the principal amount of HK$300 million. Central Huijin Investment Ltd holds a 57.11% shareholding in China Construction Bank Corporation. The China Construction Bank Corporation holds a 100% shareholding in CCB International Group Holdings Limited, which in turn holds a 100% shareholding in CCB Financial Holdings Limited. CCB Financial Holdings Limited holds a 100% shareholding in CCB International (Holdings) Limited, which in turn holds a 100% shareholding in CCBI Investments Limited. CCBI Investments Limited holds a 100% shareholding in Chance Talent Management Limited. Therefore, the above entities are deemed to be interested in 940,000,000 shares and 215,827,338 underlying shares of the Company, in which Chance Talent Management Limited is interested in.

Save as disclosed above, as at the date of this annual report, the Company had not been notified by any persons, other than Directors and chief executives of the Company, who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDERS

Each of the controlling shareholders has made an annual declaration with regard to their compliance with the terms of the deed of non-competition. The details of the deed of non-competition are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus. The deed of non-competition by controlling shareholders has taken effect from the Listing Date.

DEED OF NON-COMPETITION BY EXECUTIVE DIRECTORS

Each of the executive Directors has made an annual declaration with regarding to their compliance with the terms of the deed of non-competition. The deed of non-competition by executive Directors has taken effect from the Listing Date. The INEDs had reviewed and confirmed that the executive Directors of the Company have complied with the deed of non-competition and the deed of non-competition has been enforced by the Company in accordance with its terms.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the "Share Option Scheme") on 8 June 2015, which will be in force for a period of 10 years. Under the Share Option Scheme, the eligible participants of the scheme, including Directors, full-time employees, advisers, suppliers and customers to our Company or our subsidiaries (the "Eligible Participants") may be granted options which entitle them to subscribe for Shares, provided that the number of Shares to be subscribed under such option together with the options granted under any other schemes initially shall not more than 10% of the Shares in issue on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions the Eligible Participants have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivating the Eligible Participants to improve their performance efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company).

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the "Maximum Limit"). No options shall be granted under any schemes of the Company, including the Share Option Scheme, if that will result in the Maximum Limit being exceeded.

The Board may, at its discretion, offer to grant an option to the Eligible Participants. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.

After receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser (as the case may be), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Hong Kong Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

As at the date of this annual report, the total number of Shares to be issued under the Share Option Scheme is 188,000,000 Shares, representing 10% of the issued Shares at Listing Date. No share option was granted, exercised or cancelled by the Company since the adoption of the Share Option Scheme.

SHARE AWARD SCHEME

On 26 January 2016, the Company adopted the share award scheme (the "Scheme"), pursuant to which Bank of Communications Trustee Limited as trustee (the "Trustee"). The Company adopted the Scheme to recognize the contribution by certain eligible participants and to attract suitable personnel for further development of the Group. Each of the Company and Mr. Chen, the executive Director and controlling shareholder of the Company, may make contribution to the trust for the purpose of vesting awarded Shares to the selected participants. Pursuant to the Scheme, the Company may from time to time at its sole discretion subject to requirements under this Scheme, cause to be paid any sums of money to the Trustee and instruct the Trustee to purchase shares in the market at prevailing market price. Mr. Chen may from time to time transfer shares to the Trustee, for the purpose of vesting awarded shares to the selected participants, subject to the compliance with the requirements of the Listing Rules, all applicable laws from time to time. The Trustee will hold the awarded shares on trust for all or one or more of the selected participants until such awarded shares are vested with the relevant selected participants in accordance with the rules of the Scheme.

The Scheme is a discretionary scheme of the Company and shall be subject to the administration of the Board and the Trustee in accordance with the rules of the Scheme and the trust deed. The Board shall not make any further award of awarded Shares which will result in the nominal value of the Shares awarded by the Board under the Scheme exceeding ten per cent (10%) of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a selected participant under the Scheme shall not exceed one per cent (1%) of the issued share capital of the Company from time to time. The Scheme does not constitute a share option scheme within the meaning of Chapter 17 of the Listing Rules.

The Scheme will remain in force for a period of 10 years since the date of adoption of the Scheme. Early termination should be done by the Board. On 7 April 2016, the Board resolved to award 13,716,666 awarded shares ("Awarded Shares") to 150 selected participants through the deployment of the shares of the Company. All Awarded Shares have been vested to the eligible participants. For details, please refer to the announcements of the Company dated 18 February 2016 and 7 April 2016. Apart from that, the Company has not granted, exercised or cancelled any Awarded Shares.

During the year under review, (i) no share options were granted, exercised or cancelled by the Company and (ii) the Board of the Company has neither paid any funding to the trustee of the Scheme nor allowed the trustee to purchase the shares of the Company on the Stock Exchange. During the year under review, the trustee of the Scheme also did not purchase any shares of the Company on the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time since the Listing Date was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company, including their spouses and children under 18 years of age, to hold any interest or short positions in the Shares, or underlying shares, or debentures, of the Company or its associated corporations, within the meaning of Part XV of the SFO.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

There were no transactions, arrangements or contracts of significance in relation to the Company's business, to which the Company or any of the Company's subsidiaries was a party, subsisting at the end of the Year under Review or at any time during the Year under Review, and in which a Director or an entity connected with the Director have or had, whether directly or indirectly, a material interest, nor were there any other transactions, arrangements or contracts of significance in relation to the Company's business between the Company or any of the Company's Subsidiaries and a controlling Shareholder or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

In accordance with the disclosure requirements of the continuing connected transactions in Chapter 14A of the Listing Rules of the Hong Kong, during the year under review, the Company has conducted no continuing connected transactions with connected persons that are not exempted from annual reporting requirement under the Listing Rules.

The related party transaction set out note 40 to the financial statements is not required to be disclosed pursuant to Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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 for the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

In accordance with the provisions of Section 470 of the Companies Ordinance (Chapter 622 of laws of Hong Kong), a permitted indemnity provision for the benefit of the Directors was effective during the financial year ended 31 December 2019 and at the time when this Directors' report prepared by the Directors was adopted in accordance with Section 391(1) (a) of the Companies Ordinance (Chapter 622 of the laws of Hong Kong). The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

For the year ended 31 December 2019, none of the Directors was interested in any business, which competed or was likely to compete, either directly or indirectly, with the Group's businesses.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the Year under Review as required under the Listing Rules.

AUDITOR

Ernst & Young was appointed as auditor of the Company since the Listing Date and will retire at the forthcoming annual general meeting ("AGM"). Ernst & Young will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as the auditor of the Company is to be proposed at the forthcoming AGM of the Company.

The Company did not change its auditor in the past three years.

By order of the Board
Xinming China Holdings Limited
Chairman and Chief Executive Officer
Chen Chengshou

Hangzhou • PRC
15 May 2020

CORPORATE GOVERNANCE REPORT

MISSION

The Board is committed to maintaining a high level of corporate governance and ensuring transparency in business operations, so as to enhance the operation efficiency of the Company and protect the interests of the Company and the shareholders in all respects. The Board seeks to perform strict integrity and ethics in all aspects of our business, to maintain sound risk management and internal control system and attract high caliber members to the Board.

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2019, the Board had adopted, applied and complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, except the disclosure in "Chairman and Chief Executive Officer" below.

To the best of the Directors' knowledge, there is no information reasonably indicates that the Company has not complied with the Code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules at any time for the year ended 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct of dealings in securities of the Company by the Directors. Upon specific enquiries made to the Directors, all of them confirmed that they had complied with the required standards set out in the Model Code during the Year under Review.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them to deal in securities of the Company at any time when they possess inside information in relation to those securities. The Company is not aware of any non-compliance with the Model Code by the relevant officers and employees.

BOARD OF DIRECTORS

Structure

As at the date of this annual report, the Board comprised three executive Directors, two non-executive Directors and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Chen Chengshou *(Chairman and Chief Executive Officer)*
Mr. Feng Cizhao
Mr. Pu Wei

Non-executive Director

Ms. Gao Qiaoqin
Mr. Chou Chiu Ho

Independent Non-executive Directors

Mr. Fong Wo, Felix
Mr. Gu Jiong
Mr. Lo Wa Kei, Roy

The independent non-executive Directors (the "INEDs") represent over one-third members of the Board. The profiles of all Directors are set out on pages [23 to 26] of this annual report. Save as disclosed in this annual report, there is no other relationship among members of the Board, including financial, business, family or other material/relevant relationship. The INEDs are highly experienced professionals and businessmen with a broad range of expertise and experience in accounting, finance, legal and business management and one of them has appropriate professional accounting qualification as required by the Hong Kong Stock Exchange.

The Board is responsible for directing and supervising affairs of the Company. Each Director acts in good faith for the best interest of the Company. The Directors are collectively and individually responsible to the Company for the manner in which the affairs of the Company are managed, controlled and operated. They had devoted sufficient time and attention to affairs of the Company during the Year under Review.

At each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company may fill the vacancy at the general meeting when a Director retires. As such, the term of office of each Director has been governed by the Articles of Association of the Company.

The Company has arranged appropriate liability insurance to indemnify the Directors of the Group for their liabilities arising from the corporate activities. The insurance coverage will be reviewed on an annual basis.

Assistance to Directors in Decision Making

During their term of office, the Directors have been informed of the business of the Group, the competitive and regulatory environments in which it operates and other changes affecting the Group and the industry where it operates in as a whole. They have also been advised on appointment of their legal and other duties and obligations as directors of a company and updated on changes to the legal and governance requirements of the Group and upon themselves as the Directors.

Conduct of Meetings

The Directors are consulted and properly briefed for matters to be included in the meeting agenda, and are supplied with relevant information as well as reports relating to operational and financial performance of the Group before each regular Board meeting. At least 14 days' notice of a regular Board meeting is given to all Directors providing them with the opportunity to attend the meeting. For regular Board meetings, and so far as practicable for all other meetings, an agenda and accompanying board papers are dispatched to all Directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and prepare adequately for the meeting. Senior management members are invited to attend the meeting to address to the Board members' queries. This enables the Board to have pertinent data and insight for a comprehensive and informed assessment, which helps the Board to make decision.

The Chairman has delegated the responsibility to the Company Secretary (the "Company Secretary") of the Company for drawing up and approving the agenda of the meeting for each Board meeting, taking into account of any matter proposed by each director for inclusion in the agenda. The proceedings of the Board at its meetings are generally monitored by the Chairman who would ensure that sufficient time is allocated for discussion and consideration of each item on the agenda. Equal opportunities are given to each Director to express his/her views and concerns.

All Directors have full access to the advice and services of the Company Secretary to ensure the procedures, rules and regulations of the Board are followed. Draft and final versions of minutes of each Board meeting in sufficient details are sent to the Directors for comments and records within a reasonable time after the meeting. The minutes of the Board and the Board committees' meetings are kept by the Company, which are available for inspection by the Directors upon reasonable notice.

For the year ended 31 December 2019, the Directors held 5 meetings in total and the board of shareholders held one AGM. Individual attendance of each Director and committee member at the meeting held in total is as follows:

	The Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM
Number of Meetings held	5	2	1	1	1
Executive Directors					
Mr. Chen Chengshou *(Chairman and Chief Executive Officer)*	5/5	N/A	N/A	1/1	1/1
Mr. Feng Cizhao	5/5	N/A	N/A	N/A	1/1
Mr. Chou Chiu Ho (appointed on 5 February 2020 and re-designated as non-executive Director on 1 May 2020)	N/A	N/A	N/A	N/A	N/A
Mr. Pu Wei (appointed on 5 February 2020)	N/A	N/A	N/A	N/A	N/A
Non-executive Director					
Ms. Gao Qiaoqin	5/5	N/A	N/A	N/A	1/1
Mr. Chou Chiu Ho (re-designated on 1 May 2020)	N/A	—	—	—	—
Independent non-executive Directors					
Mr. Gu Jiong	5/5	2/2	1/1	1/1	1/1
Mr. Lo Wa Kei, Roy	5/5	2/2	1/1	N/A	1/1
Mr. Fong Wo, Felix	5/5	2/2	1/1	1/1	1/1

Works Performed

During the Year under Review, besides attending the Board meetings to consider and make decision on corporate governance, risk management, statutory compliance, accounting, finance and business matters, the Directors had brought independent opinion and judgment on the strategy, performance and standards of conduct of the Company; had taken a leading role where potential conflict of interest arose; had served on Board committees; had approved various corporate governance related matters and policies; had ensured that the Board maintained high standards of financial and other mandatory reporting; carried out reviews on matters reported by the Board committees, and had provided adequate checks and balance to safeguard the interests of shareholders and the Company as a whole. In addition, the Board delegates to the management of the Company certain functions, including the implementation of general daily operation, strategies approved by the Board, the implementation of internal control procedures and ensuring compliance with relevant requirements and other rules and regulations.

Each of the non-executive Directors has entered into a letter of appointment with the Company with a term of three years.

During the Year under Review, the non-executive Directors and INEDs had actively participated in the Board meetings, made independent judgments on matter of meeting and expressed their opinions on the information or reports proposed at the meetings.

Besides attending the meetings of the Board or the committees, in order to make timely decision and effectively implement the policies and practice of the Company, the Board had also adopted written resolutions signed by all Directors to make decision on corporate affairs from time to time.

As part of the continuing process on supervising the business of the Company, the Directors, acted by the audit committee of the Company (the "Audit Committee"), had reviewed the adequacy of resources, qualifications and experience of the accounting staff of the Company and financial reporting functions.

Independent Non-executive Directors' Confirmation

The Company has received, from each INED, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the INEDs are independent. The Company is in compliance with Rule 3.10 and Rule 3.10A of the Listing Rules relating to the INEDs.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual. Mr. Chen is the chairman and the chief executive officer of the Company ("CEO"). The Group therefore does not separate the roles of the chairman and the CEO. The Board considered that Mr. Chen had in-depth knowledge and experience in the property investment and development industry and was the most appropriate person to manage the Group. Vesting the roles of both chairman and CEO in Mr. Chen has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. Besides, three independent non-executive Directors of the Board had actively participated in the Board meetings, made independent judgments on matter of meeting and expressed their opinions on the information or reports proposed at the meetings. Although Mr. Chen is the chairman and chief executive officer, the Company believes the Board will not make any biased decisions under Mr. Chen's influence. The Board will continue to review and consider splitting the roles of chairman and CEO of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Board Committees

The Board has established the Audit Committee, Remuneration Committee (the "Remuneration Committee") and Nomination Committee (the "Nomination Committee") with defined roles and terms of reference.

AUDIT COMMITTEE

Structure

The Company established the Audit Committee on 8 June 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision C.3.4 of the CG Code as set out in Appendix 14 to the Listing Rules. The updated terms of reference of the Audit Committee are adopted on 29 December 2015, and are available on the websites of the Hong Kong Stock Exchange and the Company. The primary duties of the Audit Committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

All members under the Audit Committee possess diversified business experience. The chairman of the Audit Committee has appropriate professional qualification, accounting or related financial management expertise as required by the Listing Rules.

As at the date of this annual report, the Audit Committee is made up of three INEDs, namely:

Mr. Lo Wa Kei, Roy *(Chairman)*
Mr. Gu Jiong
Mr. Fong Wo, Felix

Function

The terms of reference of the Audit Committee can be found on the websites of the Company and the Hong Kong Stock Exchange. The major duties of the Audit Committee are summarized below:

i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and to deal with any issues relating to the resignation or dismissal of such auditor;

ii) to monitor the integrity of the Company's financial statements and annual report and accounts, half year report and, if prepared for publication, quarterly reports, and to review material comments on financial reporting contained in the statements and reports;

iii) to review the financial controls, risk management and internal control systems of the Company, unless the risk committee otherwise under the Board or the Board itself has expressly stated that they will deal with it;

iv) to develop and review the policies and practices of the Group on corporate governance and make recommendations to the Board; and

v) to consider and identify risks of the Group and review the effectiveness of the decision-making processes of the Group in crisis and emergency situations and approve the major decisions affecting the risk profile or exposure of the Group.

Conduct of Meetings

The Audit Committee shall meet at least twice each year. The Company prepares and dispatches an information memorandum that includes all relevant information about the meetings to the Audit Committee members at least 3 days prior to such meetings. During the Year under Review, the Audit Committee members reviewed the information memorandum with due care and discussed with the senior management of the Company during the meetings. Minutes drafted by the Company Secretary were circulated to the Audit Committee members for comments within a reasonable time after each meeting. Executed minutes were kept by the Company and copies of the minutes were delivered to the Audit Committee members for records.

Works Performed

The works performed by the members of Audit Committee during the Year under Review are summarized as below:

i) reviewed the accounts and consolidated financial statements of the Group for the annual and interim accounts;

ii) reviewed, discussed and agreed with the independent auditor in respect of the audit fee for the Year under Review; the nature, scope of audit and reporting obligations for the Year under Review;

iii) reviewed and assessed the adequacy and effectiveness of the financial reporting and controls, internal control procedures and risk management system of the Group;

iv) reviewed the corporate governance practices and monitored the progress of compliance of the CG Code and its disclosure in the Corporate Governance Report;

v) reviewed the performance of the properties of the Group for the year ended 31 December 2019;

vi) reviewed the continuing connected transactions to ensure that they are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements in respect of these continuing connected transactions;

vii) reviewed the adequacy of resources, qualifications and experience of the staff in accounting and financial reporting function, and the training programmers and budget; and

viii) discussed with independent auditor with respect to the accounting principles and practices adopted by the Group, compliance with the Listing Rules and other financing reporting requirements.

Overall, the Audit Committee is satisfied with the condition of the Company, including the corporate governance practices, internal control system, qualifications and experience of the staff in accounting and financial reporting function, and the training programmers.

One of the specific works vested upon the Audit Committee is to develop and review the corporate governance policies and practices of the Company. Upon reviewed by the Audit Committee and approved by the Board, the main policies for the corporate governance of the Company is to develop the Company itself as a sustainable and competitive company in the business sector in the interests of the Company and the shareholders as a whole, with an aim for a prudent and profitable development and long term achievement of growth through the well-established corporate governance principles, risk monitoring management and practices. As a listed company in Hong Kong, the Company is obliged to follow the principles, code provisions and recommended best practices (if applicable) set forth in Appendix 14 of the Listing Rules as the substantial requirement on achieving high standards of corporate governance as well as a cornerstone of the corporate governance policy of the Company.

REMUNERATION COMMITTEE

Structure

The Remuneration Committee has been established on 8 June 2015 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and code provision B.1.3 of the CG Code as set out in Appendix 14 to the Listing Rules with the roles to assist the Board in reviewing and determining the framework or specific policy for remuneration packages of the Directors and senior management, overseeing any major changes in employee benefit structures and considering other matters as defined by the Board.

As at the date of this annual report, the Remuneration Committee is made up of three INEDs, namely:

Mr. Gu Jiong *(Chairman)*
Mr. Lo Wa Kei, Roy
Mr. Fong Wo, Felix

Function

The principal responsibilities of the Remuneration Committee are as follows:

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

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

iii) to make recommendations to the Board on the remuneration of executive and non-executive Directors; and

iv) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive for the Company.

The terms of reference of the Remuneration Committee can be found on the websites of the Company and the Hong Kong Stock Exchange.

The Remuneration Committee shall consult the Chairman and/or Chief Executive Officer about their recommendations relating to the remuneration of other executive Directors and may also obtain independent professional advice.

Works Performed

The works performed by the members of the Remuneration Committee during the Year under Review are summarized as below:

i) considered and made recommendations to the Board for endorsement of the remuneration policy of the Company and letters of appointment of the Directors and senior management with major terms and conditions, to comply with the CG Code; and

ii) assessed performance of executive Directors and considered and made recommendations to the Board on the remuneration of the Directors and senior management during the Year under Review.

Pursuant to code provision B.1.5 of the CG Code, the five highest paid employees during the year included one director (2018: one director), details of whose remuneration are set out in note 8 to the financial statements. Details of the remuneration for the year of the remaining four (2018: four) highest paid employees who are neither a director nor chief executive of the Company are set out in note 8 to the financial statements. During the Year under Review, the remuneration paid to the senior management fell within the following band:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**3,676**	5,149
Equity-settled share award expense	**—**	—
Pension scheme contributions	**334**	332
	4,010	5,481

The number of the highest paid employees who were not directors and whose remuneration fell within the following band is as follows:

	2019	2018
Nil to HK$1,000,000	**1**	0
HK$1,000,001 to HK$1,500,000	**3**	4
	4	4

NOMINATION COMMITTEE

Structure

The Nomination Committee was established on 8 June 2015 with written terms of reference in compliance with code provisions A.5.2 and A.5.3 of the CG Code as set out in Appendix 14 to the Listing Rules with the role to lead the process and to make recommendations for appointments to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in the light of challenges and opportunities facing the Company, as well as business development and requirements of the Company.

As at the date of this annual report, the Nomination Committee is made up of one executive Director and two INEDs, namely:

Mr. Chen Chengshou *(Chairman)*
Mr. Gu Jiong
Mr. Fong Wo, Felix

Functions

The principal responsibilities of the Nomination Committee are as follows:

i) to review the structure, size, composition and diversity (including but not limited to gender, age, culture and education background, ethnicity, professional experience, skills, knowledge and service term, etc.) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the strategy of the Company;

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

iii) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer, taking into account the corporate strategy of the Company and the mix of skills, knowledge, experience and diversity needed in the future.

Board Diversity Policy

The Nomination Committee has adopted a "Board Diversity Policy" for the nominations of Directors to achieve diversity on the Board. The Board deeply believes that the diversity will benefit a lot to the Company in terms of enhancing the quality of its performance. To achieve the goal of sustainable and balanced development, the Company regards the increasing diversity to the strategic goals as the key element to maintain sustainable development. The Board adheres to the principle "talent is priority", and appoints the directors who can contribute to the diversity of the Board. The Company devotes to find the most suitable people as the member of committee. The Company will base on the scope of diversity, not only including the education background, experience, skills, knowledge and term of appointment but also including but not limited to gender, age, culture background and race, with reference to business model and specific needs of the Company. The final determination is based on merit and contribution that the selected candidates will bring to the Board. "Board Diversity Policy" is publicly available on the website of the Company. As at the date of the annual report, the information (including gender, age and term of appointment) of the members of Board is as follows:

Member	Gender	Age	Term (Note)
Mr. Chen Chengshou	Male	54	6 years and 2 months
Mr. Feng Cizhao	Male	45	4 years and 5 months
Mr. Chou Chiu Ho	Male	38	1 month
Mr. Pu Wei	Male	46	1 month
Ms. Gao Qiaoqin	Female	51	5 years and 9 months
Mr. Fong Wo, Felix	Male	69	4 years and 9 months
Mr. Gu Jiong	Male	47	4 years and 9 months
Mr. Lo Wa Kei, Roy	Male	48	4 years and 9 months

Note: as of 31 March 2020

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

(A) at least one-third of the members of the Board shall be independent non-executive directors;

(B) at least one of the members of the Board shall have obtained accounting or other professional qualifications; and

(C) members of the Board shall consist of professional talents both from PRC and Hong Kong.

For the year ended 31 December 2019, the Board has achieved the measurable objectives in the board diversity policy.

The Nomination Committee will monitor the implementation and review this policy, as appropriate, to ensure the effectiveness of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The terms of reference of the Nomination Committee can be found on the websites of the Company and the Hong Kong Stock Exchange.

Works Performed

The works performed by the members of Nomination Committee during the Year under Review are summarized as below:

i) formulated, considered and reviewed the policy, procedures and process and criteria for the nomination of the Directors and made recommendations to the Board for its endorsement; and

ii) reviewed the structure, size and composition of the Board and assessed on the independence of the independent non-executive Directors.

Director Nomination Policy

The director nomination policy formulated by the Nomination Committee is as follows:

This policy sets out the key selection criteria and principles of the Nomination Committee in making any such recommendations.

Selection Criteria

The Nomination Committee shall consider the following factors, which are not exhaustive and shall be used by the Board at its discretion, in assessing the suitability of the proposed candidate regarding the appointment of directors or re-appointment of any existing Board member(s):

(a) reputation for integrity;

(b) accomplishment, experience and reputation in the business and industry;

(c) Commitment in respect of time availability, interest and attention to the businesses of the Company and its subsidiaries;

(d) the diversity of the candidates in all aspects with reference to the Board Diversity Policy of the Company(as adopted and amended by the Board from time to time), including but not limited to gender, age, cultural/educational and professional background, ethnicity, professional experience, independence, skills, knowledge and length of service;

(e) in case of a candidate for an independent non-executive director of the Company, to assess: (i) the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and (ii) the guidance and requirements in relation to independent non-executive directors as set out in Code Provision A.5.5 of Appendix 14 to the Listing Rules and in the "Guidance for Boards and Directors" published by the Hong Kong Stock Exchange; and

(f) any other relevant factors that may be considered by the Nomination Committee or the Board from time to time at their discretion.

Nomination Procedures

The nomination procedures to select and recommend candidates for the directorship of the Company can be summarised as follows:

(a) The chairman of the Nomination Committee will, upon his/her own motion or receipt of a nomination from a Board member (as the case may be), convene a meeting of the Nomination Committee or circulate a resolution in writing to the members of the Nomination Committee to consider the same in accordance with the Terms of Reference.

(b) For filling a casual vacancy to the Board or as an addition to the Board, the Nomination Committee will conduct the relevant selection process (coupled with the relevant selection criteria) to the nominated candidate and make recommendations to the Board for consideration, and the Board will then decide as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.

(c) For the re-election of directors of the Company:

the Nomination Committee will conduct the relevant selection process and selection criteria to the director proposed to be re-appointed and make recommendations to the Board for consideration, and the Board will then decide as to whether the director shall be eligible to be re-appointed as a director of the Company; and

if the director proposed to be re-appointed or re-elected due to retirement by rotation under the Articles of Association of the Company is an independent non-executive director who has served the Board for more than 9 years, the Nomination Committee shall also assess whether the director has remained independent in the context of the Listing Rules, as amended from time to time (the "Listing Rules") and shall be re-elected at the next general meeting of the Company and make recommendations to the Board for consideration. The Board will then decide as to whether the director has remained independent in the context of the Listing Rules, and if so, recommend the proposed re-appointment/re-election of the director to the shareholders of the Company for consideration at the next general meeting of the Company. According to the Code Provision A.4.3 of the Appendix 14 to the Listing Rules, the circular of the Company relating to the proposed re-appointment of such director shall include the reasons why the Board believes that the director is still independent and shall be re-elected.

Information of the Candidates

The proposed candidates will be required to submit the necessary personal information in a prescribed form by the Nomination Committee. Candidates may be required to provide additional information and documents, if deemed necessary by the Nomination Committee.

For the year ended 31 December 2019, no candidate was nominated by the Company for directorship.

Management Functions

Basically, the Board and its committees were responsible for the following matters during the year:

(i) oversee the general operations of the Company;

(ii) ensure effective implementation of the Board decisions and corporate governance, with the assistance of the Company Secretary;

(iii) ensure the short-term and long-term sustainability of the business;

(iv) lead the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;

(v) provide consistent leadership to the Company;

(vi) satisfy itself on the integrity of financial information and on robustness and defensibility of the financial controls and systems of risk management and carry out review thereon;

(vii) scrutinize the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;

(viii) constructively proposals and help on business developing strategy;

(ix) uphold high standards of corporate governance and compliance; and

(x) participate in the process of dealing with any conflict of interest between the Company and the Directors, his/her associates or substantial shareholders who have material interests in the transaction with the Company.

During the Year under Review, the management was mainly responsible for the following matters:

1. daily investment, management, operation and administration of the Company;

2. comply with the rules and regulations, including the Listing Rules, and implement corporate governance policy determined by the Board;

3. draw the Directors' attention on the new corporate governance requirements;

4. organize the Board and various meetings for the Directors' discussion;

5. prepare various reports to the Board for review and decision making; and

6. organize training for the Directors.

During the Year under Review, the management provided all members of the Board updates every two months in accordance with the code provision C.1.2 of the CG Code.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

All Directors had participated in continuous professional development to develop and refresh their knowledge and skills through suitable training. These training included but not limited to general disclosure duty related to Directors, guide on inside information disclosure, market misconduct framework, case analysis and other compliance trainings. The participation in such trainings is to ensure that their contribution to the Board remains informed and appropriate.

For the year ended 31 December 2019, the Directors also participated in the following training:

Directors	Types of training
Executive Directors	
Mr. Chen Chengshou	B
Mr. Feng Cizhao	B
Mr. Chou Chiu Ho (appointed on 5 February 2020 and re-designated as non-executive director on 1 May 2020)	N/A
Mr. Pu Wei (appointed on 5 February 2020)	N/A
Non-executive Director	
Ms. Gao Qiaoqin	B
Mr. Chou Chiu Ho (re-designated on 1 May 2020)	N/A
Independent Non-executive Directors	
Mr. Fong Wo, Felix	A, B
Mr. Gu Jiong	A, B
Mr. Lo Wa Kei, Roy	A, B

A : attending seminars and/or conferences and/or forums

B : reading newspapers, journals and updates relating to the latest changes and development of the economy, relevant industries, the Listing Rules, corporate governance practices, and etc.

DIVIDEND POLICY

The Board of the Company has approved and adopted a dividend policy (the "Dividend Policy") on 26 February 2019. The Company considers stable and sustainable returns to the shareholders of the Company as its goal. Pursuant to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:

(a) financial performance, cash flow position, business condition and strategic position of the Group

(b) actual and future demand for working capital and liquidity of the Group

(c) future expansion plans of the Group

(d) debt to equity ratios and the debt level of the Group

(e) retained earnings and distributable reserves of the Group

(f) the expectation of the shareholders and investors and the norm of the industry

(g) the general market conditions

(h) any restrictions on payment of dividends

(i) any other factors that the Board deems appropriate

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. Pursuant to the Memorandum and Articles of the Association of the Company and all applicable laws and regulations and the factors set out below, the Board may from time to time declare payment of interim dividends or special dividends to the shareholders as appear to the Board to be justified by the financial conditions and profit of the Company. The Company in general meeting may declare final dividends in any currency but no dividends shall exceed the amount recommended by the Board.

The Board of the Company will review the Dividend Policy as appropriate from time to time.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") consists of three independent non-executive Directors, namely Mr. Lo Wa Kei, Roy (being the chairman of the Audit Committee), Mr. Gu Jiong and Mr. Fong Wo, Felix. The consolidated interim and annual results and financial reports for the Year under Review of the Company have been reviewed by the Audit Committee.

INDEPENDENT AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the remuneration paid or payable to the independent auditor of the Company, Ernst & Young, was RMB2.73 million for audit services (approximately RMB2.35 million in 2018).

For the year ended 31 December 2019, Ernst & Young, an independent auditor, did not provide the Group any non-auditing services.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto of the Group for the Year under Review as set out in this annual report have been agreed by the auditor of the Group, Ernst & Young to the amounts set out in the audited consolidated financial statements of the Group during the Year under Review.

FINANCIAL REPORTING

The Company aims to present a clear, balanced and understandable assessment of its financial position and prospects. Financial results are announced as early as possible, with interim report and annual report as well as other price-sensitive announcements and financial disclosures published as required under the Listing Rules.

The management provides explanation, information and progress update to the Board for it to make an informed assessment of the financial and other issues put before the Board for approval and consideration.

Throughout the Year under Review, the Directors had selected appropriate accounting policies and applied them consistently. The Directors acknowledge their responsibilities for preparing the financial accounts of the Group which give a true and fair view and are in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. A statement made by the independent auditor on their reporting responsibilities for the Year under Review is set out in this annual report.

The Group's auditor has issued an opinion with a material uncertainty related to going concern paragraph on the consolidated financial statements of the Group for the year ended 31 December 2019. For details, please refer to "Management Discussion and Analysis" and note 2.1 to the Financial Statements on pages 95 to 97.

RISK MANAGEMENT AND INTERNAL CONTROL

Goals and objectives

The Board acknowledges that it is the responsibility of the Board to maintain an adequate risk management and internal control systems and to review the effectiveness of such systems on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk management policy has been established to formalize the risk management of the Group, build up a standard and effective risk management system and improve the ability of risk prevention, so as to ensure that the Group could operate in a safety and steady environment, the operation management level could be increased and the Group's operational strategy and target could be achieved. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

The Board has delegated the work (with relevant authorities) of risk management and internal controls to the Audit Committee. For the year ended 31 December 2019, the Audit Committee, on behalf of the Board, oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Main features of the risk management and internal control systems

The risk governance structure and the main responsibilities of each level of the structure of the Group are summarised below:

Board

- Determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the strategic objectives of the Group;

- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and

- Oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit Committee

- Assists the Board to perform its responsibilities of risk management and internal control;

- Oversees the risk management and internal control systems of the Group on an ongoing basis;

- Reviews the effectiveness of the risk management and internal control systems of the Group at least once annually, which includes the reliability of financial reporting, operational effectiveness and efficiency, compliance with applicable laws and regulations, staff qualifications and experience, and adequacy of relevant budget, and such review shall cover all material controls including financial, operational and compliance control;

- Ensures the adequacy of resources, staff qualifications and experience, training programmes and relevant budget of the accounting, internal audit and financial reporting functions of the Group; and

- Considers major findings on risk management and internal control matters, and reports and makes recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;

- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;

- Monitors risks and takes measures to mitigate risks in day-to-day operations;

- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit team or the external risk management and internal control review adviser; and

- Provides confirmation to the Board and Audit Committee (there is no risk management committee) on the effectiveness of the risk management and internal control systems.

Internal Control Management Team

- Reviews the adequacy and effectiveness of the risk management and internal control systems of the Group; and

- Reports to the Audit Committee the findings of the review and make recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified.

- Reviews the risks of major investment development projects, and continuously improves the policies and standards for environmental control in accordance with the COSO internal control framework and the comprehensive risk management framework to ensure effective risk prevention and control; and

- Implements monitoring environment, risk assessment, monitoring activities, information and communication, supervisions the five major areas and assesses the internal control system of the Group. The methods, identification, findings, analysis and results of the annual review have been reported to the Audit Committee and the Board.

Process Used to Identify, Evaluate and Manage Significant Risks

As a routine procedure and part of the risk management and internal control systems, executive Directors and the senior management would meet at least once every quarter to review the financial and operating performance of each department. The senior management of the key operating subsidiaries is also required to keep executive Directors informed of material developments of the business of the department and implementation of the strategies and policies set by the Board on a regular basis.

The processes for identifying, evaluating and managing significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the business and operations of the Group.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact of risk on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and

- Determines the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;
- Revises the risk management strategies and internal control procedures in case of any significant changes; and
- Reports the results of risk monitoring to the management and the Board regularly.

To further strengthen the reviews on the effectiveness of risk and internal control systems, the Group engaged an independent professional adviser (the "Internal Control Adviser") during the review year to conduct internal control review on financial (including cash) management process, user management process, process for disclosable transactions, management process for connected transactions. The above work has been reported to and approved by the Audit Committee. The Group therefore considers that the risk management and internal control procedures of the Group are adequate to meet the needs of the Company in its current business environment and that nothing has come to its attention to cause the Board to believe the risk management and internal control systems of the Group are inadequate.

Internal Audit Function

The internal audit department of the Company reviews the risk management for business activities, management and behavior for the Group every half year, identifies the business risks and internal control deficiencies, and provides improvement opinions and suggestions. The scope of review during the Year under Review included review of revenue and receipt cycle, procurement and expenditure cycle, inventory cycle, taxation cycle, financial reporting cycle, risk management system and self-assessments and proposed amendments to information disclosure policy for the Company and its subsidiaries. A series of specific audit and work conducted by the Company include:

— Financial capital auditing

— Specific project costs include auditing for developed projects and pre-auditing assessment for projects to be developed

— Project contract auditing

— Receivable auditing

— Evaluation for equity investment projects

— Examination and modification for internal control system

— Examination and modification for risk management system

— Business operations and risk assessments of the Company are reported to the Board regularly

Information Disclosure Policy

An information disclosure policy is in place to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- Designated reporting channels from different operations informing any potential inside information to designated departments;
- Designated persons and departments to determine further escalation and disclosure as required; and
- Designated persons authorised to act as spokespersons and respond to external enquiries.

REVIEW OF AUDIT COMMITTEE AND BOARD

The Audit Committee and the Board had reviewed the financial control, internal control and risk management system of the Company for the Year under Review. They considered the risk management and internal control system are effective and adequate as they allowed the Board to monitor the overall financial position of the Group and to provide reasonable assurance that assets are safeguarded against unauthorised use or material financial misstatement; transactions were executed with authorization of the management; and the accounting records were reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities. Further inspection will be conducted at the request of any Audit Committee member, Company Secretary, or any Director.

COMPANY SECRETARY

The company secretary of the Company, Mr. Kam Chun Ying Francis ("Mr. Kam") directly reports to the chief executive officer and is responsible to the Board for ensuring that the Board procedures, applicable laws, rules and regulations are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant corporate governance developments relating to the Group and arranging the induction training and professional development for the Directors.

According to the Rule 3.29 of the Listing Rules, Mr. Kam has taken no less than 15 hours of relevant professional training for the year ended 31 December 2019.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

The Company adopted an amended and restated memorandum and articles of association on 8 June 2015, which became effective on the Listing Date. Save as disclosed above, there had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

The Company treats all shareholders equally with a view to ensuring that their rights can be fully exercised and their legitimate interests can be safeguarded and that the shareholders' general meetings can be convened and held in strict compliance with the relevant laws and regulations. The governing structures of the Company ensure equality among all shareholders, especially the minority shareholders and that they will undertake their obligations accordingly.

Procedures for convening general meetings by Shareholders

Pursuant to the Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. 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 having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary 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. Such meeting shall be held within two months after the deposit of 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.

Procedures for putting forward proposals at Shareholders' meeting

Shareholders are requested to follow the Article 64 of the Articles of Association for proposing a resolution at an extraordinary general meeting. The requirements and procedures are set out in the paragraph headed "The procedures for convening general meetings by Shareholders" above.

Procedures for nominating a candidate for election as a Director by Shareholders of the Company

Pursuant to the Article 113 of the Articles of Association, 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 period for lodgment of the notices required under this Article 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 seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

For details of the procedures for nominating a candidate for election as a Director by shareholders, please visit the website of the Company.

SHAREHOLDERS COMMUNICATION POLICY

1. PURPOSE

1.1 This policy aims to set out the objective of providing Shareholders with information about the Company, so that they can engage actively with the Company and exercise their rights as Shareholders in an informed manner.

2. GENERAL POLICY

2.1 Information shall be circulated to Shareholders through the financial reports of the Company (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the (i) corporate communication documents including, but not limited to, copy of annual reports, interim reports, notices of meetings, circulars, proxy forms ("Corporate Communication"); (ii) other documents issued by the Company which are published on the website of the Main Board of the Hong Kong Stock Exchange for the information or action of holders of any of its securities, including announcements, monthly returns on movements in the securities of the Company for each month and next day disclosure returns; (iii) constitutional documents of the Company and board committees; (iv) corporate information including a list of directors ("Directors") of the Company; and (v) other corporate publications including the procedures for nominating a candidate for election as a director by shareholders on the website of the Company.

2.2 Effectively and timely dissemination of information to Shareholders shall be ensured at all times. Any question regarding this policy shall be directed to the Company Secretary or the Board of Directors of the Company.

3. COMMUNICATION STRATEGIES

Shareholders' Enquiries

3.1 Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at 4/F., The Chinese Club Building, Nos. 21-22 Connaught Road, Central, Hong Kong. The Company Secretary is responsible for forwarding communications relating to matters within the direct responsibilities of the Board to it and communications relating to ordinary business matters, such as suggestions and inquiries, to the CEO of the Company.

3.2 Shareholders will be provided with the information of designated contact person, e-mail address and hotlines to enable them to raise any questions regarding the Company.

Corporate Communication

3.3 Corporate communication will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate their understanding.

Corporate Website

3.4 A dedicated "Investor Relations" section is available on the website of the Company (http:// www. xinm.com.cn). Information on the website of the Company will be updated on a regular basis.

3.5 Information released by the Company to the Hong Kong Stock Exchange is also uploaded on the website of the Company immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents.

Shareholders' Meetings

3.6 Shareholders are encouraged to attend general meetings or if they fail to do so, to appoint proxies to attend and vote at such meetings on their behalf.

3.7 Appropriate arrangements for annual general meetings shall be in place to encourage shareholders' participation.

3.8 The process of a general meeting of the Company will be monitored and reviewed on a regular basis, and changes will be made if necessary to ensure compliance with Shareholders' needs.

3.9 The members of the Boards (especially the Chairman or the representative of the Board Committee), appropriate management executives and external auditors will attend annual general meetings and answer Shareholders' questions.

4. SHAREHOLDER PRIVACY

4.1 The Company recognises the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, unless required by law.

INVESTOR RELATIONS

Accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with the Shareholders, including institutional investors, is crucial. The Company considers good investor relations as a key part of its operations and continues to promote investor relations and enhances communications with the investors.

The Company maintains a website (http://www.xinm.com.cn) to make the corporate information available on the internet to facilitate its communication with Shareholders and to provide the public investors with important information, including corporate governance structure and terms of reference of Board committees.

The Company welcomes comments from investors and Shareholders, and invites them to share their views and suggestions at team@mindmaxcomm.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE GROUP

Xinming China Holdings Limited (the "Company" or "Xinming China"), listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2015 (stock code: 02699), together with its subsidiaries (collectively referred to as the "Group" or "we") are an integrated developer of residential and commercial properties. Currently the Group is engaged in 16 property development projects in areas such as Shanghai, Chongqing, Taizhou, Tengzhou and Hangzhou. We have a complete property development capability, with a relatively comprehensive and diversified property development portfolio.

ABOUT THE REPORT

This report is the third Environmental, Social and Governance Report (the "Report") issued by the Company. The Report provides stakeholders with a better understanding of the Group's progress and direction on sustainable development through reporting on the Group's environmental, social and governance policies, measures and performance. The Report has been prepared in both Chinese and English, and has been uploaded to the Stock Exchange and the Company's website http://www.xinm.com.cn. In the event of any conflict or inconsistency between the Chinese and English versions, the Chinese version shall prevail.

SCOPE AND DURATION OF THE REPORT

As the construction in Shandong which is under construction and sale accounted for a large proportion of the Group's overall business in 2019, while the construction in Hangzhou has been completed and there is basically no sales business in 2019. Therefore, the report does not take the "My Babini" project into account as reported last year. In 2019, we focused on the relevant projects and activities of the Group in Hangzhou and Shandong during the period from 1 January 2019 to 31 December 2019 ("FY2019"), including:

- The Group's head office in Hangzhou
- Shandong Xingmeng Property Limited ("Shandong Xingmeng") Office
- As the reporting scope for 2019 and 2018 are the different in certain extent, the key performance indicators disclosed in this report are not recommended for direct comparison.

1. Shandong Xingmeng Project Company and its property development business — Shandong Baidimao Mall (former Xingmeng International Mall) is a key project in Tengzhou Province. The project is located at the urban-rural junction on the west side (Golden Triangle) of Wulitun Turntable in Tengzhou City. The project covers an area of 38,088 square meters, with a total gross floor area of 62,664 square meters, of which the commercial construction area is 61,739 square meters. The project mainly includes 5 six-storey apartments along the street and 12 three-storey shops. The market, covering a wide area, is mainly engaged in construction and decoration materials, striving to provide customers with one-stop and convenient services.

2. The total gross floor area in B4 area is 29,548 square meters, mainly including 4 five-storey shops along the street (including the third floor of the apartment) and 8 two-storey shops. The construction of the project has been substantially completed, and is currently in preparation for liquidation and delivery acceptance stage.

3. Yayuan Project: The project land is commercial and residential in nature, with a planned total land area of 84,031.5 square meters and a planned total gross floor area of 242,279 square meters. The building currently under construction for the project is building 1/2/3/5/6 and underground garage, with a floor area of 53,655.7 square meters. The main body of the 18th floor of buildings No. 1, No. 2 and No. 3 has been capped; while the main body of building No. 5 has been constructed to the fourth floor; and the basement of building No. 6 has been completed.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING STANDARDS

The report is prepared in accordance with the applicable disclosure requirements set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details of corporate governance are set out in the section headed "Corporate Governance Report".

FEEDBACK ON THE REPORT

We have always believed that the valuable opinions of our stakeholders are the basis for our continuous improvement. If you have any comments or suggestions on the report and our sustainable development, please write to us at Room 1401, 14/F., Chung Ying Building, 20 Connaught Road West, Sheung Wan, Hong Kong.

COMMUNICATION WITH STAKEHOLDERS

The Group is committed to continuing operations while balancing the interests of its various stakeholders, including employees, investors and shareholders, customers, suppliers/building contractors, the government and the local communities in which the Group operates. Our daily communication with stakeholders in the following ways gives us the opportunity to gain valuable advice and suggestions from our stakeholders on sustainable performance and future strategies.

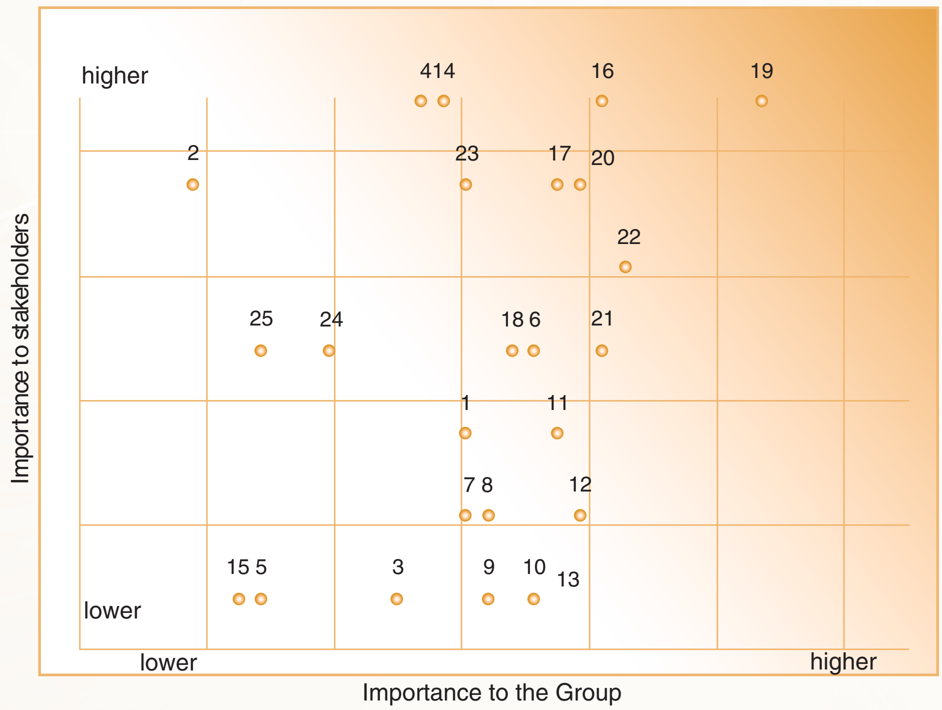
Stakeholders	Communication Channels	
Employees	• Meeting • Training	• Staff activities • Social media
Investors and shareholders	• Shareholders meeting • Annual reports, announcements and circulars	• Group's website
Customers	• Direct communication • Social media	• E-mail • Telephone
Suppliers/construction contractors	• Direct communication • On-site inspection • Meeting	• E-mail • Telephone
Government	• Reports and submissions in accordance with regulatory requirements	• Annual reports, announcements and circulars • Telephone • E-mail
Communities	• Group's website	• Mass media

ASSESSMENT OF IMPORTANCE

The Stock Exchange sets out four reporting principles in the Environmental, Social and Governance Reporting Guide: importance, quantification, balance and consistency, which should be used as a basis for the preparation of the report. According to the recommendations, the Group can grasp the broad and diverse opinions of stakeholders with their participation, and identify major environmental and social issues. During the preparation of the Report, we conducted a questionnaire survey to understand the concerns of stakeholders, and to know more about the evaluation and expectations of various stakeholders on the performance of our social responsibility in the past year, so as to help us develop the framework of this Report in response to the opinions of stakeholders.

Based on the results of the questionnaire survey, the importance matrix of the Group is set out below with the upper right corner of the matrix being the most focused issues of stakeholders. Among them, the three top issues include product safety and quality, supplier selection procedures, customer satisfaction and handling of complaint.

Analysis of the importance of each issue



Employee		Environment		Operating practices and others	
1	Diversified and equal opportunities	8	Sewage disposal	16	Supplier selection procedures
2	Staff turnover rate	9	Air pollutants and greenhouse gas emissions	17	Anti-fraud and corruption
3	Occupational safety and health	10	Exhaust emission	18	Disaster emergency plan
4	Training and development	11	Hazardous and non-hazardous waste disposal	19	Product safety and quality
5	Prevention of child labor and forced labor	12	Energy and water saving	20	Customer satisfaction and handling of complaint
6	Salary and employment relationship	13	Use of natural resources	21	Intellectual Property Protection
7	Employee welfare	14	Evaluation of suppliers' environmental and social performance	22	Protection for customer's sensitive and private information
		15	Carbon trading	23	Product innovation and technology development
				24	Community voluntary activities
				25	Charitable donation

Statement by the Board of Directors

Recently, the development concepts of industrial real estate have put increasing emphasis on issues in relation to the ecosystem, childcare, environmental protection, smart city and low carbon, and infuse city lifestyle into office areas; all of which will be the core values of industrial real estate.

In order to comply with the concept of sustainable development, we have established an ESG group since 2018 who reports to the Board on environmental, social and governance work on a regular basis. The team members include (1) supervisors and members of each project company: responsible for collecting the ESG data of the project every month, managing and supervising compliance with the laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China, the Law of the People's Republic of China on Environmental Impact Assessment and the Regulations on the Administration of Construction Project Environmental Protection; (2) members of the comprehensive management department of the Group and the project department: manage and record the ESG data of the Group and the project company's office, including the consumption of water, electricity, paper and gasoline consumption; (3) members of the risk control department: responsible for following up the ESG data on a regular basis, and promptly feeding back the ESG indicators to the risk control director through collating, summarizing and analyzing the data; (4) risk control director: responsible for coordinating overall ESG risk control and communicating with the Board to integrate ESG with the Company's overall goals, so that the Board members can understand new opportunities and allocate resources reasonably.

Based on the results of the questionnaire on materiality assessment, we found that the ESG indicators that stakeholders are most concerned are “product safety and quality, supplier selection procedures, customer satisfaction and handling of complaint”. Our quality control is carried out by the Group’s general engineer office and the quality inspection report is submitted every month. The Company's management performs performance evaluation based on the inspection report every year. Before the bid, the management will review the contractors’ qualifications whether they meet the requirements of the bidding or whether the overall amount is appropriate. For after-sales, the Group complies with the Group’s after-sales system, implements different quality guarantee period for different parts of the project, and leaves the retention in the property after completion. If there are quality problems during the quality warranty period, we are responsible for warranty repairs. The Company’s management regularly reports to the Board on the Company's operations.

While ensuring business development, we have also considered the impact of climate-related risks on operations. According to the recent assessment of environmental protection factors, the major influencing factor we face is the transition risk, that is, changes in policies, laws, science and technology and markets caused by environmental change, among others, local policies changes caused by environment and climate change. If the local government of the project imposes additional environmental protection requirements, we may incur more costs. However, the development of a more ecological and environmentally friendly, low-carbon industrial real estate is in line with our vision. In this regard, we always pay attention to changes in relevant policies from the Board to local project leaders in order to adjust the response measures in a timely manner.

In addition to being constantly concerned about policy changes, the Group has continued to focus on sustainable development since 2017. We encourage energy saving through water, electricity and paper saving in the office. In terms of project construction and environmental protection, we also strictly comply with the national regulations on design and construction of green buildings, and whether to use environmentally friendly materials is included as one of the conditions for selecting contractors.

Our ultimate goal is to achieve child-centric real estate, and strive to provide comprehensive products and services for maternity, baby & children (MBC) market. In order to adapt to market changes and the concept of low-carbon environmental protection, the Group also continued to develop an online platform and promote a comprehensive network platform with a MBC theme, which enables the mutual interaction between online and offline operations. We believe that our “My Babini” brand has gradually developed and embarked on the path of themed property operations.

Environmental Protection

According to the laws and regulations of China, all projects developed by us as a property developer are subject to environmental assessment and an environmental impact assessment report is required to be submitted to the relevant government authority for approval prior to the commencement of construction. The property developer is required to submit a new environmental impact assessment report for approval if the construction site or the size or nature of the established project changes significantly. We will appoint an independent third-party environmental consultant for each construction project to conduct an environmental impact assessment, and such assessment of environmental impact will be submitted to the relevant government authorities before the commencement of development. Shandong Xingmeng International Commercial City Project has obtained the assessment report of environmental impact required for all projects in accordance with the relevant laws and regulations of China.

During the construction process, property developers and construction companies are required to take measures to prevent air pollution, noise emissions and water and waste discharge. As our construction projects are outsourced to third-party contractors, the environmental key performance indicator data on the project could not be collected and disclosed. However, according to the terms of the construction contract, the contractor is required to comply with the relevant laws and regulations of China regarding environmental protection and safety. In addition, we regularly inspect construction sites and require our contractors to rectify any problems found in a timely manner.

Also, in accordance with the terms of the construction contract, contractors are is required to comply with relevant laws and regulations of China regarding environmental protection and safety. After the completion of the construction project, we must apply to the relevant government authorities for the inspections and acceptance of environmental issues. Only those property development projects that have passed the relevant acceptance can be delivered to the customers. Xingmeng International Commercial City Project has passed the inspection of environmental protection agencies, and we obtained relevant environmental assessment approvals for the properties under development. We will continue to comply with relevant environmental laws and regulations of China, and only employ construction contractors with good environmental protection and safety records.

In the process of construction, construction materials may be piled up in open areas, such as yellow sand and cement, etc., and air pollution may occur from dust. Therefore, the contractor will use a dust detector to monitor the dust data of the site, and conduct dust suppression by installing mobile sprinklers, movable fog guns, tower crane sprays and other equipment to ensure that the "five 100%" of dust prevention and control is in place, including:

- 100% closed fence at construction site
- 100% covered for exposed sand on site
- 100% hardened for site roads and stacks
- 100% cleaned for vehicles entering and leaving the site
- 100% installed with external scaffolding and dense mesh

The greenhouse gases are mainly derived from emissions from private vehicles and electricity consumption, and the main environmental data of Hangzhou area and Shandong area of the Group is as follows:

KPI	2019	2018	Unit
Greenhouse gas emissions			
Oxynitride (NOx)	2.64	—	kg
Sulphur oxides (SOx)	0.07	—	kg
Suspended particles (PM)	0.19	—	kg

Note: no emissions were involved in 2018.

KPI	2019	2018	Unit
Greenhouse gas emissions			
Total emissions (Scope 1 and 2)	778	938	ton CO_2 equivalent
Density	8.32	5.74	kg CO_2 equivalent/1000 m^2
Scope 1 (Direct emissions)	12	—	ton CO_2 equivalent
Scope 2 (Indirect emissions)	766	938	ton CO_2 equivalent

Sewage Disposal

Since we outsourced the construction work to third-party contractors, the wastewater mainly includes the domestic wastewater of construction workers and construction wastewater during the construction, the main pollution factors of which are COD and NH3-N. The domestic wastewater is simply treated on the construction site during the construction and then reused for road sprinkling and dust suppression. The output of construction wastewater is approximately $52M_3$/d, and the generated pollutants are mainly mud and fine sand in sand and gravel materials. The grit chamber is set up for wastewater sedimentation, and then it is used repeatedly in the humidifying site after sedimentation, which has less impact on surface water and groundwater. Dry toilets are used during the construction period, and wastes from dry toilets are periodically removed and used as agricultural fertilizer. We strengthen construction management, pile up construction materials, such as cement, yellow sand and lime, and take certain anti-raining measures to clean up the above construction materials thrown away in construction and transportation in time to avoid contamination of nearby water sources. We install small-flow equipment and appliances to reduce the amount of water used in the construction, and also recommend using rainwater for flushing. In terms of noise control, during the construction of the project, we will build a temporary sound barrier around the site, strictly strengthen the construction management, reduce the radiation of noise, and avoid using many high-noise equipments for continuous construction operation. Construction work is prohibited both at night (after 22:00) and at noon break, and announcements are made to nearby residents in a timely manner during the construction.

Waste Management

Construction waste and household waste are the major waste generated during the construction, which does not involve hazardous waste or packaging. The responsible persons at the construction site will pileup and timely organize cleanup and outward transportation of the construction waste and living garbage. The garbage is sorted and transported, which is sealed in the process of transportation to prevent exposure and scattering and dripping. If foundation excavation work is involved, the contractor will arrange for timely outward transportation to ensure that the temporary stack height will not exceed 1.5 meters. Since we outsourced the construction work to third-party contractors, the waste data on the construction projects could not be collected and disclosed. The packaging materials are basically all recycled or sold to the salvage station. We advocate the green living concept, strengthen the recycling and reduction management of garbage, and facilitate the recycling and utilization of garbage after classification. We implement bagging and classified storage, fixed collection, and collect the garbage with impermeable garbage bins. The environmental protection and hygiene department will use sealed garbage trucks for transportation to achieve daily clearing for daily produced garbage, and avoid tossing, sprinkling, dropping and leakage during the transportation.

Waste generated in our office is mainly non-hazardous waste, the majority of which is generated from the daily office waste paper and personal trash of employees. The non-hazardous waste generated will be recycled and disposed of by the property management office uniformly. In order to reduce paper consumption, we advocate to run a paperless office, and in order to reduce paper consumption, we advocate an environmentally friendly office style by printing paper on both sides and reusing paper that has been used on one side. Through the use of online platform system, a series of work such as document processing, business processing and fee application are centralized, covering sectors such as document approval, system management, file tracking, file query and authorization, which simplifies the workflow to enable employees to work more conveniently and also significantly reduces the use of printing paper and the generation of garbage, so as to consistently implement the green operation concept of the Company.

KPI	2019	2018	Unit
Waste paper volume	0.60	0.77	ton
Waste paper density	6.42	4.73	kg/1000 m^2

Use of Resources

Our main energy consumption comes from the electricity and water used in our operation. In the office, we improve the awareness of energy saving among all employees by measures such as maintaining the indoor temperature at the most comfortable level, encouraging employees to turn off idle computers and monitors, setting office machines (such as photocopiers and TV monitors) to be automatically turned off after office hours, encouraging employees to make full use of modern communication systems to avoid unnecessary business trips and posting signs that emphasize the importance of energy saving in the office. In the meantime, in order to improve resource efficiency and promote environmental protection, our Hangzhou office and Shandong office have put light emitting diode ("LED") in use. For the purpose of reducing water consumption, we posted water-saving signs in the washrooms and opened the valve in 1/2 under the condition of normal use to save water and advocated the use of water with small flow. In 2019, we suffered no difficulties in obtaining applicable water sources.

KPI	2019	2018	Unit
Total energy consumption	912,864	1,332,832	kWh
Density of energy consumption	9,762	8,161	kWh/1,000m^2
Total electricity purchased	870,629	1,332,832	kWh
Electricity purchased for office	401,422	1,332,832	kWh
Electricity purchased for construction site	469,207	—	kWh
Unleaded gasoline	42,235	—	kWh
Total water consumption	11,458	31,258	m^3
Water consumption of office	5,914	31,258	m^3
Water consumption of construction sites	5,544	—	m^3
Water consumption density	122.53	191.39	m^3/1,000m^2

Compliance with Laws and Regulations

The Group is committed to complying with all laws and regulations related to environmental protection, including relevant environmental protection laws and regulations such as the Environmental Protection Law of the People's Republic of China, Energy Conservation Law of the People's Republic of China, Law of the People's Republic of China on Environmental Impact Assessment and Regulations on the Administration of Construction Project Environmental Protection. In 2019, neither have we been subject to fines or penalties for the violation of environmental laws and regulations of China, nor have we encountered any material problems in the inspections conducted by relevant environmental protection agencies after the completion of the property. We have complied with the applicable environmental laws and regulations of China in all material aspects, and we have obtained all the necessary approvals for the environmental impact assessment report of our property development projects.

SUPPLY CHAIN MANAGEMENT AND QUALITY CONTROL

Our main suppliers are construction contractors and construction material suppliers. We outsourced all project construction to eligible third-party construction contractors who can undertake various types of work, including foundation excavation, main structure construction, equipment installation and engineering operations. We believe that outsourcing our construction projects allows us to use the expertise of the construction contractor and minimize certain risks, such as risks from fluctuations in the cost of certain raw materials. It also allows us to focus on our main business, property development. We engaged contractors for construction projects through tendering procedures in accordance with the relevant Chinese laws and regulations.

The tendering and bidding team of the head office's cost management department will formulate tender terms and will be responsible for evaluating and selecting contractors. In the process of selecting a construction contractor, we will conduct detailed assessment of the construction contractor and its bidding documents. Various factors including the scale and qualification of the contractor, its reputation, track record and quotations of similar projects will be considered.

We place emphasis on the quality and cost control of various property projects. Currently, our construction contractors are responsible for purchasing most of the construction materials for our property development projects, such as steel and cement. We generally provide the contractor with specifications about the construction work and request the contractor to purchase from a selected set of brands or manufacturers. Our cost management department closely monitors the construction materials used by the contractor and the costs incurred. If relevant PRC laws and regulations require the contractor to purchase certain types of construction materials through tendering, we generally require the relevant contractor to include our selected brands or manufacturers in the bidding documents. We will also observe the tendering process to ensure that selected construction material suppliers possess the acceptable qualifications.

We are responsible for directly purchasing certain construction materials such as doors and windows and elevators. Our construction materials are mainly sourced from suppliers in China. To ensure the consistency of quality, we established a database for eligible suppliers which is regularly reviewed and updated. We believe that the database will help us assess the qualifications of our suppliers and provide a useful reference for our future projects.

In addition, to ensure the quality, during the preliminary planning stage, our cost management department will establish a series of progress control indicators related to cost, quality and construction progress according to the total construction cost budget. During the construction, employees at our chief engineer office are responsible for supervising the construction quality, progress, and controlling the budget of each project. Site visits will be conducted on a monthly basis, pre-inspection of construction materials will be carried out before use in the project, and the construction progress will be supervised based on previously established progress indicators. Our chief engineer office will also review all projects under construction every year to ensure the costs, quality and progress of construction are satisfactory. Our team at chief engineer office consists of qualified engineers and construction technicians with extensive industry experience. If the performance of any external contractor is unsatisfactory, we may have to replace such contractor or take other actions to remedy the situation.

In order to comply with China's laws and regulations, we have also engaged construction supervision companies to supervise certain aspects of our project construction in accordance with relevant laws and regulations. According to our construction supervision contract, these companies are responsible for supervising the quality of our project construction and must report the progress and quality of the project regularly. If there is any quality problem with the construction materials or construction workmanship, these supervision companies have the right to suspend the construction works with our prior consent.

In 2019, the Group was not aware of any material adverse impact caused by any major suppliers on business ethics, environmental protection and labor practices.

AFTER-SALES SERVICE

Our brand is crucial to our business operation and development. Any negative events or negative publicity involving us or our properties may adversely affect our reputation and business prospect. Therefore, property quality is a matter of great concern to us. According to the Construction Project Quality Management Regulations, the Administration of Filings for Post-Construction Inspection and Acceptance of Housing Building Projects and Municipal Infrastructure Projects (《房屋建築工程和市政基礎設施工程竣工驗收備案管理辦法》) and the Interim Provisions on the Completion and Inspection and Acceptance of Housing Construction Projects and Municipal Infrastructure Projects (《房屋建築工程和市政基礎設施工程竣工驗收暫行規定》), after the completion of the property development projects, we, as a property developer, shall submit an application of housing inspection and filing to the competent property development authority of the local people's government of or above county-level where the project is located. Delivery of the property project is subject to the inspection and acceptance and the completion certificate. We have obtained the completion certificate for our Xingmeng commercial city Phase I project and delivered such project in 2015, and the B4 area project and Yayuan project were still under construction in 2019.

In order to win the trust of our customers, a warranty period on the construction quality of the property development projects and certain equipment and facilities will be provided. All warranty periods begin on the date of delivery of the relevant property, ranging from 1 year to 5 years, depending on the type of work. According to the "Construction Project Quality Management Regulations" and related regulations, the scope of quality warranty includes foundation work, the main structure, waterproof of flooring, toilets with waterproof requirements, anti-leakage of rooms and exterior walls, heating and cooling systems, drainage pipes, equipment installation and renovation projects, etc. We will not provide warranty for defects caused by third parties or improper use and defects caused by natural disasters. Our construction contractors shall bear responsible for assuming the costs associated with the quality standards and related maintenance works.

In 2019, we were neither involved in any material claims nor received any complaints due to the fact that the quality of our building structures or other equipment failed to be remedied by the relevant contractors under the warranty provisions of their respective contracts.

COMPLIANCE PROMOTION

We are strictly in compliance with the Advertising Law of the People's Republic of China and related laws and regulations and the Interim Measures for the Administration of Internet Advertising of the People's Republic of China (《中華人民共和國互聯網廣告管理暫行辦法》) and related laws and regulations. We review the property advertising contents to ensure that the property information is true, and that all sales brochures are subject to the approval of the relevant government department before release. We also set limits on access to customers' personal information and strictly prohibit employees from disclosing such personal information without authorization.

In 2019, the Group was not aware of any material violation of the relevant laws and regulations that have a significant impact on the health and safety, advertising, labeling and privacy of the products provided by the Group and the remedial methods.

EMPLOYMENT

We firmly believe that employees are the most significant and valuable assets of the Group and the mainstays of its sustainable development. In order to effectively attract and retain talents, we endeavor to establish and maintain an equal and diversified workplace culture, offer competitive remuneration and benefits to employees and improve the career development ladder, as well as take care of their physical and mental health to ensure that each employee is treated and respected fairly.

Remuneration

— Remuneration is reviewed on a yearly basis and based on the comprehensive qualifications of employees such as their academic qualifications, work experience, capability and job responsibilities. Competitive remuneration package will be offered after taking the remuneration level of the peer industry into consideration.

— We distribute annual bonus and set up a share incentive scheme for employees based on their efforts and performance to motivate their enthusiasm.

Benefits

— We provide various benefits, including allowances for meal, communication, festivals and holidays, etc.

— We arrange reasonable working hours and holidays, and offer a variety of holidays including annual leave, maternity leave and work-related injury leave to further meet the individual needs of the employees.

— We organize birthday celebrations and picnicking on a non-regular basis for staff to assist them in balancing work and life, and enhancing their sense of belonging and team spirit.

Recruitment

Recruitment and promotion procedures for all employees of the Group are conducted in a fair and open manner; employees are recognized and rewarded based on their performance and skills, and the relevant results will not be affected by any discrimination incurred by factors such as age, gender, physical or mental health, marital status, family status, race, skin color, nationality, religion and political faction.

Dismissal	The resignation application submitted by an employee due to his/her own reasons shall be subject to the approval of the head of department; if an employee tenders resignation, he/she shall submit a written application 30 days in advance; if an employee is not competent for his/her position for any reason, the Group may dismiss such employee with at least 30 days' prior written notice.
Promotion	We regularly review and assess the performance and development of employees to ensure that employees who have achieved outstanding performance and are eligible for promotion are given fair and equitable opportunities for promotion and/or remuneration adjustment.

COMPLIANCE WITH LAWS AND REGULATIONS

We strictly abide by the Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, Social Insurance Law of the People's Republic of China and other employment laws and regulations. In 2019, the Group was not aware of any material violation of employment laws and regulations.

In 2019, the Group employed a total of 53 (2018:49) employees in Shandong, and the breakdown is as follows:

KPI	2019	2018	2017	Unit
By gender				
Male	21	21	26	Number of individuals
Female	32	28	34	Number of individuals
By contract type				
Full-time	50	49	57	Number of individuals
Part-time	3	—	3	Number of individuals
By employment type				
Senior management	12	13	11	Number of individuals
Middle management	8	9	14	Number of individuals
General and technical personnel	33	27	35	Number of individuals
By age				
21-30	14	11	14	Number of individuals
31-40	20	25	30	Number of individuals
41-50	14	9	11	Number of individuals
51-60	4	4	4	Number of individuals
Over 60	1	—	1	Number of individuals

HEALTH AND SAFETY

The Group complies with the Labor Law of the People's Republic of China and the Law on Protection of Labor Rights and other applicable laws and regulations, and strives to minimize the occurrence of work-related incidents and illnesses.

Although we outsourced the construction of all projects to qualified third-party construction contractors who assume most of the safety responsibility, we, as a property developer, also face potential responsibilities. In order to manage better health and safety issues in our operation, our employee handbook contains issues related to work safety and occupational health as health and safety guidance for employees.

We provide safety training and occupational risk assessment to employees to enhance their awareness and reduce the possibility of work-related incidents. All project workers are required to participate mandatorily in health and safety training, covering various issues involved in different phases of the project, including safe use of lifting appliances, high-altitude operation, manual operation, safety management and site management, etc. Given the nature of the work, workers are required to wear appropriate personal protective equipment. Workers are not allowed to operate machines or carry out high-risk operations without the approval of the supervisor, and operation workers shall pass the relevant examination and get on the job with a certificate. To ensure the safety of employees, we also require contractors to strictly abide by a set of clear health and safety standards to avoid casualties on the site. We also keep closely in touch with contractors, set up a civilized construction management team, and regularly inspect health and safety to ensure all health and safety measures are properly implemented.

In 2019, the Group did not record any major safety incident or work-related death in Shandong.

DEVELOPMENT AND TRAINING

We believe that highly qualified employees who value our corporate culture are key to our sustainable development in the future. We continue to attract, retain and motivate skillful and talented employees through various measures, including different training courses, competitive remuneration packages and effective performance appraisal and incentive system. We adopt diversified training methods, including:

Induction training

We provide the induction training to guide new employees to quickly understand our corporate culture and business history, master basic knowledge of the job, workflow and insight on their career planning, etc.

Online training	We founded Xinming Enterprise Network College (新明企業網絡學院), and employees of all departments can log in and study with the aid of computer and mobile phone at any time. Online training has changed the traditional training mode, allowing employees to study flexibly in their spare time.
On-the-job training	We will assign our staff for external training based on their job functions or development needs, and send our staff for visiting based on the business needs or management study. Meanwhile, we also provide training allowance to encourage employees to attend different training courses to enhance their work-related skills and knowledge.
Online training	We founded Xinming Enterprise Network College (新明企業網絡學院), and employees of all departments can log in and study with the aid of computer and mobile phone at any time. Online training has changed the traditional training mode, allowing employees to study flexibly in their spare time.
External training	We will assign our staff for external training based on their job functions or development needs, and send our staff for visiting based on the business needs or management study. Meanwhile, we also provide training allowance to encourage employees to attend different training courses to enhance their work-related skills and knowledge.

LABOR STANDARDS

We strictly comply with the Labor Law of the People's Republic of China, the Labor Law Contract of the People's Republic of China, Provisions on Prohibition of Child Labor and other laws and regulations, adhere to legal and normative employment and establish necessary collection and approval process of recruitment information to ensure that labor standards are implemented. In order to protect children's rights of safety and health, the Group is resolute not to recruit employees under the age of 18 nor child labors under the age limit as restricted by local laws and regulations. Applicants are required to provide valid identification documents for confirming actual age at the time of recruitment by our human resources department. We did not employ any child labor during the reporting period.

Meanwhile, the working hours of employees recorded in the Employee Handbook of the Group. To maintain the health of employees, forced labor of any nature is not allowed, and involuntary servitude or contractual labor, and corporal punishment or incarceration with violence are strictly prohibited. In principle, the Company does not advocate overtime work. An employee shall submit overtime work application to the relevant person in charge if the actual work requires, and the human resources department should also be informed to prevent the occurrence of forced overtime work. Overtime compensation shall be paid in accordance with local laws and regulations.

In 2019, the Group was not aware of any material violation of the laws and regulations related to the prohibition on the employment of child labor or forced labor of the Group.

ANTI-CORRUPTION

The Group strictly complies with the laws and regulations related to anti-fraud and clean business establishment in the course of operation, including the Criminal Law of the People's Republic of China, Law against Unfair Competition of the People's Republic of China, Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and other relevant laws and regulations. We establish a code of conduct to regulate the daily work behavior of employees and to enhance their awareness of compliance with law and integrity and self-discipline. Any corruption and bribery behavior in work and business dealings is prohibited. Once we identify risks of corruption and fraud, we will immediately organize an investigation and make punishment on fraud. We will report the illegality to judicial authority in accordance with the law once it is identified. The rectification measures will be formulated after investigation to effectively strengthen the anti-corruption and fraud work.

In 2019, the Group was not aware of any violations related to bribery, extortion, fraud and money laundering that may have a significant impact on the Group.

INFORMATION PRIVACY

The Group respects the information privacy of employees, suppliers, business partners and customers. We are committed to protecting the information privacy of individual and business. We fully comply with the provisions of the Constitution of the People's Republic of China, General Principles of Civil Law of the People's Republic of China, Tort Liability Law of the People's Republic of China (《中華人民共和國侵權責任法》) relating to the protection of personal information to protect customers' privacy, business secret and customers' interest.

In 2019, the Group has not received any complaint incurred by property intellectual rights infringement and customer information leakage.

COMMUNITY CONNECTION

We are pleased to provide support to the needy and the underprivileged. The management is committed to encouraging the staff to contribute to the improvement of the society by participating in community activities, and the management and staff of the Company are all pleased and willing to assist and support local and neighboring communities.

INDEPENDENT AUDITORS' REPORT

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To the shareholders of Xinming China Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We have audited the consolidated financial statements of Xinming China Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 85 to 178, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the *Basis for Disclaimer of Opinion* section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

MULTIPLE UNCERTAINTIES RELATING TO GOING CONCERN

As set out in note 2.1 to the consolidated financial statements, the Group incurred a net loss of RMB112,518,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB912,615,000. In addition, as at 31 December 2019, interest payments of RMB60,434,000 relating to certain borrowings of the Group of a principal amount of RMB1,119,573,000 ("In Default Borrowings") were not paid in accordance with the repayment schedules pursuant to the borrowing agreements. These constituted events of defaults which resulted in cross-default of certain borrowings other than those mentioned above, amounting to a principal amount of RMB770,770,000 ("Cross-default Borrowings") as at 31 December 2019. As at the date of approval of these financial statements, interest of RMB117,537,000 relating to the In Default Borrowings and the Cross-default Borrowings was overdue. These conditions, together with other matters disclosed in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the consolidated financial statements. The validity of the going concern assumption on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully negotiating with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with interest payments in default, including those with cross-default terms; (ii) successfully negotiating for the renewal of or extension for repayment of outstanding borrowings, including those with overdue principals and interests; (iii) successfully negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future and (iv) successfully accelerating the pre-sale and sale of properties under development and completed properties and speeding up the collection of outstanding sales proceeds, and controlling costs and containing capital expenditure so as to generate adequate net cash inflows.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditor's report. We report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, it is not possible for us to form an opinion on these consolidated financial statements due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements.

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.

The engagement partner on the audit resulting in this independent auditor's report is Ho Siu Fung, Terence.

Ernst & Young
Certified Public Accountants
Hong Kong
15 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

Consolidated Statement of Profit or Loss

	Notes	2019 RMB'000	2018 RMB'000 (restated)
REVENUE	5	**163,349**	624,771
Cost of sales		**(110,357)**	(344,117)
Gross profit		**52,992**	280,654
Other income and gains	5	**1,076**	3,187
Selling and distribution costs		**(6,457)**	(44,023)
Administrative expenses		**(63,811)**	(87,372)
Impairment losses on financial assets, net		**(3,642)**	(8,359)
Other expenses		**(183,181)**	(37,069)
Changes in fair value of investment properties		**146,823**	67,785
Changes in fair value of convertible bonds		**11,946**	(39,897)
Finance costs	6	**(2,594)**	(6,856)
(LOSS)/PROFIT BEFORE TAX	7	**(46,848)**	128,050
Income tax expense	10	**(65,670)**	(106,596)
(LOSS)/PROFIT FOR THE YEAR		**(112,518)**	21,454
ATTRIBUTABLE TO:			
Owners of the parent		**(116,976)**	42,911
Non-controlling interests		**4,458**	(21,457)
		(112,518)	21,454
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted			
— For (loss)/profit for the year (RMB)		**(0.062)**	0.023

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

Consolidated Statement of Comprehensive Income

	2019 RMB'000	2018 RMB'000 (restated)
(LOSS)/PROFIT FOR THE YEAR	**(112,518)**	21,454
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive loss:		
Changes in fair value	**—**	(1,245)
OTHER COMPREHENSIVE LOSS, NET OF TAX	**—**	(1,245)
TOTAL COMPREHENSIVE (LOSS)/INCOME	**(112,518)**	20,209
ATTRIBUTABLE TO:		
Owners of the parent	**(116,976)**	41,666
Non-controlling interests	**4,458**	(21,457)
	(112,518)	20,209

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,646**	5,852
Investment properties	14	**3,318,900**	3,125,600
Right-of-use assets	15	**1,027**	—
Deferred tax assets	16	**97,511**	96,045
Total non-current assets		**3,422,084**	3,227,497
CURRENT ASSETS			
Properties under development	17	**1,341,803**	1,124,891
Completed properties held for sale	18	**1,574,542**	1,691,874
Trade receivables	19	**1,354**	3,318
Prepayments, other receivables and other assets	20	**211,944**	129,462
Due from related parties	37	**—**	55,493
Tax recoverable		**6,702**	22,757
Restricted deposits	21	**2,830**	537,739
Cash and cash equivalents	21	**182,225**	43,528
Total current assets		**3,321,400**	3,609,062
CURRENT LIABILITIES			
Trade payables	22	**291,668**	235,365
Other payables and accruals	23	**672,106**	628,375
Contract liabilities	24	**191,139**	217,762
Due to other related parties	37	**—**	26,929
Interest-bearing bank and other borrowings	25	**1,890,343**	1,266,230
Lease liabilities	15	**808**	—
Provisions	26	**—**	1,168
Tax payable	27	**914,984**	920,180
Convertible bonds	28	**272,967**	—
Total current liabilities		**4,234,015**	3,296,009
NET CURRENT (LIABILITIES)/ASSETS		**(912,615)**	313,053
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,509,469**	3,540,550

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**—**	700,844
Lease liabilities	15	**242**	—
Convertible bonds	28	**—**	284,913
Deferred tax liabilities	16	**529,273**	462,286
Total non-current liabilities		**529,515**	1,448,043
NET ASSETS		**1,979,954**	2,092,507
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**14,880**	14,880
Reserves	30	**1,870,329**	1,987,340
		1,885,209	2,002,220
Non-controlling interests		**94,745**	90,287
TOTAL EQUITY		**1,979,954**	2,092,507

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent									
	Issued capital	Share premium*	Merger reserve*	Capital reserve*	Share award scheme reserve*	Fair value reserve of financial assets at fair value through other comprehensive income reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			Note 30	Note 30	Note 30					
1 January 2018	14,880	496,155	81,491	(63,214)	4,533	(255)	1,425,612	1,959,202	111,744	2,070,946
Business combination under common control	—	—	—	17,460	—	—	(16,108)	1,352	—	1,352
1 January 2018 (restated)	14,880	496,155	81,491	(45,754)	4,533	(255)	1,409,504	1,960,554	111,744	2,072,298
Profit and other comprehensive income for the year	—	—	—	—	—	—	42,911	42,911	(21,457)	21,454
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	(1,245)	—	(1,245)	—	(1,245)
At 31 December 2018	14,880	496,155	81,491	(45,754)	4,533	(1,500)	1,452,415	2,002,220	90,287	2,092,507
Effect of adoption of IFRS 16	—	—	—	—	—	—	(33)	(33)	—	(33)
At 1 January 2019 (restated)	14,880	496,155	81,491	(45,754)	4,533	(1,500)	1,452,382	2,002,187	90,287	2,092,474
Loss and other comprehensive loss for the year	—	—	—	—	—	—	(116,976)	(116,976)	4,458	(112,518)
Business combination under common control	—	—	—	(2)	—	—	—	(2)	—	(2)
At 31 December 2019	14,880	496,155	81,491	(45,756)	4,533	(1,500)	1,335,406	1,885,209	94,745	1,979,954

* These reserve accounts comprise the consolidated reserves of RMB1,870,329,000 (2018: RMB1,987,340,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(46,848)**	128,050
Adjustments for:			
Depreciation	7	**1,198**	1,381
Depreciation of right-of-use assets	15(a)	**772**	—
Changes in fair value of investment properties	7	**(146,823)**	(67,785)
Changes in fair value of convertible bonds		**(11,946)**	39,897
Foreign exchange gain or loss		**(7)**	(223)
Bank interest income	5	**(202)**	(740)
Gain on disposal of items of property, plant and equipment	7	**—**	(349)
Provision for impairment of completed properties held for sale	7	**9,710**	1,662
Realisation of onerous operating leases	7	**(1,243)**	(1,098)
Provision for impairment of trade receivables	7	**560**	2,046
Provision for impairment of financial assets included in prepayments, other receivables and other assets	7	**3,082**	6,313
Finance costs	6	**2,594**	6,856
		(189,153)	116,010
Decrease in trade receivables		**1,404**	68,709
Decrease in prepayments, other receivables and other assets		**5,888**	124,791
Decrease in contract liabilities		**(26,623)**	(195,705)
Increase/(decrease) in trade payables		**56,303**	(113,468)
Decrease in other liabilities		**—**	(4,446)
Increase/(decrease) in other payables and accruals		**99,418**	(70,596)
Decrease in properties under development and completed properties held for sale		**26,683**	167,025
Increase in investment properties		**—**	(4,039)
Decrease in amounts due from other related parties		**—**	290,466
Decrease in amounts due to other related parties		**—**	(291,874)
(Increase)/decrease in restricted deposits		**(491)**	63
Cash (used in)/generated from operations		**(26,571)**	86,936
Tax paid		**(5,360)**	(25,981)
Refund of land appreciation tax		**16,070**	—
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		**(15,861)**	60,955

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(8)**	(372)
Proceeds from disposal of items of property, plant and equipment	**16**	407
Bank interest income	**202**	740
Acquisition of subsidiaries, net of cash acquired	**(84)**	—
Decrease/(increase) in restricted deposits	**535,400**	(535,400)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	**535,526**	(534,625)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of convertible bonds	**—**	245,016
Interest paid	**(119,427)**	(254,681)
New interest-bearing bank and other borrowings	**—**	960,000
Repayment of interest-bearing bank and other borrowings	**(81,840)**	(1,046,977)
Increase in other receivables	**(91,270)**	(1,983)
(Decrease)/increase in other payables	**(73,823)**	32,833
Principal portion of lease payments	**(782)**	—
Acquisition of non-controlling interests	**(13,833)**	(72,500)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(380,975)**	(138,292)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**138,690**	(611,962)
Cash and cash equivalents at beginning of year	**43,528**	655,267
Effect of foreign exchange rate changes, net	**7**	223
CASH AND CASH EQUIVALENTS AT END OF YEAR	**182,225**	43,528

1. CORPORATE AND GROUP INFORMATION

Xinming China Holdings Limited (the "Company") was incorporated in the Cayman Islands on 16 January 2014 as an exempted company with limited liability under the Companies Law, Chapter 22 of the Cayman Islands. The registered office address of the Company is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The principal activity of the Company is investment holding. The Group was mainly involved in property development and property leasing during the year. In the opinion of the directors of the Company, the ultimate holding company of the Company is Xinxing Company Limited. The ultimate controlling shareholder of the Group is Mr. Chen Chengshou (the "Controlling Shareholder").

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 6 July 2015.

INFORMATION ABOUT SUBSIDIARIES

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

Name of company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xinming Capital Limited*[1] ("Xinming Capital")	The British Virgin Islands	US$50,000	100%	—	Investment holding
Xinming China Investment Limited*[2] ("Xinming Hong Kong")	Hong Kong	HK$1,000,000	—	100%	Investment holding
Hangzhou Times Enterprise Management Consulting Limited*[3] ("Hangzhou Times")	PRC/Mainland China	RMB30,000,000	—	100%	Investment holding
Xinming Group Holding Limited*[4] ("Xinming Group")	PRC/Mainland China	RMB50,000,000	—	100%	Investment holding
Taizhou City Xinming Real Estate Development Company Limited*[4] ("Taizhou Xinming")	PRC/Mainland China	RMB10,000,000	—	100%	Property development
Taizhou Xinming Property Investment Limited*[4] ("Taizhou Investment")	PRC/Mainland China	RMB30,000,000	—	100%	Property development and property investment
Taizhou Wenshang Times Property Limited*[4] ("Wenshang Times")	PRC/Mainland China	RMB50,000,000	—	100%	Property development and property investment
Shanghai Xinming Global Property Limited*[4] ("Shanghai Xinming")	PRC/Mainland China	RMB50,000,000	—	79%	Property development and property investment

1. CORPORATE AND GROUP INFORMATION (Continued)

INFORMATION ABOUT SUBSIDIARIES (Continued)

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

Name of company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Chongqing Xinming Property Company Limited*4 ("Chongqing Xinming")	PRC/Mainland China	RMB100,000,000	—	95%	Property development and property investment
Shandong Xingmeng Property Limited*4 ("Shandong Xingmeng")	PRC/Mainland China	RMB50,000,000	—	75%	Property development and property management
Hangzhou Xinming Property Investment Limited*4 ("Hangzhou Xinming")	PRC/Mainland China	RMB50,000,000	—	100%	Property development and property management
Hangzhou Zhiyao Trading Company Limited*4 (note a) ("Hangzhou Zhiyao")	PRC/Mainland China	RMB100,000,000	—	100%	Industrial investment
Hangzhou Pengyue Trading Company Limited*4 (note a) ("Hangzhou Pengyue")	PRC/Mainland China	RMB100,000,000	—	100%	Industrial investment
Zhejiang Jinhang Investment Management Limited*4 (note b) ("Zhejiang Jinhang")	PRC/Mainland China	RMB5,000,000	—	79%	Investment management

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network
1 Registered as a limited liability company under BVI law.
2 Registered as a limited liability company under Hong Kong law.
3 Registered as a wholly-foreign-owned enterprise under PRC law.
4 Registered as limited liability companies under PRC law.

Note:

(a) During the year, the Group acquired Hangzhou Zhiyao and Hangzhou Pengyue from Xinming Group Limited, a related party of the Group, and the Controlling Shareholder, Mr. Chen Chengshou. Further details of this acquisition are included in notes 32 and 37(b)(vii) to the financial statements.

(b) On 30 October 2019, the Group acquired Zhejiang Jinhang from individual shareholders. The purchase consideration for the acquisition was in the form of cash, with RMB84,000 paid at the acquisition date. The fair values of the identifiable assets and liabilities of Zhejiang Jinhang as at the date of acquisition were near to the carrying amounts. Total identifiable net assets at fair value as at the date of acquisition were RMB84,000.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments designated at fair value through other comprehensive income and convertible bonds measured at fair value. These financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousand except when otherwise indicated.

GOING CONCERN BASIS

The Group incurred a net loss of RMB112,518,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB912,615,000.

As at 31 December 2019, certain interest payable of RMB60,434,000 ("Overdue Interest") relating to borrowings with a total principal amount of RMB1,119,573,000 ("In Default Borrowings") were overdue. As at 31 December 2019, the principal amount of RMB919,121,000 and RMB 200,452,000 were due for repayment within one year and two years respectively in accordance with the repayment schedule. However, due to the default in interest payment, the whole balance of RMB 1,119,573,000 would be immediately repayable if requested by lenders, and have been reclassified as current liabilities as at 31 December 2019.

As stipulated in the relevant loan and financing agreements in respect of certain borrowings of the Group other than those mentioned above, any default of the Group's borrowings may result in cross-default of these borrowings. As a result of such default events, the principal amount of borrowings of RMB770,770,000 with original contractual repayment dates beyond 31 December 2020 was considered as cross-default ("Cross-default Borrowings"), and these borrowings have been reclassified as current liabilities as at 31 December 2019.

In December 2019, the Group entered into a revised repayment agreement with lenders to defer the repayment date of the Overdue Interest, thirty percent of which was deferred to 31 March 2020 and the remaining seventy percent deferred to 30 June 2020. As at the date of approval of these financial statements, the Group did not pay the Overdue Interest per the schedule repayment date stipulated in the revised repayment agreements.

As at the date of approval of these financial statements, interest of RMB117,537,000 relating to the In Default borrowings and the Cross-default Borrowings was overdue.

All of the above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

2.1 BASIS OF PREPARATION (Continued)

GOING CONCERN BASIS (Continued)

In view of these circumstances, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but are not limited to, the following:

(i) The Group has been actively negotiating with a number of commercial banks and financial institutions for renewal and extension of bank and other borrowings and credit facilities;

(ii) In addition, the Group is also negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future;

(iii) The Group has accelerated the pre-sale and sale of its properties under development and completed properties. The properties from Shanghai Xinming Global Property Limited in Shanghai is expected to contribute further substantial sales in 2020. Overall, the Group expects to gradually launch three major projects upon obtaining the pre-sale permits starting from the second half of 2020;

(iv) The Group has implemented measures to speed up the collection of outstanding sales proceeds; and

(v) The Group will continue to take active measures to control administrative costs through various channels including human resources optimisation and management remuneration adjustments and reduction of capital expenditures.

The directors of the Company, including members of the audit committee, have reviewed the Group's cash flow forecast prepared by management. The cash flow forecast covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, the Group may have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis for the year ended 31 December 2019.

Notwithstanding the above, significant uncertainties exist as to whether management of the Group will be able to implement the abovementioned plans and measures. Whether the Group will be able to continue as a going concern will depend upon the Group's ability to generate adequate financial and operating cash flows through the following:

(i) Successfully negotiating with the lenders for the renewal of or extension for repayments beyond year 2020 for those borrowings that (a) are scheduled for repayment (either based on the original agreements or the existing arrangements) in year 2020; (b) were overdue as at 31 December 2019 because of the Group's failure to repay the interests on or before the scheduled repayment dates; and (c) became or might become overdue in year 2020;

(ii) Successfully obtaining additional new sources of financing as and when needed;

2.1 BASIS OF PREPARATION (Continued)

GOING CONCERN BASIS (Continued)

(iii) Successfully accelerating the pre-sale and sale of properties under development and completed properties and speeding up the collection of outstanding sales proceeds; and controlling costs and containing capital expenditure so as to generate adequate net cash inflows; and

(iv) Successfully maintaining the Group's relationship with existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings in default.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

BASIS OF CONSOLIDATION

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

(i) Business combinations not under common control

The Group applies the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of the consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(ii) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

(ii) Merger accounting for common control combinations (Continued)

The consolidated statement of profit or loss include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter year, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous financial year end or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using the merger accounting is recognised as an expense in the year in which it is incurred.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for amendments to IFRS 9, IAS 19 and IAS 28 and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

NEW DEFINITION OF A LEASE

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

AS A LESSEE — LEASES PREVIOUSLY CLASSIFIED AS OPERATING LEASES

Nature of the effect of adoption of IFRS 16

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

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

For the other leases, the right-of-use assets amounting to RMB1,023,000 were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

FINANCIAL IMPACT AT 1 JANUARY 2019

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

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	1,023
Increase in total assets	1,023

	Increase/ (decrease) RMB'000
Liabilities	
Increase in lease liabilities current	671
Increase in lease liabilities non-current	385
Increase in total liabilities	1,056
Equity	
Decrease in retained earnings	(33)

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

	RMB'000
Operating lease commitments as at 31 December 2018	**23,509**
Less: Commitments relating to short-term leases and those leases term with a remaining lease ended on or before 31 December 2019	(22,395)
	1,114
Weighted average incremental borrowing rate as at 1 January 2019	5%
Lease liabilities as at 1 January 2019	1,056

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[1]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[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 1 January 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS (Continued)

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

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

RELATED PARTIES

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTIES (Continued)

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

Plant and machinery	19%
Furniture and office equipment	19.0% to 49.4%
Motor vehicles	9.9% to 32.9%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENT PROPERTIES

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

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

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

For a transfer from properties under development and completed properties held for sale to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

PROPERTIES UNDER DEVELOPMENT

Properties under development are intended to be held for sale after completion.

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

Properties under development are classified as current assets unless those will not be realised in the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

COMPLETED PROPERTIES HELD FOR SALE

Completed properties held for sale are stated in the statement of financial position at the lower of cost and net realisable value. Cost is determined by an apportionment of the total costs of land and buildings attributable to the unsold properties. Net realisable value takes into account the price ultimately expected to be realised, less estimated costs to be incurred in selling the properties.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (APPLICABLE FROM 1 JANUARY 2019)

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold building or office	2 to 3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (Continued)

Group as a lessee (Continued)

(b) Lease liabilities (Continued)

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

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of buildings or offices that are considered to be of low value.

GROUP AS A LESSOR

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (APPLICABLE BEFORE 1 JANUARY 2019)

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except when, if the loss is compensated for by future lease payments at below market price, where it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

General approach

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

General approach (Continued)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables and accruals, other borrowings, financial liabilities at fair value through profit or loss and amounts due to other related parties.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES AT AMORTISED COST (LOANS AND BORROWINGS)

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

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

FINANCIAL LIABILITIES

Financial guarantee contracts

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

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

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

PROVISIONS

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

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

INCOME TAX

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX (Continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income to match the grant on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

Revenue from contracts with customers

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

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

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

Sale of properties

Revenues are recognised when or as the control of the asset is transferred to the purchaser. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides benefits which are received and consumed simultaneously by the purchaser; or
- creates and enhances an asset that the purchaser controls as the Group performs; or
- 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 asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the purchaser obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation that best depict the Group's performance in satisfying the performance obligation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

Revenue from contracts with customers (Continued)

Sale of properties (Continued)

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

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

Revenue from other sources

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

Other income

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

CONTRACT LIABILITIES

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

OTHER EMPLOYEE BENEFITS

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BORROWING COSTS

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

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

FOREIGN CURRENCIES

These financial statements are presented in Renminbi ("RMB"), which is the Group's and the Company's functional currency because the Group's principal operations are carried out in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and completed properties held for sale

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property. Completed properties held for sale comprise properties that are held for sale in the ordinary course of business. Principally, these are residential properties that the Group develops and intends to sell before or on completion of construction.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

ESTIMATION UNCERTAINTY

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

Provision for expected credit losses on trade receivables and financial assets included in prepayments, other receivables and other assets

The Group uses a provision matrix to calculate ECLs for trade receivables and financial assets included in prepayments, other receivables and other assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the property development sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements, respectively.

Provision of properties under development and completed properties held for sale

The Group's properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's historical experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion of properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such a provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which the estimate is changed will be adjusted accordingly.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

ESTIMATION UNCERTAINTY (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Estimation on the fair value of investment properties

Investment properties, including completed investment properties and investment properties under construction carried at fair value, are revalued at each reporting date based on the appraised market value provided by independent professional valuers. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each reporting date.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amounts of investment properties at 31 December 2019 and 2018 were RMB3,318,900,000 and RMB3,125,600,000, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

ESTIMATION UNCERTAINTY (Continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses was RMB54,278,000 (2018: RMB58,181,000). Further details are contained in note 16 to the financial statements.

PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for all its property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact on the LAT expenses and the related provision in the period in which the differences realise.

Fair value of the convertible bonds

The fair value of the convertible bonds has been valued based on a valuation technique of the binomial model that incorporates various market inputs including the risk-free rate, volatility, liquidity discount and risky discount rate, and hence they are subject to uncertainty The fair values the convertible bonds at 31 December 2019 and 2018 were RMB272,967,000 and RMB284,913,000, respectively. Further details, including the key assumptions used for fair value measurement, are given in note 28 to the financial statements.

4. SEGMENT INFORMATION

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

(a) the property development segment engages in the development and sale of properties;
(b) the property leasing segment engages in leasing out properties for their rental income potential and/or for capital appreciation; and
(c) the others segment engages in investment holding.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax.

4. SEGMENT INFORMATION (Continued)

No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision-maker for review.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2019

	Property development RMB'000	Property leasing RMB'000	Others RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	99,638	63,711	—	163,349
Revenue				163,349
Segment results	(143,097)	161,912	(65,663)	(46,848)
Loss before tax				(46,848)
Other segment information:				
Depreciation	1,125	—	73	1,198
Depreciation of right-of-use assets	—	419	353	772
Provision for impairment of completed properties held for sale	9,710	—	—	9,710
(Reversal)/provision for impairment of trade receivables	(1,086)	1,646	—	560
Realisation of onerous operating leases	—	(1,243)	—	(1,243)
Bank interest income	(70)	(100)	(32)	(202)
Finance costs (other than interest on lease liabilities)	2,460	75	—	2,535
Fair value gain on investment properties	—	(146,823)	—	(146,823)
Fair value gain on convertible bonds	(11,946)	—	—	(11,946)
Capital expenditure*	8	—	—	8

* Capital expenditure consists of additions to property, plant and equipment.

4. SEGMENT INFORMATION (Continued)

Year ended 31 December 2018 (restated)

	Property development RMB'000	Property leasing RMB'000	Others RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	567,220	57,551	—	624,771
Revenue				624,771
Segment results	134,622	71,611	(78,183)	128,050
Profit before tax				128,050
Other segment information:				
Depreciation	1,239	72	70	1,381
Provision for impairment of completed properties held for sale	1,662	—	—	1,662
Provision for impairment of trade receivables	1,114	932	—	2,046
Realisation of onerous operating leases	—	(1,098)	—	(1,098)
Bank interest income	(375)	(84)	(281)	(740)
Finance costs (other than interest on lease liabilities)	6,720	136	—	6,856
Fair value gain on investment properties	—	(67,785)	—	(67,785)
Fair value loss on convertible bonds	39,897	—	—	39,897
Capital expenditure	302	4,039	70	4,411

GEOGRAPHICAL INFORMATION

Since the Group solely operates business in the Mainland China and all of the non-current assets of the Group are located in the Mainland China, geographical segment information in accordance with IFRS 8 *Operating Segments* is not presented.

INFORMATION ABOUT A MAJOR CUSTOMER

Revenue of approximately RMB12,638,000 (2018: Nil) was derived from sales by the property development segment to a single customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 **RMB'000**	2018 RMB'000
Revenue from contracts with customers	**99,638**	567,220
Revenue from other sources		
Gross rental income from investment property operating leases:		
Other lease payments, including fixed payments	**63,711**	N/A
	63,711	57,551
	163,349	624,771

REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregated revenue information

For the year ended 31 December 2019

Segments	**Property development** **RMB'000**
Type of goods	
Sale of properties	**99,638**
Geographical market	
Mainland China	**99,638**
Timing of revenue recognition	
Revenue from sale of properties at a point in time	**99,638**
Revenue from contracts with customers	
External customers	**99,638**

5. REVENUE, OTHER INCOME AND GAINS (Continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

(a) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

Segments	Property development RMB'000
Type of goods	
Sale of properties	567,220
Geographical market	
Mainland China	567,220
Timing of revenue recognition	
Revenue from sale of properties at a point in time	567,220
Revenue from contracts with customers	
External customers	567,220

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligation satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of properties	**23,135**	231,667

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of properties

The performance obligation is satisfied when customers obtain the physical possession or the legal title of the completed properties and the Group has right to payment and the collection of the consideration is probable.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

(b) Performance obligations (Continued)

Sale of properties (Continued)

	2019 RMB'000	2018 RMB'000
Other income		
Bank interest income	**202**	740
Government grants	**6**	172
Others	**123**	574
	331	1,486
Gains		
Exchange gain	**745**	1,701
	1,076	3,187

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on interest-bearing bank and other borrowings	**162,908**	225,558
Interest on lease liabilities	**59**	—
Interest expense arising from revenue contracts	**2,460**	17,490
Total interest expense on financial liabilities not at fair value through profit or loss	**165,427**	243,048
Less: Interest capitalised	**(162,908)**	(236,328)
	2,519	6,720
Other finance costs:		
Increase in discounted amounts of provisions arising from the passage of time (note 26)	**75**	136
	2,594	6,856

7. (LOSS)/PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000 (restated)
Cost of properties sold	**76,796**	325,593
Cost of leasing properties	**33,561**	18,524
Depreciation of property, plant and equipment	**1,198**	1,381
Depreciation of right-of-use assets	**772**	—
Auditor's remuneration	**2,730**	2,350
Minimum lease payments under operating leases	**—**	1,973
Lease payments not included in the measurement of lease liabilities (excluding cost of sales)	**71**	—
Employee benefit expense (excluding directors' remuneration as set out in note 8):		
Wages and salaries	**19,637**	30,601
Pension scheme and social welfare	**6,531**	10,178
	26,168	40,779
Foreign exchange differences, net	**(745)**	(1,071)
Impairment of financial assets, net:		
Impairment of trade receivables, net (note 19)	**560**	2,046
Impairment of financial assets included in prepayments, other receivables and other assets, net	**3,082**	6,313
	3,642	8,359
Impairment of completed properties held for sale (note 18)	**9,710**	1,662
Interest penalties	**127,577**	—
Realisation of onerous operating leases (note 26)	**(1,243)**	(1,098)
Changes in fair value of investment properties (note 14)	**(146,823)**	(67,785)
Changes in fair value of convertible bonds	**(11,946)**	39,897
Bank interest income	**(202)**	(740)
Gain on disposal of items of property, plant and equipment	**—**	(349)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019	2018
	RMB'000	RMB'000
Fees	**660**	657
Other emoluments:		
Salaries, allowances and benefits in kind	**1,243**	1,442
Pension scheme contributions	**118**	186
	1,361	1,628

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2019	2018
	RMB'000	RMB'000
Mr. Gu Jiong	**220**	219
Mr. Lo Wa Kei, Roy	**220**	219
Mr. Fong Wo, Felix	**220**	219
	660	657

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

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

(b) EXECUTIVE DIRECTORS AND A NON-EXECUTIVE DIRECTOR

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019				
Executive directors:				
— Mr. Chen Chengshou	—	983	86	1,069
— Mr. Feng Cizhao	—	80	32	112
	—	1,063	118	1,181
Non-executive director:				
— Ms. Gao Qiaoqin	—	180	—	180
	—	1,243	118	1,361
2018				
Executive directors:				
— Mr. Chen Chengshou	—	983	83	1,066
— Mr. Feng Cizhao	—	80	32	112
— Mr. Wong Thian Tsu, Michael	—	199	—	199
	—	1,262	115	1,377
Non-executive director:				
— Ms. Gao Qiaoqin	—	180	71	251
	—	1,442	186	1,628

Mr. Pu Wei was appointed as an executive Director on 5 February 2020.

Mr. Chou Chiu Ho was appointed as an executive director on 5 February 2020 and was subsequently re-designated from an executive director of the Company to a non-executive Director on 1 May 2020.

Mr. Wong Thian Tsu, Michael resigned as an executive director of the Company on 3 October 2018.

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,676**	5,149
Pension scheme contributions	**334**	332
	4,010	5,481

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2019	2018
Nil to HK$1,000,000	**1**	—
HK$1,000,001 to HK$1,500,000	**3**	4
	4	4

10. INCOME TAX

The Group is subject to income tax on an entity based on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income arising in Hong Kong during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 (the "New Corporate Income Tax Law"). Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

10. INCOME TAX (Continued)

According to the requirements of the Provisional Regulations of the PRC on land appreciation tax ("LAT") effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective from 27 January 1995, all income from the sale or transfer of state-owned leasehold interest on land, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has estimated and made tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated.

The major components of income tax expense are as follows:

	2019 **RMB'000**	2018 RMB'000 (restated)
Current tax:		
Income tax in the PRC for the year	**3,348**	6,284
LAT	**(3,199)**	65,417
Deferred tax (note 16)	**65,521**	34,895
Total tax charge for the year	**65,670**	106,596

10. INCOME TAX (Continued)

A reconciliation of income tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective income tax rate, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	2019 RMB'000	2018 RMB'000 (restated)
(Loss)/profit before tax	**(46,848)**	128,050
Tax at the statutory tax rate	**(11,712)**	32,013
Lower tax rate for specific entities	**4,258**	1,485
Expenses not deductible for tax	**723**	2,752
Tax losses utilised from previous periods	**—**	(1,567)
Tax losses and temporary differences not recognised	**74,800**	22,850
Subtotal	**68,069**	57,533
LAT (reversal)/provision for the year	**(6,292)**	49,781
Prepaid LAT for the year	**3,093**	15,636
Deferred tax effect of LAT provision (note 16)	**1,573**	(12,445)
Tax effect of prepaid LAT	**(773)**	(3,909)
Tax charge at the Group's effective rate	**65,670**	106,596

For the year ended 31 December 2019, tax losses and temporary differences amounting to RMB316,443,000 (2018: RMB97,328,000) have not been recognised as deferred tax assets, as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation (2018: Nil).

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,878,622,000 (2018: 1,878,622,000) in issue during the year.

The calculation of the diluted (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for year ended 31 December 2019 and 2018 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The calculations of the basic and diluted earnings per share are based on:

	2019 **RMB'000**	2018 RMB'000 (restated)
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**(116,976)**	42,911
Less: Fair value gain of the convertible bonds	**(11,946)**	—
Add: Fair value loss of the convertible bonds	**—**	39,897
	(128,922)*	82,808

	Number of shares **2019**	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,878,622,000**	1,878,622,000
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**215,827,338**	126,294,569
	2,094,449,338	2,004,916,569

* Because the diluted (loss)/earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, the diluted loss per share amount is based on the loss for the year of RMB116,976,000, and the weighted average number of ordinary shares of 1,878,622,000 in issue during the year ended 31 December 2019.

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:				
At 1 January 2018	2,662	5,201	22,520	30,383
Additions	—	229	143	372
Disposals	—	(4)	(1,145)	(1,149)
At 31 December 2018 and 1 January 2019	2,662	5,426	21,518	29,606
Additions	—	8	—	8
Disposals	—	(18)	—	(18)
At 31 December 2019	2,662	5,416	21,518	29,596
Accumulated depreciation:				
At 1 January 2018	2,529	4,315	16,621	23,465
Charge for the year	—	270	1,111	1,381
Disposals	—	(4)	(1,088)	(1,092)
At 31 December 2018 and 1 January 2019	2,529	4,581	16,644	23,754
Charge for the year	—	184	1,014	1,198
Disposals	—	(2)	—	(2)
At 31 December 2019	2,529	4,763	17,658	24,950
Net carrying amount:				
At 31 December 2018	133	845	4,874	5,852
At 31 December 2019	133	653	3,860	4,646

None of the Group's property, plant and equipment (2018: Nil) have been pledged to secure other borrowings granted to the Group.

14. INVESTMENT PROPERTIES

	Total RMB'000
At 1 January 2018	**3,053,776**
Additions	**4,039**
Change in fair value of investment properties	**67,785**
At 31 December 2018	**3,125,600**
Transferred from completed properties held for sale	**46,477**
Change in fair value of investment properties	**146,823**
At 31 December 2019	**3,318,900**

The Group's investment properties consist of commercial properties completed in Mainland China. The Group's investment properties were revalued on 31 December 2019 based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited independent professionally qualified valuers, at RMB3,318,900,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to third parties under operating leases, further details of which are included in note 15.

As at 31 December 2019, the Group's investment properties with a value of RMB3,318,900,000 (2018: RMB3,125,600,000) were pledged to secure interest-bearing bank and other borrowings granted to the Group (note 25).

14. INVESTMENT PROPERTIES (Continued)

FAIR VALUE HIERARCHY

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

Fair value measurement as at 31 December 2019 and 31 December 2018 using

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
31 December 2019				
Commercial properties	**—**	**—**	**3,318,900**	**3,318,900**
31 December 2018				
Commercial properties	—	—	3,125,600	3,125,600

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

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000
Carrying amount at 1 January 2018	3,053,776
Additions	4,039
Net gain from a fair value adjustment recognised in changes in fair value of investment properties in profit or loss	67,785
Carrying amount at 31 December 2018	3,125,600
Transferred from completed properties held for sale	46,477
Net gain from a fair value adjustment recognised in changes in fair value of investment properties in profit or loss	146,823
Carrying amount at 31 December 2019	3,318,900

14. INVESTMENT PROPERTIES (Continued)

FAIR VALUE HIERARCHY (Continued)

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Commercial properties	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Year ended 31 December 2019	Discounted cash flow method	Market monthly rental rate (RMB/sq.m.)	2.89-6.00
		Term yield	4.50%-5.50%
		Reversionary yield	5.00%-6.00%
		Long term vacancy rate	3.00%-8.00%
Year ended 31 December 2018	Discounted cash flow method	Market monthly rental rate (RMB/sq.m.)	2.80-5.90
		Term yield	4.50%-5.50%
		Reversionary yield	5.00%-6.00%
		Long term vacancy rate	3.00%-8.00%

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

15. LEASES

THE GROUP AS A LESSEE

The Group has lease contracts for various items of buildings or offices used in its operations. Leases of buildings or offices generally have lease terms between 2 and 3 years or are individually of low value. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Buildings or offices RMB'000
As at 1 January 2019	1,023
Additions	776
Depreciation charge	(772)
As at 31 December 2019	1,027

(b) Lease liabilities

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

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	**1,056**
New leases	**776**
Accretion of interest recognised during the year	**59**
Payments	**(841)**
Carrying amount at 31 December 2019	**1,050**
Analysed into:	
Current portion	**808**
Non-current portion	**242**

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

15. LEASES (Continued)

THE GROUP AS A LESSEE (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	**59**
Depreciation charge of right-of-use assets	**772**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	**9,044**
Expense relating to leases of low-value assets (included in administrative expenses)	**71**
Total amount recognised in profit or loss	**9,946**

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 33(c), to the financial statements.

THE GROUP AS A LESSOR

The Group leases its investment properties (note 14) consisting of four commercial properties in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB63,711,000 (2018: RMB57,551,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**30,639**	27,250
After one year but within two years	**2,461**	7,945
	33,100	35,195

16. DEFERRED TAX

DEFERRED TAX LIABILITIES

	Accelerated tax depreciation RMB'000	Adjustment of fair value arising from investment properties RMB'000	Capitalised interest RMB'000	Total RMB'000
Deferred tax liabilities				
Gross deferred tax liabilities				
At 1 January 2018	51,420	416,601	57,814	525,835
Deferred tax charged to profit or loss during the year (note 10)	13,480	16,946	46,766	77,192
At 31 December 2018	64,900	433,547	104,580	603,027
Deferred tax charged to profit or loss during the year (note 10)	—	36,706	24,965	61,671
At 31 December 2019	64,900	470,253	129,545	664,698

DEFERRED TAX ASSETS

The following is the deferred tax assets recognised and the movements therein during the year:

	Loss available for offsetting against future taxable profit RMB'000	Accruals and provisions RMB'000	Accrued LAT RMB'000	Total RMB'000
Deferred tax assets				
Gross deferred tax assets				
At 1 January 2018	26,663	19,976	147,850	194,489
Deferred tax credited/(charged) to profit or loss during the year (note 10)	31,518	(1,666)	12,445	42,297
At 31 December 2018	58,181	18,310	160,295	236,786
Deferred tax (charged)/credited to profit or loss during the year (note 10)	(3,903)	1,626	(1,573)	(3,850)
At 31 December 2019	54,278	19,936	158,722	232,936

16. DEFERRED TAX (Continued)

DEFERRED TAX ASSETS (Continued)

The Group has tax losses arising in Mainland China of RMB217,112,000 (2018: RMB234,324,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2019 RMB'000	2018 RMB'000
Tax losses	**183,628**	153,333

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2019, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the subsidiaries of the Group established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute earnings arising from 1 January 2008 to 31 December 2019 in the foreseeable future. The aggregate amount of temporary differences associated with the investments in these subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB129,158,000 (2018: RMB132,005,000).

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

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**97,511**	96,045
Net deferred tax liabilities recognised in the consolidated statement of financial position	**529,273**	462,286
	(431,762)	(366,241)

17. PROPERTIES UNDER DEVELOPMENT

	2019 RMB'000	2018 RMB'000
Carrying amount	**1,124,891**	1,031,980
Effects of adoption of IFRS 15	**—**	12,249
Additions	**216,912**	406,530
Transferred to completed properties held for sale	**—**	(325,868)
	1,341,803	1,124,891

Certain of the Group's properties under development with an aggregate carrying amount of approximately RMB398,964,000 (2018: RMB709,131,000) have been pledged to secure interest-bearing bank and other borrowings granted to the Group (note 25).

The movements in provision for impairment of properties under development are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**—**	(36,259)
Transferred to completed properties held for sale	**—**	36,259
	—	—

18. COMPLETED PROPERTIES HELD FOR SALE

	2019 RMB'000	2018 RMB'000
Carrying amount	**1,691,874**	1,693,261
Additions	**15,651**	—
Transferred from properties under development	**—**	325,868
Transferred to cost of properties sold	**(76,796)**	(325,593)
Transferred to investment properties	**(46,477)**	
Impairment	**(9,710)**	(1,662)
	1,574,542	1,691,874

Certain of the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB956,886,000 (2018: RMB627,422,000) have been pledged to secure interest-bearing bank and other borrowings granted to the Group (note 25).

18. COMPLETED PROPERTIES HELD FOR SALE (Continued)

The movements in provision for impairment of completed properties held for sale are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**36,436**	20,518
Transferred from properties under development	**—**	36,259
Impairment of completed properties held for sale	**9,710**	1,662
Impairment loss realised	**(4,599)**	(22,003)
	41,547	36,436

Included in the above provision for impairment of completed properties held for sale is a provision for the impaired completed properties held for sale of RMB41,547,000 (2018: RMB36,436,000) with a carrying amount before provision of RMB899,577,000 (2018: RMB763,315,000).

19. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**24,894**	26,298
Impairment	**(23,540)**	(22,980)
	1,354	3,318

Trade receivables represent rentals receivable from tenants and sales income receivables from customers which are payable in advance in accordance with the terms of the related sales and purchase agreements. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables approximate to their fair values.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**1,354**	3,318

19. TRADE RECEIVABLES (Continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019	2018
	RMB'000	RMB'000
At beginning of year	**22,980**	20,934
Impairment loss, net (note 7)	**560**	2,046
At end of year	**23,540**	22,980

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	94.56%	—	—	—	94.56%
Gross carrying amount (RMB'000)	24,894	—	—	—	24,894
Expected credit losses (RMB'000)	23,540	—	—	—	23,540

As at 31 December 2018

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	87.38%	—	—	—	87.38%
Gross carrying amount (RMB'000)	26,298	—	—	—	26,298
Expected credit losses (RMB'000)	22,980	—	—	—	22,980

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000 (restated)
Prepayments	**9,298**	11,534
Other tax recoverable	**14,033**	14,741
Deposits and other receivables	**198,135**	109,627
	221,466	135,902
Impairment allowance	**(9,522)**	(6,440)
	211,944	129,462

Deposits and other receivables mainly represent deposits with suppliers. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for where there were no comparable companies as at 31 December 2019 was 4.8% (2018: 5.9%).

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

21. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000 (restated)
Cash at hand	**235**	78
Cash at banks, unrestricted	**181,990**	43,450
Cash and cash equivalents	**182,225**	43,528
Denominated in RMB	**181,430**	41,122
Denominated in HK$	**774**	2,385
Denominated in US$	**21**	21
	182,225	43,528
Pledged time deposits for the guarantee to a third party	**—**	535,400
Restricted pre-sale proceeds	**2,830**	2,339
Restricted deposits	**2,830**	537,739

21. CASH AND CASH EQUIVALENTS (Continued)

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Cash at banks earns interest at floating rates based on daily bank deposit rates.

In accordance with relevant documents issued by the PRC State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place in designated bank accounts certain amounts of pre-sale proceeds of properties as deposits for constructions of related properties. The deposits can only be used for purchases of construction materials and the payments of construction fees of the relevant property projects when approval from the PRC State-Owned Land and Resource Bureau is obtained.

22. TRADE PAYABLES

An aging analysis of the outstanding trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 **RMB'000**	2018 RMB'000
Less than one year	**56,944**	125,515
Over one year	**234,724**	109,850
	291,668	235,365

The trade payables are unsecured and non-interest-bearing.

23. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000 (restated)
Other payables and accruals	**235,828**	405,642
Interest penalties	**127,557**	—
Other tax payables	**127,121**	118,446
Deposits related to sales of properties	**66,287**	50,607
Interest payables	**60,434**	—
Deposits related to construction	**19,711**	18,031
Advances from customers	**17,339**	—
Payroll and welfare payables	**5,943**	6,245
Rental payables	**493**	18,771
Others	**11,393**	10,633
	672,106	628,375

Except for interest payables and interest penalties which are repayable on demand, other payables and accurals are unseured and non-interest-bearing.

24. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	2019 RMB'000	2018 RMB'000
Short-term advances received from customers		
Sale of properties	**191,139**	217,762

Contract liabilities represent the sales proceeds received from buyers in connection with the Group's pre-sale of properties at the end of the reporting period.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Current portion of long term other borrowings — secured	6.80-11.67	2020	1,890,343	1,266,230	7.71-10.41	2019	1,266,230
Non-current							
Other borrowings — secured	—	—	—	700,844	12.18	2020-2021	700,844
			1,890,343	1,967,074			1,967,074

	2019 RMB'000	2018 RMB'000
Analysed into:		
Other borrowings repayable:		
Repayable within one year	**1,890,343**	1,266,230
Repayable in the second year	**—**	40,000
Repayable in the third to fifth years	**—**	660,844
	1,890,343	1,967,074

As at 31 December 2019, interest payments of RMB60,434,000 relating to certain borrowings of the Group of a principal amount of RMB1,119,573,000 were not paid in accordance with the repayment schedules pursuant to the borrowing agreements. These constituted events of defaults which resulted in cross-default of certain borrowings other than those mentioned above, amounting to a principal amount of RMB770,770,000 as at 31 December 2019.

In connection with the default and cross-default, the Group was subject to a penalty of RMB127,557,000 which were included in other payables and accruals at 31 December 2019.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

The Group's other borrowings are secured by the pledges of the following assets with carrying values at 31 December 2019 and 2018 as follows:

		2019 RMB'000	2018 RMB'000
Equity interests in subsidiaries	(i)	**914,580**	439,715
Investment properties	(ii)	**3,318,900**	3,125,600
Completed properties held for sale	(iii)	**956,886**	627,422
Properties under development	(iv)	**398,964**	709,131

(i) The Group's other borrowings of RMB500,000,000 and RMB311,879,000 (2018: RMB500,000,000 and nil) were secured by the 100% equity interest in Wenshang Times and Chongqing Xinming, subsidiaries of the Company, respectively.

The Group's other borrowings of RMB500,000,000, RMB458,892,000, RMB419,121,000 and RMB311,879,000 (2018: RMB500,000,000, RMB495,000,000, RMB412,973,000 and RMB313,257,000) were secured by investment properties of Wenshang Times, Taizhou Investment, Shanghai Xinming and Chongqing Xinming, subsidiaries of the Company, respectively.

(ii) The Group's other borrowings of RMB311,879,000 (2018: Nil) were jointly secured by completed properties held for sale of Chongqing Xinming and Wenshang Times, subsidiaries of the Company.

The Group's other borrowings of RMB200,453,000 and nil (2018: RMB245,844,000 and RMB313,257,000) were secured by completed properties held for sale of Hangzhou Xinming and Chongqing Xinming, subsidiaries of the Company, respectively.

(iii) The Group's other borrowings of RMB311,879,000 (2018: RMB313,257,000) were secured by properties under development of Chongqing Xinming, a subsidiary of the Company.

(iv) The Group's other borrowings of RMB500,000,000 (2018: RMB500,000,000) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, (ii) the non-executive director, Ms. Gao Qiaoqin, and (iii) Xinming Group Limited, a related party of the Group.

The Group's other borrowings of RMB619,573,000 (2018: RMB972,074,000) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, and (ii) the non-executive director, Ms. Gao Qiaoqin.

The Group's other borrowings of RMB311,879,000 (2018: Nil) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, and (ii) Xinming Group Limited, a related party of the Group.

The Group's other borrowings of RMB458,892,000 (2018: RMB495,000,000) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, (ii) the non-executive director, Ms. Gao Qiaoqin, (iii) Xinming Group Limited, a related party of the Group, and (iv) Miss Chen Xi and Mr. Chen Junshi, the daughter and the son of the Controlling Shareholder, Mr. Chen Chengshou, as set out in note 37(b)(v).

26. PROVISIONS

Onerous operating leases:

	2019 RMB'000	2018 RMB'000
At 1 January	**1,168**	2,130
Realisation	**(1,243)**	(1,098)
Increase in discounted amounts arising from the passage of time	**75**	136
At 31 December	**—**	1,168
Analysed into:		
Current	**—**	1,168

Onerous contract provision

The Group has sold certain of the commercial properties at market prices, and then leases back from the owners for the purpose of leasing them out to third party tenants. Pursuant to the payment terms of these contracts from 1 July 2014 to 30 June 2019, the unavoidable costs of meeting the obligations have exceeded the economic benefits expected to be received. A provision has been made for these onerous contracts based on the estimated minimum net cost of exiting from the contracts as at 31 December 2018.

27. TAX PAYABLE

	2019 RMB'000	2018 RMB'000
Income tax	**262,792**	261,317
LAT	**652,192**	658,863
	914,984	920,180

28. CONVERTIBLE BONDS

On 1 June 2018, the Company issued convertible bonds in the aggregate principal amount of HK$300,000,000 (equivalent to approximately RMB245,016,000) (the "Convertible Bonds") at the price of 100% of their principal amount. The Convertible Bonds are redeemable at the option of the bondholders at a price of HK$1.39 per bond on 1 June 2020. The convertible bonds bear interest at the rate of 6.5% plus 1% handling fee per annum and are payable in arrears every six months.

The convertible bonds were jointly guaranteed by the Controlling Shareholder, Mr. Chen Chengshou, and the non-executive director, Ms. Gao Qiaoqin, pursuant to a deed of guarantee, and secured by Xinxing Company Limited by 940,000,000 shares of the Company held by Xinxing Company Limited, a company controlled by Mr. Chen Chengshou.

28. CONVERTIBLE BONDS (Continued)

The convertible bonds were recognised as financial liabilities designated upon initial recognition as at fair value through profit or loss.

	Convertible bonds RMB'000
Carrying amount at 1 January 2018	—
Issue of convertible bonds	245,016
Net loss from a fair value adjustment recognised in changes in fair value of financial liabilities in profit or loss	39,897
Carrying amount at 31 December 2018	284,913
Net gain from a fair value adjustment recognised in changes in fair value of financial liabilities in profit or loss	(11,946)
Carrying amount at 31 December 2019	272,967

The Group's Convertible Bonds were valued by an independent valuer by using binomial model with the following key assumptions:

	As at 31 December	
	2019	2018
Stock price of the Company	**HKD1.17**	HKD 1.29
Volatility	**41.10%**	38.49%
Risk-free interest rate	**1.94%**	1.87%
Dividend yield	**0%**	0%
Bond discount rate	**16.28%**	17.01%

29. ISSUED CAPITAL

ISSUED CAPITAL

	Number of shares	**Nominal value of HK$0.01 each**	**Nominal value RMB**
Authorised:			
At 31 December 2018 and 31 December 2019	1,880,000,000	18,800,000	14,891,000
Issued and fully paid:			
At 31 December 2018 and 31 December 2019	1,878,622,000	18,786,220	14,880,000

30. RESERVES

MERGER RESERVE

The merger reserve represents the aggregate amount of the paid-up capital of those companies comprising the Group prior to the incorporation of the Company and the reserve arising from acquisition of non-controlling interests. Details of the movements in the merger reserve are set out in the consolidated statement of changes in equity.

CAPITAL RESERVE

Capital reserve comprises the difference arising from changes in ownership interests in subsidiaries which do not result in change of control.

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Shandong Xingmeng	**25%**	25%
Shanghai Xinming	**21%**	21%
Chongqing Xinming	**5%**	5%

	2019 **RMB'000**	2018 RMB'000
(Loss)/profit for the year allocated to non-controlling interests:		
Shandong Xingmeng	**(2,405)**	(1,383)
Shanghai Xinming	**7,983**	(18,642)
Chongqing Xinming	**(1,023)**	(444)

	2019 **RMB'000**	2018 RMB'000
Accumulated balances of non-controlling interests at the reporting date:		
Shandong Xingmeng	**512**	2,917
Shanghai Xinming	**92,647**	84,664
Chongqing Xinming	**4,314**	5,337

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

(Continued)

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

2019	**Shandong Xingmeng RMB'000**	**Shanghai Xinming RMB'000**	**Chongqing Xinming RMB'000**
Revenue	6,720	(2,240)	12,291
Total expenses	(14,148)	(46,673)	(46,517)
(Loss)/profit for the year	(9,619)	38,020	(20,463)
Total comprehensive (loss)/profit for the year	(9,619)	38,020	(20,463)
Current assets	665,577	348,721	821,950
Non-current assets	15,154	1,090,058	316,169
Current liabilities	(678,680)	(902,948)	(1,051,861)
Non-current liabilities	—	(90,649)	—
Net cash flows from operating activities	313	3,326	6,882
Net cash flows used in investing activities	(8)	—	—
Net cash flows used in financing activities	—	(5,260)	(6,300)
Net increase/(decrease) in cash and cash equivalents	305	(1,934)	582

2018	Shandong Xingmeng RMB'000	Shanghai Xinming RMB'000	Chongqing Xinming RMB'000
Revenue	820	52,712	177,767
Total expenses	(6,787)	(50,275)	(30,269)
Loss for the year	(5,531)	(88,768)	(8,881)
Total comprehensive loss for the year	(5,531)	(88,768)	(8,881)
Current assets	598,135	475,196	803,187
Non-current assets	12,005	940,401	305,621
Current liabilities	(598,472)	(949,326)	(1,003,083)
Non-current liabilities	—	(63,109)	997
Net cash flows from operating activities	220,154	1,769	39,499
Net cash flows used in investing activities	(8)	(81)	(13,719)
Net cash flows used in financing activities	(220,000)	(819)	(33,243)
Net increase/(decrease) in cash and cash equivalents	146	869	(7,463)

32. BUSINESS COMBINATION

On 18 September 2019, the Group acquired 100% interests in Hangzhou Pengyue and Hangzhou Zhiyao from the Controlling Shareholder, Mr. Chen Chengshou and a related party, Xinming Group Limited. Hangzhou Pengyue and Hangzhou Zhiyao are engaged in industrial investment. The acquisition was made as part of the Group's strategy to reduce its related party transactions and strengthen internal integration. The purchase considerations for the acquisition were in the form of cash, with RMB1,000 and RMB1,000 paid at the acquisition date, respectively.

The acquisition was a business combination under common control. The comparative information which includes the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, and notes to the consolidated financial statements for the comparative period are restated as if Hangzhou Zhiyao and Hangzhou Pengyue had been combined at the beginning of the comparative period.

The carrying amounts of the assets and liabilities of Hangzhou Pengyue and Hangzhou Zhiyao at the combination date and 31 December 2018 are as follows:

HANGZHOU PENGYUE

	Combination Date RMB'000	31 December 2018 RMB'000
Prepayments, other receivables and other assets	—	850
Due from related parties	—	38,543
Cash and cash equivalents	**1**	8
Other payables and accruals	—	25,000
Due to related parties	—	13,541
Net assets	**1**	860
Satisfied by cash	**1**	

HANGZHOU ZHIYAO

	Combination Date RMB'000	31 December 2018 RMB'000
Due from related parties	—	16,950
Cash and cash equivalents	**1**	8,005
Other payables and accruals	—	16,953
Due to related parties	—	7,511
Net assets	**1**	491
Satisfied by cash	**1**	

32. BUSINESS COMBINATION (Continued)

Notes:

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of the above subsidiaries on the consolidated statement of financial position.

The consolidated statement of financial position as at 31 December 2018:

	The Group as previously reported RMB'000	**Hangzhou Pengyue** RMB'000	**Hangzhou Zhiyao** RMB'000	**The Group restated** RMB'000
Net assets	2,091,156	860	491	2,092,507
Issued capital	14,880	—	—	14,880
Share premium	496,155	—	—	496,155
Merger reserve	81,491	—	—	81,491
Capital reserve	(63,214)	16,960	500	(45,754)
Share award scheme reserve	4,533	—	—	4,533
Fair value reserve of financial assets at fair value through other comprehensive income	(1,500)	—	—	(1,500)
Retained earnings	1,468,524	(16,100)	(9)	1,452,415
Non-controlling interests	90,287	—	—	90,287
	2,091,156	860	491	2,092,507

The consolidated statement of profit or loss for year ended 31 December 2018:

	The Group as previously reported RMB'000	**Hangzhou Pengyue** RMB'000	**Hangzhou Zhiyao** RMB'000	**The Group restated** RMB'000
Revenue	624,771	—	—	624,771
Cost of sales	(344,117)	—	—	(344,117)
Other income and gains	3,187	—	—	3,187
Selling and distribution costs	(44,023)	—	—	(44,023)
Administrative expenses	(87,372)	—	—	(87,372)
Impairment losses on financial assets, net	(8,359)	—	—	(8,359)
Other expenses	(37,068)	(1)	—	(37,069)
Changes in fair value of investment properties	67,785	—	—	67,785
Changes in fair value of convertible bonds	(39,897)	—	—	(39,897)
Finance costs	(6,856)	—	—	(6,856)
Income tax expense	(106,596)	—	—	(106,596)
Profit for the year	21,455	(1)	—	21,454

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) MAJOR NON-CASH TRANSACTIONS

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB776,000 and RMB776,000, respectively, in respect of lease arrangements for building (2018: Nil).

(b) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Convertible bonds	Interest-bearing bank and other borrowings	Lease liabilities	Included in "other payables and accruals"	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	—	2,054,051	—	240,288	2,294,339
Changes from financing cash flows	245,016	(86,977)	—	32,833	190,872
Net loss from a fair value adjustment recognised in changes in fair value of financial liabilities in profit or loss	39,897	—	—	—	39,897
Acquisition of non-controlling interests	—	—	—	(72,500)	(72,500)
At 31 December 2018	284,913	1,967,074	—	200,621	2,452,608
Effect of adopt IFRS 16	—	—	1,056	—	1,056
At 1 January 2019 (restated)	284,913	1,967,074	1,056	200,621	2,453,664
Changes from financing cash flows	—	(76,731)	(841)	(73,823)	(151,395)
New leases	—	—	776	—	776
Net gain from a fair value adjustment recognised in changes in fair value of financial liabilities in profit or loss	(11,946)	—	—	—	(11,946)
Interest expense	—	—	59	—	59
Acquisition of non-controlling interests	—	—	—	(13,833)	(13,833)
At 31 December 2019	272,967	1,890,343	1,050	112,965	2,277,325

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) TOTAL CASH OUTFLOW FOR LEASES

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

	2019 **RMB'000**
Within operating activities	**(9,115)**
Within financing activities	**(841)**
	(9,956)

34. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the consolidated financial statements were as follows:

	2019 **RMB'000**	2018 RMB'000
Guarantees in respect of mortgage facilities granted to purchasers of the Group's properties	**28,914**	27,984

The Group provided guarantees in respect of mortgage facilities granted by certain banks to the purchasers of the Group's completed properties held for sale. Pursuant to the terms of the guarantee agreements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted to banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee period commences from the date of grant of the relevant mortgage loan and ends after the execution of individual purchaser's collateral agreement.

The Group did not incur any material losses during the year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's completed properties held for sale. The directors considered that in case of default on payments, the net realisable value of the related properties would be sufficient to repay the outstanding mortgage loans together with any accrued interest and penalty, and therefore no provision has been made in connection with the guarantees.

35. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in note 25 to the financial statements.

Details of the Group's restricted deposits are included in note 21 to the financial statements.

36. COMMITMENTS

(a) THE GROUP HAD THE FOLLOWING CAPITAL COMMITMENTS AT THE END OF THE REPORTING PERIOD:

	2019	2018
	RMB'000	RMB'000
Contracted, but not provided for:		
Properties under development	**274,266**	27,073

(b) OPERATING LEASE COMMITMENTS AS AT 31 DECEMBER 2018

The Group leased certain of its commercial properties under operating lease arrangements, negotiated for lease terms of one to five years with an option for renewal after the end of lease terms, at which time all terms would be renegotiated.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	RMB'000
Within one year	23,509

37. RELATED PARTY TRANSACTIONS

(a) NAME AND RELATIONSHIP

Name of related party	Relationship with the Group
Mr. Chen Chengshou	Controlling Shareholder
Ms. Gao Qiaoqin	Wife of the Controlling Shareholder
Xinming Group Limited	Controlled by the Controlling Shareholder
Yuanyang Holdings Group Share Limited Company	Significantly influenced by Mr. Zheng Xiangtian, brother of the Controlling Shareholder
Hangzhou Taoyuan Shanzhuang Property Development Limited	Controlled by the Controlling Shareholder
Qi'an Insurance Brokers Limited	Controlled by the Controlling Shareholder
Hangzhou Kaijie Decoration Co., Ltd.	Significantly influenced by Mr. Zheng Xiangtian, brother of the Controlling Shareholder
Zhejiang Tianmao Landscape Engineering Co., Ltd.	Controlled by Mr. Zheng Xiangtian, brother of the Controlling Shareholder

37. RELATED PARTY TRANSACTIONS (Continued)

(b) IN ADDITION TO THE TRANSACTIONS AND BALANCES DETAILED ELSEWHERE IN THESE FINANCIAL STATEMENTS, THE GROUP HAD THE FOLLOWING MATERIAL TRANSACTIONS WITH RELATED PARTIES DURING THE YEAR:

Nature of transactions

Recurring transactions

	2019 **RMB'000**	2018 RMB'000
(i) Purchases of construction materials and related services from a related party		
Yuanyang Holdings Group Share Limited Company	**—**	4,593

The purchases of construction materials and related services from the above related parties were made according to the prices and terms agreed between the related parties.

	2019 **RMB'000**	2018 RMB'000
(ii) Purchases of properties from a related party		
Hangzhou Taoyuan Shanzhuang Property Development Limited	**480**	—

The purchases of properties from the above related party were made according to the prices and terms agreed between the related parties.

	2019 **RMB'000**	2018 RMB'000
(iii) Leasing of offices from a related party		
Hangzhou Taoyuan Shanzhuang Property Development Limited	**—**	480

The lease of offices from the above related party was entered into according to the prices and terms agreed between the related parties.

Non-recurring transactions

	2019 **RMB'000**	2018 RMB'000
(iv) Purchases of insurance services from a related party		
Qi'an Insurance Brokers Limited	**800**	—

The purchases of insurance services from the above related party were made according to the prices and terms agreed between the related parties.

37. RELATED PARTY TRANSACTIONS (Continued)

(b) (Continued)

Nature of transactions (Continued)

Non-recurring transactions (Continued)

(v) Guarantees provided for interest-bearing bank and other borrowings by related parties

As set out in note 25(iv), the Group's other borrowings of RMB524,832,000 (2018: RMB500,000,000) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, (ii) the non-executive director, Ms. Gao Qiaoqin, and (iii) Xinming Group Limited, a related party of the Group.

The Group's other borrowings of RMB655,175,000 (2018: RMB972,074,000) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, and (ii) the non-executive director, Ms. Gao Qiaoqin.

The Group's other borrowings of RMB311,879,000 (2018: Nil) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, (ii) Xinming Group Limited, a related party of the Group.

The Group's other borrowings of RMB458,892,000 (2018: RMB495,000,000) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou, (ii) the non-executive director, Ms. Gao Qiaoqin, (iii) Xinming Group Limited, a related party of the Group, and (iv) Miss Chen Xi and Mr Chen Junshi, the daughter and the son of the Controlling Shareholder, Mr. Chen Chengshou.

(vi) Guarantees provided for the convertible bonds by related parties

As set out in note 28, the Group's convertible bonds of RMB272,967,000 (2018: RMB284,913,000) were jointly guaranteed by (i) the Controlling Shareholder, Mr. Chen Chengshou and (ii) the non-executive director, Ms. Gao Qiaoqin.

(vii) During the year, the Group acquired a subsidiary, Hangzhou Zhiyao, from Xinming Group Limited, a related party of the Group and the Controlling Shareholder, Mr. Chen Chengshou, at a consideration of RMB1,000, based on an internal valuation of the business performed by the directors of the Company. Further details of the transaction are included in note 32 to the financial statements.

During the year, the Group acquired a subsidiary, Hangzhou Pengyue, from Xinming Group Limited, a related party of the Group and the Controlling Shareholder, Mr. Chen Chengshou, at a consideration of RMB1,000, based on an internal valuation of the business performed by the directors of the Company. Further details of the transaction are included in note 32 to the financial statements.

37. RELATED PARTY TRANSACTIONS (Continued)

(c) OUTSTANDING BALANCES WITH RELATED PARTIES

	2019 RMB'000	2018 RMB'000 (restated)
Due from other related parties		
Xinming Group Limited	—	55,493
Due to other related parties		
Ms. Gao Qiaoqin	—	13,540
Hangzhou Kaijie Decoration Co., Ltd	—	7,512
Yuanyang Holdings Group Share Limited Company	—	5,877
	—	26,929

(d) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2019 RMB'000	2018 RMB'000
Short term employee benefits	1,243	1,442
Pension scheme contributions	118	186
Total compensation paid to key management personnel	1,361	1,628

38. LOANS TO DIRECTORS

Name	31 December 2019 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2019 RMB'000	Security held
Xinming Group Limited (controlled by Mr. Chen Chengshou)	—	55,493	55,493	None
	—	55,493	55,493	

Name	31 December 2018 RMB'000 (restated)	Maximum amount outstanding during the year RMB'000	1 January 2018 RMB'000 (restated)	Security held
Xinming Group Limited (controlled by Mr. Chen Chengshou)	55,493	265,959	265,959	None
Zhejiang Tianmao Landscape Co., Ltd (Controlled by Mr. Zheng Xiangtian)	—	50,000	50,000	None
Hangzhou Taoyuan Shanzhuang Property Development Limited (controlled by Mr. Chen Chengshou)	—	13,540	13,540	None
	55,493	329,499	329,499	

39. FINANCIAL INSTRUMENTS BY CATEGORY

The table below is an analysis of the carrying amounts of financial instruments by category as at the end of the year:

FINANCIAL ASSETS

	2019 RMB'000	2018 RMB'000 (restated)
Financial assets at amortised cost		
Trade receivables	**1,354**	3,318
Financial assets included in prepayments, other receivables and other assets	**187,464**	102,038
Due from related parties	**—**	55,493
Restricted deposits	**2,830**	537,739
Cash and cash equivalents	**182,225**	43,528
	373,873	742,116
Financial assets at fair value through other comprehensive income		
Equity investments at fair value through other comprehensive income	**—**	—

FINANCIAL LIABILITIES

	2019 RMB'000	2018 RMB'000 (restated)
Financial liabilities at amortised cost		
Trade payables	**291,668**	235,365
Financial liabilities included in other payables and accruals	**521,703**	503,684
Due to other related parties	**—**	26,929
Lease liabilities	**1,050**	—
Interest-bearing bank and other borrowings	**1,890,343**	1,967,074
	2,704,764	2,733,052
Financial liabilities at fair value through profit or loss		
Convertible bonds	**272,967**	284,913

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**—**	—	**—**	—
Financial liabilities				
Interest-bearing bank and other borrowings	**—**	700,844	**—**	718,840
Convertible bonds	**272,967**	284,913	**272,967**	284,913
	272,967	985,757	**272,967**	1,003,753

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and amounts due to related parties, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant. The convertible bonds were recognised as financial liabilities designated upon initial recognition as at fair value through profit or loss. The convertible bonds were measured at fair value using the binomial model.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments for which fair values are disclosed:

Assets measured at fair value:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2019	2018
	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	**—**	—

The movements in fair value measurements within Level 3 during the year are as follows:

	2019	2018
	RMB'000	RMB'000
Equity investments at fair value through other comprehensive income — unlisted:		
At 1 January	**—**	1,245
Total losses recognised in other comprehensive income	**—**	(1,245)
At 31 December	**—**	—

Liabilities measured at fair value:

	Fair value measurement using significant unobservable inputs (Level 2)	
	2019	2018
	RMB'000	RMB'000
Convertible bonds	**272,967**	284,913

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

Liabilities for which fair values are disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2019	2018
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**—**	718,840

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and cash equivalents, restricted deposits, trade receivables, and trade payables, which arise directly from its operations. The Group has other financial assets and liabilities such as interest-bearing bank and other borrowings, amounts due to other related parties, convertible bonds, deposits and other receivables, and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of directors reviews and agrees policies for managing each of the risks which are summarised below:

INTEREST RATE RISK

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank and other borrowings with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The Group's policy is to manage its interest cost using a mix of fixed and floating rate debts. At 31 December 2019, approximately 100% of the Group's interest-bearing bank and other borrowings bore interest at fixed rates. The Group's exposure to interest rate risk is not significant.

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

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit after tax* RMB'000
2018		
RMB	20	(743)
RMB	(20)	743

* The sensitivity is calculated based on the assumption that none of the interest was capitalised.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar ("HK$") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK$ rate %	(Decrease)/ increase in profit before tax RMB'000
2019		
If HK$ weakens against RMB	5	(40)
If HK$ strengthens against RMB	(5)	40
2018		
If HK$ weakens against RMB	5	(119)
If HK$ strengthens against RMB	(5)	119

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK (Continued)

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables*	—	—	—	24,894	24,894
Financial assets included in prepayments, other receivables and other assets					
— Normal**	196,986	—	—	—	196,986
Restricted deposits					
— Not yet past due	3,453	—	—	—	3,453
Cash and cash equivalents					
— Not yet past due	181,602	—	—	—	181,602
	382,041	—	—	24,894	406,935

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2018 (restated)

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Due from related parties	55,493	—	—	—	55,493
Trade receivables*	—	—	—	26,298	26,298
Financial assets included in prepayments, other receivables and other assets					
— Normal**	108,478	—	—	—	108,478
Restricted deposits					
— Not yet past due	537,739	—	—	—	537,739
Cash and cash equivalents					
— Not yet past due	43,528	—	—	—	43,528
	745,238	—	—	26,298	771,536

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds lease liabilities interest-bearing bank and other borrowings. Cash flows are being closely monitored on an ongoing basis.

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

			2019		
	Within on demand RMB'000	**Within 1 year RMB'000**	**More than 2 to 5 years RMB'000**	**5 years RMB'000**	**Total RMB'000**
Trade payables	**—**	**291,668**	**—**	**—**	**291,668**
Other payables and accruals	**187,991**	**333,712**	**—**	**—**	**521,703**
Lease liabilities	**—**	**898**	**266**	**—**	**1,164**
Interest-bearing bank and other borrowings	**2,036,056**	**—**	**—**	**—**	**2,036,056**
Convertible bonds	**286,495**	**—**	**—**	**—**	**286,495**
	2,510,542	**626,278**	**266**	**—**	**3,137,086**

			2018 (restated)		
	Within on demand RMB'000	Within 1 year RMB'000	More than 2 to 5 years RMB'000	5 years RMB'000	Total RMB'000
Trade payables	—	235,365	—	—	235,365
Other payables and accruals	—	503,684	—	—	503,684
Due to other related parties	—	26,929	—	—	26,929
Interest-bearing bank and other borrowings	—	1,385,268	804,992	—	2,190,260
Convertible bonds	—	19,715	295,403	—	315,118
	—	2,170,961	1,100,395	—	3,271,356

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by total equity plus net debt. The Group's net debt consists of interest-bearing bank and other borrowings and convertible bonds, less cash and cash equivalents. Total equity includes equity attributable to owners of the parent and non-controlling interests.

At the end of the year, the Group's strategy was to maintain the net debt to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net debt to equity ratios at the end of the years are as follows:

	31 December 2019 RMB'000	**1 January 2019 RMB'000 (note)**	31 December 2018 RMB'000 (restated)
Interest-bearing bank and other borrowings	**1,890,343**	**1,968,130**	1,967,074
Convertible bonds	**272,967**	**284,913**	284,913
Less: Cash and cash equivalents	**(182,225)**	**(43,528)**	(43,528)
Net debt	**1,981,085**	**2,209,515**	2,208,459
Total equity	**1,979,954**	**2,092,474**	2,092,507
Total equity and net debt	**3,961,039**	**4,301,989**	4,300,966
Gearing ratio	**50%**	**51%**	51%

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. The Group's gearing ratio was same on 1 January 2019 when compared with the position as at 31 December 2018.

42. COMPARATIVE AMOUNTS

As further explained in note 32, the Group obtained 100% equity interests in Hangzhou Zhiyao and Hangzhou Pengyue from the Controlling Shareholder and Xinming Group. The acquisition was a business combination under common control. The comparative information which includes the consolidated statement of financial position, the consolidated statements of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, and notes to the consolidated financial statements for the comparative period are restated as if Hangzhou Zhiyao and Hangzhou Pengyue had been combined at the beginning of the comparative period.

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

43. EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of the Novel Coronavirus (COVID-19) disease in China, ongoing preventive and control measures have been carried out throughout the whole country. The epidemic will impact business operations of certain industries as well as the overall economy. Therefore, the Company's operations and revenue may be affected to a certain extent depending on the effects of the preventive and control measures, duration of the outbreak and implementation of various policies.

The Company will closely monitor the situation and assess its impacts on the Group's financial position and operating results. As of the date of this report, such assessment is still ongoing.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	**—**	—
CURRENT ASSETS		
Cash and cash equivalents	**225**	150
Due from subsidiaries	**524,473**	524,484
	524,698	524,634
CURRENT LIABILITIES		
Due to subsidiaries	**6**	145
	6	145
NET CURRENT ASSETS	**524,692**	524,489
TOTAL ASSETS LESS CURRENT LIABILITIES	**524,692**	524,489
NET ASSETS	**524,692**	524,489
EQUITY		
Issued capital	**14,880**	14,880
Reserves	**509,812**	509,609
Total equity	**524,692**	524,489

Note:

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

	Share premium RMB'000	**Retained profits RMB'000**	**Total equity RMB'000**
At 1 January 2018	496,155	13,469	509,624
Loss and total other comprehensive loss for the year	—	(15)	(15)
At 31 December 2018	496,155	13,454	509,609
Profit and total other comprehensive income for the year	—	203	203
At 31 December 2019	496,155	13,657	509,812

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 May 2020.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2019

The five-year financial summary is as follows:

	For the year ended 31 December				
	2019 **RMB'000**	2018 RMB'000 (Restated)	2017 RMB'000	2016 RMB'000 (Represented)	2015 RMB'000 (Represented)
CONTINUING OPERATIONS					
REVENUE	**163,349**	624,711	1,888,193	642,680	1,332,280
Cost of sales	**(110,357)**	(344,117)	(1,168,338)	(294,840)	(912,587)
Gross profit	**52,992**	280.654	719,855	347,840	419,693
Other income and gains	**1,076**	3,187	163,308	5,815	16,107
Selling and distribution costs	**(6,457)**	(44,023)	(172,762)	(94,250)	(73,392)
Administrative expenses	**(63,811)**	(87,372)	(80,321)	(82,722)	(107,720)
Other expenses	**(183,181)**	(37,069)	(107,364)	(28,414)	(13,627)
Impairment losses on financial assets, net	**(3,642)**	(8,359)	—	—	—
Changes in fair value of investment properties	**146,823**	67,785	28,159	59,396	532,303
Changes in fair value of convertible bonds	**11,946**	(39,897)	—	—	—
Finance costs	**(2,594)**	(6,856)	(6,626)	(55)	(1,778)
(LOSS)/PROFIT BEFORE TAX	**(46,848)**	128,050	544,249	207,610	771,586
Income tax expense	**(65,670)**	(106,596)	(317,441)	(179,437)	(274,740)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**(112,518)**	21,454	226,808	28,173	496,846
DISCONTINUED OPERATION					
Profit/(loss) and total comprehensive income/(loss) for the period from a discontinued operation	**—**	—	1,842	(1,153)	(5,014)
PROFIT FOR THE YEAR	**(112,518)**	21,454	228,650	27,020	491,832
OTHER COMPREHENSIVE INCOME					
Other comprehensive income that will not to be reclassified to profit or loss in subsequent periods:					
Equity investments designated at fair value through other comprehensive income:					
Changes in fair value	**—**	(1,245)	—	—	—
OTHER COMPREHENSIVE LOSS, NET OF TAX	**—**	(1,245)	—	—	—
TOTAL COMPREHENSIVE(LOSS) INCOME	**(112,518)**	20,209	228,650	27,020	491,832

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2019

	2019	2018	2017	2016	2015
		For the year ended 31 December			
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Represented)	RMB'000 (Represented)
ATTRIBUTABLE TO:					
Owners of the parent company	**(116,976)**	41,666	242,278	10,211	367,622
Non-controlling interests	**4,458**	(21,457)	(13,628)	16,809	124,210
	(112,518)	20,219	228,650	27,020	491,832
ASSETS AND LIABILITIES					
Non-current assets	**3,422,084**	3,227,497	3,144,853	3,165,852	3,075,952
Current assets	**3,321,400**	3,609,062	3,608,739	4,721,338	4,486,998
Current liabilities	**4,234,015**	3,296,009	3,306,640	4,054,876	2,678,496
Non-current liabilities	**529,515**	1,448,043	1,364,906	1,891,774	2,974,253
Non-controlling interests	**94,745**	90,287	113,565	180,385	162,581
Total equity	**1,979,954**	2,092,507	2,082,046	1,940,540	1,910,201