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CHEUK NANG (HOLDINGS) LIMITED

卓能（集團）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 131)

RESULTS FOR THE YEAR ENDED 30 JUNE 2019

CHAIRMAN'S STATEMENT

I take pleasure to present to shareholders the report of Cheuk Nang (Holdings) Limited (the "Company", together with its subsidiaries, the "Group") for the year ended 30 June 2019.

RESULTS AND DIVIDEND

The consolidated profit after income tax of our Group for the year ended 30 June 2019 is HK\$601,653,000 (2018: HK\$611,607,000) representing an decrease of 1.7% comparing to last year. Details are set out in the consolidated statement of profit or loss.

The Directors resolved to recommend the payment of a final dividend of HK15.0 cents (2018: HK15.0 cents) per share payable to those shareholders whose names appeared in the register of members as at the close of business on 21 November 2019, which together with the interim dividend of HK7.5 cents (2018: HK7.5 cents) per share, makes a total distribution of HK22.5 cents (2018: HK22.5 cents) per share this year, same as last year.

After approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 23 December 2019.

SCRIP DIVIDEND

The Company proposes that a scrip dividend election will be offered to shareholders with Hong Kong addresses. Details of the scrip dividend scheme will be announced later.

REVIEW OF OPERATIONS AND PROSPECTS

Hong Kong Properties

The Rating Amendment Bill was gazetted on 13 September 2019 to introduce special rates on those vacancy units in order to eliminate the holding of stocks by the developers. The amount of the special rates for those vacancy unit is 200% of the rateable value of the property. The Bill will be subject to first, second and third reading at the meeting of the Legislative Council to be held in October 2019. The Real Estate Developers Association of Hong Kong and most developers have voiced out their objection in view of the current economic condition of Hong Kong, the passing of this bill will certainly have impact on the Hong Kong property market.

The progress of our projects in Hong Kong are as follows:

1. One Kowloon Peak at No. 8 Po Fung Terrace, Ting Kau, Tsuen Wan

Residential project developed in two phases.

Phase 1 comprised of a block of 21-storey building with 49 residential units (including 6 duplex units) and 39 car parking spaces. The net floor area of the units ranged from 1,075 square feet to 2,095 square feet. 13 units has been sold and majority of other units are rented. The occupation permit has been issued.

Phase 2 comprised of clubhouse, 29 car parking spaces and five 3-storey garden villas. The net floor area of the villas ranged from approximately 1,497 square feet to 2,329 square feet. The clubhouse provides recreational facilities and swimming pool. Occupation Permit application has been submitted to the Buildings Department in early 2018. Unfortunately, due to the liquidation of the previous contractor, most of the documents and records relating to the structure and geotechnical information are not completed. We have put our best endeavor to prepare the missing documents including conducting various structural tests and concrete tests for submission to Buildings Department to resolve the problem.

2. *Villa Cecil Phase II, 192 Victoria Road, Pokfulam*

The University of Chicago Booth School of Business providing Executive MBA Program was opened in Victoria Road near our property, the leasing demand for Villa Cecil is expected to be increased.

Residential development comprised of three blocks of 4-storey low density residential building provides 29 residential units. Ten units have been sold and the total remaining marketable gross floor area is 51,483 square feet. The gross floor area of the apartments ranged from approximately 1,221 square feet to 3,099 square feet.

The occupancy rate maintained at 70%. Enhancement and upgrading work for three units in Phase 2 is in progress and will put to market after completion.

3. *Villa Cecil Phase III, 216 Victoria Road, Pokfulam*

Residential development comprised of two blocks of 4-storey building for rental purpose. The total marketable gross floor area is 97,000 square feet. Block 1 provides 11 residential units and Block 2 provides 32 units. The gross floor area of the apartments ranged from 760 square feet to 3,800 square feet.

The sub-division work of Unit A on the Ground Floor of Block 1 is still in progress. The occupancy rate of the two blocks has reached 95% which contributed good rental income to the Group.

4. *Cheuk Nang Lookout, 30 Severn Road, The Peak*

A residential premises comprised of two deluxe 3-storey residential villas, namely Villa Begonia and Villa Crocus. Each villa has its own private swimming pool, garden, internal lift and two car parking spaces.

The renovation of the two villas to enhance the quality is completed.

5. *New Villa Cecil, No. 33 Cheung Chau Sai Tai Road, Cheung Chau*

A residential project developed into 2 phases with total marketable gross floor area approximately 58,000 square feet.

Phase I comprised of 19 blocks of 2-storey residential villas. The floor area of the villas ranged from 1,450 square feet to 2,700 square feet. Phase II comprised of 4 blocks of 2-storey residential villas. The floor area of the villas ranged from approximately 2,000 square feet to 12,000 square feet. Recreational facilities including swimming pool and landscape garden are provided.

The Occupation Permit of Phase I already issued and marketing for rental has commenced in November of 2018 and over 90% of the villas in Phase 1 were leased out.

China Property

The US-China trade war is still on going and new round of negotiation will be re-opened in the later part of this year. One of the significant impacts of the trade war is the depreciation of Renminbi which started in the 3rd quarter of this year. Although the global economies is clouded with uncertainties, the transaction volume of properties in first tier cities has slightly decreased, the selling price has achieved slight increment for a consecutive of 45 months.

Shenzhen

The Central Government has labelled Shenzhen as a new special economic zone, and construct Shenzhen into a characteristic socialist demonstration city. Beijing has unveiled a detailed plan earlier in August, calling for wide-ranging reforms to be implemented in Shenzhen that will make the southern coastal city a leader in terms of innovation, public services and environmental protection by 2025.

Under the Greater Bay Area Outline Development Plan, Shenzhen is one of the four core cities. Leveraging a rapidly growing economy, Shenzhen is ready to become the next gateway city for international institutional investors. It has moved beyond new infrastructure and emphasizes greater flows of capital, business and people among Greater Bay Area cities.

Cheuk Nang Garden

Longhwa, Shenzhen

The registration for strata titles of all the units with the Shenzhen Real Estate Registration Center were completed. New sales campaign has commenced and 142 units have been sold over the past 6 months and the new sales transaction amount achieved is RMB700 million.

Hangzhou

Hangzhou is not one of the cities having restriction on sale and purchase of the properties imposed by the Central Government. The buying sentiment in Hangzhou remain stable and relatively active.

Cheuk Nang • Riverside

Yue Hang Qu, Hangzhou

The development comprised land area of 38,983 square metres (419,613 square feet). The total net floor area is 122,483 square metres (1,318,407 square feet) with 14 multi-storey buildings provides 849 residential units, 22 deluxe villas by the riverside, 780 car parking spaces, clubhouse, recreational facilities and shopping centre. The size of the residential units and villas ranged from 65 square metres (700 square feet) to 270 square metres (2,906 square feet).

The construction of the development is completed. The inspection of fire, electricity, plumbing and drainage are already passed. We have commenced our legal action against the main contractor 廣廈建設集團有限責任公司 regarding the delay in the construction works for both Shenzhen and Hangzhou projects and claim for damages.

Macau Property

A new Chief Executive Mr. Ho Lat-Seng was elected recently and will be sworn in December 2019. Being a part of the Greater China Bay and with the support of the Central Government's policy, the Macau economy remains to progress steadily.

Golden Cotai No. 1

Estrada de Seac Pai Van, Coloane

Application for change of land use was submitted to the Direcção dos Serviços de Solos, Obras Públicas e Transportes ("DSSOPT") and is still waiting for issuance of the draft change of land use contract and payment of land premium. We have instructed our lawyer to follow up with the relevant authorities under the new elected government to speed up the progress.

The Stage 1 site formation excavation work was approved. Due to the impending gazettal of the new land lease, the consent to commence the work has not been issued.

Malaysia Property

Malaysia's economic growth has shown slightly better progress in the second quarter of 2019, spurred by stronger domestic demand and a rebound in commodity prices. The US-China trade war may create some momentum to the growth.

Phase I "Parkview"

Lot 1359, Section 57, Lorong Perak, Kuala Lumpur

The development is a ready built 41-storey residential building providing 417 residential units and 163 car parking spaces. The total gross floor area is 325,626 square feet. Most units have already been sold. The remaining 27 unsold units are operated as serviced apartments. Renovation of the vacant serviced apartments has been commenced and will be completed in stages. Most of the remainders are rented out.

Phase II "Cecil Central Residence"

Lot 11385 and 11386, Section 57, Lorong Perak, Kuala Lumpur

The development currently comprised of 4 blocks of residential condominium with total approved gross floor area is 1,708,648 square feet. The main podium is completed upto Level 5. The revised building plan was approved and the amended Development Order was received. We will continue to negotiate with the government to obtain the best development potential.

INVESTMENT IN BONDS AND STOCK

Our total investment in Bonds market as at 30 June 2019 is HK\$173,548,000. A total of HK\$Nil was purchased and HK\$Nil was sold during the year. The market price of our investment in the Hong Kong stocks as at 30 June 2019 is HK\$7,938,000. During the year, a total of HK\$162,000 stock was sold and HK\$1,530,000 stock was purchased.

OUTLOOK

The Extradition Bill as proposed by the Chief Executive of Hong Kong was hijacked by the radical protesters and used it to spread fear among the people of Hong Kong and developed a propaganda to undermine the Hong Kong starting from June 2019. The propaganda is still going on at the time of writing, its impact together with the continued US-China trade war already has tremendous negative impact on the Hong Kong's economy especially the tourism and catering sectors.

The Hong Kong economy is facing threaten, the demand for residential properties remain relatively strong as reflected in the residential properties introduced to the market recently.

Our investment in the mainland has better performance and will contribute to our future earnings.

DIRECTORS AND STAFF

The dedication of our directors and staff during the year are much appreciated. Due to the operation in China, member of our staff team are substantially increased.

As at the date of this announcement, the Executive Directors are Dr. Chao Sze Tsung Cecil (Chairman), Ms. Chao Gigi (Vice Chairman), Mr. Yung Philip and Ms. Ho Sau Fun, Connie; the Non-Executive Directors are Mr. Chao Howard and Mr. Lee Ding Yue Joseph; the Independent Non-Executive Directors are Dr. Sun Ping Hsu, Samson, Mr. Ting Woo Shou, Kenneth and Mr. Lam Ka Wai, Graham.

By order of the Board
CECIL CHAO
Executive Chairman

Hong Kong, 26 September 2019

RESULTS

The Group's audited consolidated income statement for the year ended 30 June 2019 is listed as follows:

Consolidated Statement of Profit or Loss

For the year ended 30 June 2019

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Revenue	4	201,541	68,350
Direct costs		<u>(55,335)</u>	<u>(23,731)</u>
Gross profit		146,206	44,619
Other income	6	37,944	49,575
Changes in fair value of investment properties		683,397	1,131,543
Changes in fair value of financial assets at fair value through profit or loss		(558)	(773)
Administrative expenses		(68,854)	(144,410)
Finance costs	7	<u>(30,004)</u>	<u>(31,802)</u>
Profit before income tax	8	768,131	1,048,752
Income tax expense	9	<u>(166,478)</u>	<u>(437,145)</u>
Profit for the year		<u>601,653</u>	<u>611,607</u>
Profit for the year attributable to:			
Owners of the Company		572,899	606,619
Non-controlling interests		<u>28,754</u>	<u>4,988</u>
		<u>601,653</u>	<u>611,607</u>
Earnings per share for profit attributable to the owners of the Company during the year			
Basic	11	<u>HK\$0.99</u>	<u>HK\$1.10</u>
Diluted	11	<u>HK\$0.99</u>	<u>HK\$1.10</u>

Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	2019 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		7,659,411	7,095,577
Property, plant and equipment		39,124	37,299
Other non-current asset		950	950
Other financial assets		171,922	168,129
Deferred tax assets		14,780	12,951
		<u>7,886,187</u>	<u>7,314,906</u>
Current assets			
Properties under development for sale		1,496,668	1,489,527
Completed properties for sale		445,141	504,750
Other financial assets		1,626	—
Financial assets at fair value through profit or loss		250,217	7,128
Trade and other receivables	12	45,799	44,451
Bank balances and cash		595,454	724,022
		<u>2,834,905</u>	<u>2,769,878</u>
Current liabilities			
Other payables	13	191,268	344,989
Contract liabilities		306,600	—
Amounts due to non-controlling shareholders	14	239,990	239,990
Amount due to a related company	14	1,381	1,452
Interest-bearing borrowings		1,163,687	1,203,416
Tax payable		529,342	426,595
		<u>2,432,268</u>	<u>2,216,442</u>
Net current assets		<u>402,637</u>	<u>553,436</u>
Total assets less current liabilities		<u>8,288,824</u>	<u>7,868,342</u>

	2019	2018
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Interest-bearing borrowings	10,108	9,883
Advances from a director	159,182	128,782
Deferred tax liabilities	1,289,825	1,187,248
	<u>1,459,115</u>	<u>1,325,913</u>
Net assets	<u>6,829,709</u>	<u>6,542,429</u>
EQUITY		
Share capital	2,326,486	2,221,269
Reserves	4,312,241	4,158,932
Equity attributable to the owners of the Company	6,638,727	6,380,201
Non-controlling interests	<u>190,982</u>	<u>162,228</u>
Total equity	<u>6,829,709</u>	<u>6,542,429</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

1. GENERAL INFORMATION

Cheuk Nang (Holdings) Limited (the “Company”) is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is Suite 4901, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and, its principal place of business is Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (the “Group”) are controlled by Yan Yin Company Limited (“Yan Yin”), a limited liability company incorporated and domiciled in Hong Kong. At the reporting date, the directors consider the ultimate parent company of the Group is also Yan Yin.

The Group is principally engaged in property development and investment and provision of property management and related services.

The financial statements for the year ended 30 June 2019 were approved for issue by the board of directors on 26 September 2019.

2. ADOPTION OF NEW AND AMENDED HKFRSs

New and amended HKFRSs that are effective for annual periods beginning or after 1 July 2018

In the current year, the Group has applied for the first time the following new and amended Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are relevant to the Group’s operations and effective for the Group’s consolidated financial statements for the annual period beginning on 1 July 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 1	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 9 “Financial Instruments”

HKFRS 9 replaces Hong Kong Standards on Auditing (“HKAS”) 39 “Financial Instruments: Recognition and Measurement”. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an “expected credit losses (“ECL”) model” for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained profits.

The adoption of HKFRS 9 has impacted the following area:

- management holds financial assets to hold and collect the associated cash flows and sale. A debenture listed outside Hong Kong previously classified as held-to-maturity investment at amortised cost under HKAS 39, now measured at fair value with gain or loss on fair value changes being recognised in other comprehensive income upon adoption in HKFRS 9, and its’ fair value as at 1 July 2018 is not materially different from the fair value as at 30 June 2018.
- investment in listed debentures and listed perpetual notes which are to hold and collect the associated cash flows and for sale (previously classified as available-for-sale financial assets at fair value under HKAS 39), are now measured at fair value with gain or loss on fair value changes being recognised in other comprehensive income upon adoption in HKFRS 9, and their fair values as at 1 July 2018 are not materially different from the fair value at 30 June 2018.
- investments in listed equity securities held for trading, previously classified as financial assets at fair value through profit or loss (“FVTPL”) under HKAS 39 continue to be accounted for at fair value with gain or loss on fair value changes being recognised in profit or loss under HKFRS 9.
- HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the “incurred loss” accounting model in HKAS 39.

Besides, upon initial adoption of HKFRS 9 (i.e. 1 July 2018), the Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including bank balances and cash and trade and other receivables).
- financial assets with debts instruments at fair value through other comprehensive income (“FVTOCI”) (including listed perpetual notes and listed debentures).

For trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component, and thus do not have significant impact on the Group’s consolidated financial statements.

For other financial assets (including bank balances and cash, other receivables, listed perpetual notes and listed debenture), the Group applies a general approach of recognising ECL and do not have significant impact on the Group's consolidated financial statements.

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position at the date of initial application (1 July 2018) are summarised as follows:

		Measurement category		30 June 2018 (HKAS 39) HK\$'000	1 July 2018 (HKFRS 9) HK\$'000
	Original HKAS 39 category	New HKFRS 9 category			
Non-current financial assets					
Listed debenture	Held-to-maturity at amortised cost	FVTOCI (recycling)		2,408	2,408
Listed debentures	Available-for-sale at fair value	FVTOCI (recycling)		36,788	36,788
Listed perpetual notes	Available-for-sale at fair value	FVTOCI (recycling)		128,933	128,933
				168,129	168,129
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost		25,890	25,890
Equity securities listed in Hong Kong	FVTPL	FVTPL		7,128	7,128
Bank balances and cash	Amortised cost	Amortised cost		724,022	724,022
				757,040	757,040
Total financial asset balances				925,169	925,169

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 and the related clarification to HKFRS 15 (hereinafter referred to as “HKFRS 15”) presents new requirements for the recognition of revenue, replacing HKAS 18 “Revenue”, HKAS 11 “Construction Contracts”, and several revenue-related Interpretations. HKFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

HKFRS 15 has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits at 1 July 2018. In accordance with the transition guidance, HKFRS 15 has only been applied to contracts that are incomplete as at 1 July 2018.

In summary, the following reclassification was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 July 2018):

	Carrying amount on 30 June 2018 under HKAS 18 HK\$'000	Reclassification HK\$'000	Carrying amount on 1 July 2018 under HKFRS 15 HK\$'000
Current liabilities			
Other payable	344,989	(190,457)	154,532
Contract liabilities	—	190,457	190,457
	<u>344,989</u>	<u>—</u>	<u>344,989</u>

The contract liabilities primarily relate to the deposit received from buyers for sales of properties, for which revenue is recognised when the legal title has been transferred to the buyer.

The adoption of HKFRS 15 has no material impact on the Group’s consolidated income statement and the consolidated statement of cash flows.

Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combinations and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective date not yet determined

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaced HKAS 17 and three related Interpretations.

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a lease liability and a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases of properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 July 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 July 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As at 30 June 2019, the Group’s future minimum lease payments under non-cancellable operating leases amount to approximately HK\$6,572,000 for office premises, the majority of which is payable within 5 years after the reporting date.

Upon the initial application of HKFRS 16, the Group plans to measure the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group’s financial statement from 1 July 2019 onwards.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of properties

The best evidence of fair value is current prices in an active market for similar property in similar location and condition and subject to lease and other contracts. In making its judgement, the Group considers information from a variety of sources including:

- (i) the floor areas of the properties with respect to the consideration to the receivable from the independent and identified buyer;
- (ii) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iv) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and using discount rate that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The Group's properties have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Survey Valuation Standards. In estimating the fair value of the properties, the management of the Group has considered the highest and best use of the properties. The carrying amount of the investment properties and land and buildings as at 30 June 2019 are approximately HK\$7,659,411,000 and HK\$36,400,000 respectively (2018: HK\$7,095,577,000 and HK\$34,170,000 respectively).

Allowance for properties under development for sale

In determining whether allowances should be made for the Group's properties under development for sale, the Group takes into consideration the current market environment and the estimated market value (i.e. the estimated selling price less estimated costs of selling expenses less estimated costs to completion of the properties). An allowance is made if the estimated market value is less than the carrying amount. If the actual market value on properties under development for sale is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, material provision for impairment losses may result. The carrying amount of the properties under development for sale as at 30 June 2019 is approximately HK\$1,496,668,000 (2018: HK\$1,489,527,000). No impairment loss on properties under development for sale have been written down to net realisable value during the year ended 30 June 2019 (2018: Nil).

Management exercises its judgment in making allowance for completed properties for sale with reference to the existing market environment and the estimated market value of the properties, i.e. the estimated selling price less estimated costs of selling expenses. A specific allowance for completed properties for sale is made if the estimate market value of the property is lower than its carrying amount. If the actual market values of the completed properties for sale are less than expected, as a result of change in market condition, material provision for impairment losses may result. The carrying amount of the completed properties as at 30 June 2019 is approximately HK\$445,141,000 (2018: HK\$504,750,000). No completed properties for sale have been written down to net realisable value during the year ended 30 June 2019 (2018: Nil).

Accounting for income tax

The Group is subject to income taxes in Hong Kong, PRC, Malaysia and Macau. There are transactions and calculations for which the ultimate tax determination is uncertain. Significant management judgement is required in determining the provision of income taxes. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax assets and liabilities in the period in which such determination is made.

In measuring the Group's deferred tax on investment properties measured at fair value, management of the Group have determined that the presumption that the carrying amounts of these investment properties measured using the fair value model were recovered entirely through sales was not rebutted. Deferred tax has been provided at tax rates that are expected to apply upon sales of the investment properties held by the subsidiaries of the Group in Hong Kong, Macau, Malaysia and the PRC.

For the properties in the PRC, the tax expenses on changes in fair value of investment properties and properties sales are recognised taking into account the land appreciation tax and enterprise income tax payable upon sales of those properties in the PRC. The land appreciation tax is determined based on management's best estimates according to the requirements set forth in the relevant PRC tax laws and regulations and provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures. As at 30 June 2019, deferred tax liabilities in relation to the fair value changes of investment properties of approximately HK\$1,289,825,000 (2018: HK\$1,187,248,000) have been recognised in the Group's consolidated statement of financial position as at 30 June 2019.

In addition, deferred tax assets of approximately HK\$41,614,000 (2018: HK\$40,089,000) in relation to tax losses have been recognised in the Group's consolidated statement of financial position as at 30 June 2019. The recognition of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

4. REVENUE

The Group's principal activities are disclosed in Note 1 to these consolidated financial statements. Revenue from the Group's principal activities recognised during the year is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Properties sales	139,951	21,948
Property rental	55,975	42,727
Estate management	5,615	3,675
	201,541	68,350

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical market:

	Year ended 30 June 2019		
	Property sales	Property rental	Estate management
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segments			
Geographical markets			
PRC	138,521	9,445	3,964
Hong Kong	1,430	44,828	1,651
Malaysia	–	1,702	–
	139,951	55,975	5,615

Timing of revenue recognition under HKFRS 15 from external customers

At a point in time	139,951	–	5,615
Revenue not in the scope of HKFRS 15	–	55,975	–
	139,951	55,975	5,615

5. SEGMENT REPORTING

The executive directors of the Company, being the chief operating decision makers, have identified the Group's operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results:

2019

	Properties sales HK\$'000	Properties rental HK\$'000	Estate management HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
From external customers	139,951	55,975	5,615	–	201,541
Inter-segment revenue	2,458	840	24,329	–	27,627
Reportable segment revenue	142,409	56,815	29,944	–	229,168
Reportable segment profit/(loss)	104,324	718,760	4,652	(282)	827,454
Other information:					
Depreciation of property, plant and equipment	110	1,475	282	–	1,867
Interest income	13,895	12,065	15	–	25,975
Interest expense	–	28,887	–	–	28,887
Income tax expense	78,616	87,862	–	–	166,478
Increase in fair value of investment properties	–	683,397	–	–	683,397
Decrease in fair value of financial assets at FVTPL	–	–	–	(558)	(558)
Reportable segment assets	3,005,264	6,884,204	2,554	7,938	9,899,960
Reportable segment liabilities	326,945	262,515	1,328	–	590,788
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the year	138	93,690	25	–	93,853

2018

	Properties sales <i>HK\$'000</i>	Properties rental <i>HK\$'000</i>	Estate management <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
From external customers	21,948	42,727	3,675	–	68,350
Inter-segment revenue	–	840	17,658	–	18,498
Reportable segment revenue	<u>21,948</u>	<u>43,567</u>	<u>21,333</u>	<u>–</u>	<u>86,848</u>
Reportable segment profit	<u>18,331</u>	<u>1,153,521</u>	<u>2,478</u>	<u>2,631</u>	<u>1,176,961</u>
Other information:					
Depreciation of property, plant and equipment	66	1,312	454	–	1,832
Interest income	14,978	9,842	12	–	24,832
Interest expense	3,668	27,083	–	–	30,751
Income tax expense	8,085	429,060	–	–	437,145
Increase in fair value of investment properties	–	1,131,543	–	–	1,131,543
Decrease in fair value of financial assets at FVTPL	–	–	–	(773)	(773)
Reportable segment assets	<u>2,810,436</u>	<u>6,322,117</u>	<u>4,796</u>	<u>7,128</u>	<u>9,144,477</u>
Reportable segment liabilities	<u>204,340</u>	<u>264,090</u>	<u>850</u>	<u>–</u>	<u>469,280</u>
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the year	<u>99</u>	<u>203,731</u>	<u>140</u>	<u>–</u>	<u>203,970</u>

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the consolidated financial statements as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Reportable segment revenue	229,168	86,848
Elimination of inter segment revenue	(27,627)	(18,498)
Revenue of the Group	201,541	68,350
Reportable segment profit	827,454	1,176,961
Unallocated corporate income	37,668	46,713
Unallocated corporate expenses	(66,987)	(143,120)
Finance costs	(30,004)	(31,802)
Profit before income tax of the Group	768,131	1,048,752
	2019 HK\$'000	2018 <i>HK\$'000</i>
Reportable segment assets	9,899,960	9,144,477
Bank balances and cash	595,454	724,022
Other corporate assets	210,898	203,334
Deferred tax assets	14,780	12,951
Total assets of the Group	10,721,092	10,084,784
Reportable segment liabilities	590,788	469,280
Tax payable	529,342	426,595
Interest-bearing borrowings	1,163,687	1,203,416
Other corporate liabilities	317,741	255,816
Deferred tax liabilities	1,289,825	1,187,248
Total liabilities of the Group	3,891,383	3,542,355

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong (domicile)	47,909	43,706	3,372,341	3,222,451
The People's Republic of China ("PRC")	151,930	23,481	2,621,789	2,336,017
Macau	–	–	1,363,671	1,232,186
Malaysia	1,702	1,163	341,684	343,172
	201,541	68,350	7,699,485	7,133,826

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (other than financial instruments and deferred tax assets) is based on the physical location of the assets.

The Company is an investment holding company and the principal place of the Group's operation is Hong Kong. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Hong Kong as its place of domicile.

No revenue from transaction with single external customer is amounted to 10% or more for the Group's revenue for the year.

6. OTHER INCOME, NET

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from listed equity investments	227	250
Gain on disposal of financial assets at fair value through profit or loss	49	2,612
Gain on disposal of investment properties	11,105	–
Gain on disposal of held-to-maturity investments	–	527
Interest received	25,975	24,832
Sundry income	588	1,956
Net exchange gain	–	19,398
	37,944	49,575

7. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest charges on:		
Bank loans and overdrafts	31,113	28,425
Advances from a director	10,709	10,429
Other payable	140	942
Bond	750	734
Other incidental borrowing costs	5,941	4,324
Total finance costs	48,653	44,854
Less: Interest capitalised into		
– Properties under development for sale (<i>Note</i>)	(18,649)	(13,052)
	<u>30,004</u>	<u>31,802</u>

Note: The borrowing costs have been capitalised to properties held for sale at a rate from 1.931% to 3.325% (2018: from 1.541% to 2.268%).

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(credit) the following:

	2019 HK\$'000	2018 HK\$'000
Staff costs (include directors' emoluments)		
Salaries, wages and other benefits	24,162	24,067
Contribution to defined contribution plans	752	873
	<u>24,914</u>	<u>24,940</u>
Auditor's remuneration		
Current year	758	712
Prior year under-provision	–	12
	<u>758</u>	<u>724</u>
Depreciation	1,867	1,832
Direct outgoings in respect of investment		
properties that generate rental income	12,576	13,747
Direct outgoings in respect of investment		
properties that did not generate rental income	2,184	1,090
Net exchanges loss/(gain)	9,193	(19,398)
Operating lease charges – Buildings	4,241	4,521
Litigation claim	–	80,412
	<u>–</u>	<u>–</u>

9. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided in the consolidated financial statements as the Group did not have assessable profit in Hong Kong for the year ended 30 June 2019 after set-off tax loss brought forward from previous years.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax		
– Overseas		
PRC enterprise income tax	7,154	–
PRC land appreciation tax	59,053	6,786
	<u>66,207</u>	<u>6,786</u>
Deferred tax		
Current year	100,271	430,359
Total income tax expense	<u><u>166,478</u></u>	<u><u>437,145</u></u>

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit before income tax	<u><u>768,131</u></u>	<u><u>1,048,752</u></u>
Tax at Hong Kong profits tax rate of 16.5% (2018: 16.5%)	126,742	173,044
Tax effect of non-deductible expenses	10,700	28,056
Tax effect of non-taxable revenue	(94,618)	(197,592)
Tax effect of differences in overseas tax rates	81,094	423,912
Tax effect of unused tax losses not recognised	1,850	3,027
Tax effect of utilisation of unrecognised tax losses	(18,343)	(88)
PRC land appreciation tax	59,053	6,786
Income tax expense	<u><u>166,478</u></u>	<u><u>437,145</u></u>

10. DIVIDENDS

(a) Dividends attributable to the year

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interim dividend of HK 7.5 cents (2018: HK 7.5 cents) per ordinary share	43,891	42,091
Proposed final dividend of HK 15.0 cents (2018: HK 15.0 cents) per ordinary share (<i>Note</i>)	<u>89,345</u>	<u>85,457</u>
	<u><u>133,236</u></u>	<u><u>127,548</u></u>

Scrip dividend alternative was offered to shareholders in respect of the 2019 and 2018 interim dividend. This alternative was accepted by the shareholders as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividends:		
Cash	5,335	10,067
Share alternative	<u>38,556</u>	<u>32,024</u>
	<u><u>43,891</u></u>	<u><u>42,091</u></u>

Note:

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date.

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, of HK 15.0 cents (2018: HK 13.5 cents) per ordinary share	<u><u>85,457</u></u>	<u><u>73,817</u></u>

Scrip dividend alternative was offered to shareholders in respect of the final dividend. This alternative was accepted by the shareholders as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividends:		
Cash	18,796	16,138
Share alternative	66,661	57,679
	<u>85,457</u>	<u>73,817</u>

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit attributable to the owners of the Company for the purpose of calculating basic and diluted earnings per share	572,899	606,619

Number of shares

	2019	2018
Weighted average number of ordinary shares for the purposes of basic earnings per share	579,295,232	550,082,682

Dilutive earnings per share for 2019 and 2018 are the same as basic earnings per share as there was no potential ordinary share outstanding as at 30 June 2019 and 2018.

12. TRADE AND OTHER RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables		
From third parties	<u>1,123</u>	<u>1,672</u>
Other receivables		
Prepaid expenses	11,754	13,779
Utilities deposits	2,726	3,620
Prepaid other taxes	4,879	1,162
Other deposits	13,469	12,776
Other receivables	<u>11,848</u>	<u>11,442</u>
	<u>44,676</u>	<u>42,779</u>
	<u><u>45,799</u></u>	<u><u>44,451</u></u>

The trade receivables of the Group represent rental and management fee in arrears. The Group maintains a credit policy to minimise any credit risk associated with trade receivables. As at the end of the reporting period the ageing analysis of the trade receivables (which is included in trade and other receivables), based on the debit note or invoice date, is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0-30 days	998	403
31-60 days	98	4
61-90 days	11	45
Over 90 days	<u>16</u>	<u>1,220</u>
	<u><u>1,123</u></u>	<u><u>1,672</u></u>

Trade receivables are due upon presentation of invoices.

The Group has no significant concentrations of credit risk, and sufficient rental deposits are held to cover potential exposure to credit risk.

Other deposits amounting to approximately HK\$12,776,000 (equivalent to RMB10,775,000) paid to Housing and Construction Bureau of Shenzhen Municipality* (“深圳市住房和建設局”) due to the regulatory requirement to property developer in the PRC and the credit risk of other deposits are considered to be low, therefore no ECL provided.

Other receivables included deposits paid to constructors to perform construct works for the Group’s investment properties and properties under development. The credit risk of deposits paid are considered to be low, therefore the impact on ECL is considered as immaterial.

* The english translation of the name is for reference only. Its official name is in Chinese.

13. OTHER PAYABLES

	2019 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Sales deposits received	–	190,457
Deposits received from disposal of investment properties	–	15,346
Tenant deposits	8,656	7,785
Other payable and accruals	182,612	131,401
	191,268	344,989

The carrying values of other payables are considered to be a reasonable approximation of their fair value.

Other payable and accruals included other tax payable for sales of properties in PRC.

14. AMOUNTS DUE TO A RELATED COMPANY/NON-CONTROLLING SHAREHOLDERS

The amounts due are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due approximate their fair values.

A director of the Company is also the beneficial owner of the related company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Highlights

Revenue for the year ended 30 June 2019 (the “Year”) amounted to HK\$201,541,000 (Year ended 30 June 2018: HK\$68,350,000), a 194.9% increase as compared with last year. It was mainly due to properties sold in Shenzhen and Hong Kong total amounted to HK\$139,951,000 during year.

For property leasing, the Year recorded an increase of 31.0% in rental income as compared with the corresponding year in 2018, amounting HK\$55,975,000 (2018: HK\$42,727,000).

Gross profit for the Year amounted to HK\$146,206,000, a 227.7% increase as compared with last year.

Other income recorded a decrease of 23.5% to HK\$37,944,000 when compared with last year. The other income for the Year were mainly attributed to dividend income, interest income, gain on disposal of financial assets at fair value through profit or loss and gain on disposal of investment properties. Decrease in fair value of financial assets at fair value through profit or loss amounted to HK\$558,000 (2018: HK\$773,000). Increase in fair value of investment properties amounted to HK\$683,397,000 (2018: HK\$1,131,543,000). Administrative expenses decreased by 52.3% to HK\$68,854,000 as compared with last year. Finance costs decreased by 5.7% to HK\$30,004,000 as compared with last year. The decrease was mainly due to increase in interest capitalized into properties under development for sale during year. Income tax expenses decreased to HK\$166,478,000 (2018: HK\$437,145,000) which was mainly due to land appreciation tax and profit tax in China arisen from sale of properties in Shenzhen during last year.

Profit attributable to owners of the Company for the Year was HK\$572,899,000 (2018: HK\$606,619,000). Basic earnings per share was HK\$0.99 (2018: HK\$1.10) and fully diluted earnings per share was HK\$0.99 (2018: HK\$1.10).

A final dividend of HK15.0 cents (2018: HK15.0 cents) was proposed together with the interim dividend of HK7.5 cents (2018: HK7.5 cents) a total of HK22.5 cents for the year ended 30 June 2019 (2018: HK22.5 cents). Scrip dividend alternative was offered to shareholders in respect of proposed final dividend.

Total Equity Attributable To The Owners Of The Company

As at 30 June 2019, the Group's total equity attributable to the owners of the Company amounted to approximately HK\$6,638,727,000 (30 June 2018: HK\$6,380,201,000), an increase of HK\$258,526,000 or 4.1% when compared with 30 June 2018. With the total number of ordinary shares in issue of 595,634,100 as at 30 June 2019 (2018: 569,710,858 shares), the total equity attributable to the owners of the Company per share was HK\$11.15, representing a decrease of 0.4% compared to HK\$11.20 as at 30 June 2018. The decrease in total equity attributable to owners of the Company per share was mainly attributable to increase in fair value of investment properties but offset by increase in number of ordinary shares during the Year.

Other than the existing projects and those disclosed in the annual report, the Group did not have any confirmed future plans for material investment or acquiring capital assets.

Investment In Financial Assets At Fair Value Through Profit Or Loss

As at 30 June 2019, the fair value of investment in listed securities, Bonds and structured deposit amounted to HK\$7,938,000, HK\$173,548,000 and HK\$242,279,000 respectively were classified as the financial assets at fair value through profit or loss and at fair value through other comprehensive income. During the Year, the portfolio was increased by a net acquisition of HK\$243,808,000, loss on fair value of HK\$558,000 of listed securities and gain on fair value of HK\$5,419,000 of Bonds. The investment in listed securities as at 30 June 2019 represented 4.0% (2018: 1.7%) of the total assets, which formed part of the Group's cash management activities.

Equity

The number of issued ordinary shares as at 30 June 2019 and 30 June 2018 were 595,634,100 and 569,710,858 respectively.

Debts And Gearing

As at 30 June 2019, the Group's bank and other borrowings amounted to HK\$1,332,977,000 (2018: HK\$1,342,081,000). Cash and bank balances amounted to HK\$595,454,000 (2018: HK\$724,022,000) and net borrowing amounted to HK\$737,523,000 (2018: HK\$618,059,000).

Total debts to equity ratio was 20.1% (30 June 2018: 21.0%) and net debt to equity ratio was 11.1% (30 June 2018: 9.7%).

The decrease in the total debt to equity ratio and net debt to equity ratio were mainly due to decrease in bank borrowing during the year and decrease in cash and bank balances resulted from increase in investment in other financial assets during year.

As at 30 June 2019, the Group's bank and other borrowings were denominated in Hong Kong dollars. Of the Group's total bank and other borrowings HK\$1,332,977,000, 87.3%, 11.9% and 0.8% were repayable within 1 year, 1 to 2 years and 2 to 5 years respectively by reference to the repayment schedule of the loan agreement. The Group's bank and other borrowings carried interest rates by reference to HIBOR.

Pledge Of Assets

As at 30 June 2019, the Group's investment properties, properties held for sales and land and building with carrying value of HK\$2,205,600,000 (2018: HK\$2,076,830,000), HK\$1,539,000 (2018: HK\$Nil) and HK\$36,400,000 (2018: HK\$34,170,000) pledged to secure general banking facilities of the Group.

Finance Costs

Financial costs included interest expenses on bank and other loans, arrangement, facility and commitment fee expenses. Interest capitalized for the Year was HK\$18,649,000 as compared to HK\$13,052,000 for the last year. Interest expenses for the Year amounted to HK\$30,004,000, representing 5.7% decrease over the interest expenses of HK\$31,802,000 recorded for the same period last year. The increase in interest expense was mainly due to increase in bank loans interest and other borrowing cost during the Year. The average interest rate over the year under review was 3.2% (2018: 3.0%) which was expressed as a percentage of total interest expenses over the average total borrowing.

Property Valuation

A property valuation has been carried out by Messrs. Roma Appraisals Limited and K.T. Liu Surveyors Limited in respect of the Group's investment properties and certain property, plant and equipment as at 30 June 2019 and that valuation was used in preparing 2019 financial statements. The Group's investment properties and investment properties under development were valued at HK\$5,937,518,000 and HK\$1,721,893,000 respectively making the total HK\$7,659,411,000 (2018: investment properties and investment properties under development were valued at HK\$5,503,907,000 and HK\$1,591,670,000 making the total HK\$7,095,577,000). The increase in fair value of approximately HK\$683,397,000 was credited to the income statement for the Year. The Group land and building held for a director's quarter carried at fair value were valued at HK\$36,400,000 (2018: HK\$34,170,000). Increase in fair value of HK\$2,914,000 for the Year were recorded in property revaluation reserves. Properties under development for sale of the Group were stated at lower of cost or net realisable value in the financial statements.

RISK MANAGEMENT

The Group has established adequate risk management procedures that enable it to identify, measure, monitor and control the various types of risk it faces. This is supplemented by active management involvement and effective internal controls in the best interests of the Group.

REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30 June 2019, the Group employed a total of 95 (as at 30 June 2018: 90) staff.

Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration packages comprised salary, year end double pay and year end discretionary bonus based on market conditions and individual performance. The Executive Directors continued to review employees' contributions and to provide them with necessary incentives and flexibility for their better commitment and performance. No share option scheme was adopted for the Year.

FINANCIAL KEY PERFORMANCE INDICATOR

Profit Attributable To Owners Of The Company and Earnings Per Share

The Company uses the profit attributable to owners of the company and earnings per share as the Group's as the financial key performance indicator. The Company's aim to increase the Group's profit attributable to owners of the company and earnings per share. We compare the profit against the previous period as a measure of the performance. Detail refer to Financial Highlight section.

INTERNAL CONTROL

The Group has appointed external professional firm to perform periodic review on the internal control of the Group. Current year review has completed and some minor weakness have been identified. The Group will carry out necessary procedures to improve these control weaknesses.

ENVIRONMENTAL POLICIES AND COMPLIANCE

Our environmental policy is to meet all the environmental legislations which relate to our operation.

A review on the performance on our environmental policy has been carried out.

KEY RELATIONSHIPS

Relationships with vendors

We have established relationships with numbers of suppliers for the construction and renovation work in Hong Kong, PRC and Malaysia. Other than one supplier relating to our construction work which recently has financial problem, the work originally carried by the contractor has been reassigned to other contractor. Other than this, there is no major events affecting our relationships with our suppliers.

Relationships with customers

Our sale and leasing team maintain good relationship with our customers especially our tenants.

Relationships with employees

During the Period, we are not aware of any major event affecting our relationships with our employees.

BUSINESS REVIEW

Hong Kong Properties

The Rating Amendment Bill was gazetted on 13 September 2019 to introduce special rates on those vacancy units in order to eliminate the holding of stocks by the developers. The amount of the special rates for those vacancy unit is 200% of the rateable value of the property. The Bill will be subject to first, second and third reading at the meeting of the Legislative Council to be held in October 2019. The Real Estate Developers Association of Hong Kong and most developers have voiced out their objection in view of the current economic condition of Hong Kong, the passing of this bill will certainly had impact on the property market.

The progress of our projects is as follows:

1. *One Kowloon Peak, No. 8 Po Fung Terrace, Ting Kau, Tsuen Wan*

Construction of both Phase 1 and Phase 2 of the project is all completed. The occupation permit for Phase 1 has been obtained and application for Phase 2 has been submitted. Due to the liquidation of the previous contractors, some of the structure and materials do not have certificates for verification. The Building Department has identified certain areas which required examination works to be carried out. We have put our best endeavor to prepare the missing documents including conducting various structural tests and concrete tests for submission to Buildings Department to resolve the problem.

2. *Villa Cecil Phase II, 192 Victoria Road, Pokfulam*

The occupancy rate of the three blocks is 70% which contributed good rental income to the Group. Enhancement and upgrading work for three units in Phase 2 is in progress and will put to market after completion.

3. *Villa Cecil Phase III, 216 Victoria Road, Pokfulam*

The occupancy rate of the two blocks is 95% which contributed good rental income to the Group.

4. *Cheuk Nang Lookout, 30 Severn Road, The Peak*

Renovation works for the two villas to enhance the quality is completed.

5. *New Villa Cecil, 33 Cheung Chau Sai Tai Road, Cheung Chau*

Construction of Phase I has already been completed and occupation permit obtained. Over 90% of the villas in Phase 1 were leased out.

China Properties

The US-China trade war is still on going and new round of negotiation will be re-opened in the later part of this year. One of the significant impacts of the trade war is the depreciation of Renminbi which started in the 3rd quarter of this year. Although the global economies is clouded with uncertainties, the transaction volume of properties in first tier cities has slightly decreased, the selling price has achieved increment for a consecutive of 45 months.

Cheuk Nang Garden

Longhwa, Shenzhen

The registration for strata titles of all the units with the Shenzhen Real Estate Registration Center were completed. New sales campaign has commenced and 142 units have been sold over the past 6 months and the new sales transaction amount achieved is RMB700 million. Leasing of the commercial space and unsold units on Block 3, 5 and 6 have been carried out.

Cheuk Nang • Riverside

Yue Hang Qu, Hangzhou

The construction of the development is completed. The inspection of fire, electricity, plumbing and drainage are already passed. We have commenced our legal action against the main contractor 廣廈建設集團有限責任公司 regarding the delay in the construction works for both Shenzhen and Hangzhou projects.

Macau Properties

The residential market in Macau continues to remain active in the first half of 2019.

Golden Cotai No. 1

Estrada de Seac Pai Van, Coloane

Application for change of land use was submitted to the Direcção dos Serviços de Solos, Obras Públicas e Transportes (“DSSOPT”) and is still waiting for issuance of the draft change of land use contract and payment of land premium. We have instructed our lawyer to follow up with the relevant authorities under the new elected government to speed up the progress.

Malaysia Properties

The Malaysia economy remain steady in 2019.

Phase I “Parkview”

Lot 1359, Section 57, Lorong Perak, Kuala Lumpur, Malaysia

The 27 units in Phase I are operated s service apartment. The renovation of the vacant serviced apartments has commenced and will be completed in stages.

Phases II “Cecil Central Residence”

Lot 11385 and 11386, Section 57, Lorong Perak, Kuala Lumpur, Malaysia

The development currently comprised of 4 blocks of residential condominium with total approved gross floor area is 1,708,648 square feet. The main podium is completed upto Level 5. The revised building plan was approved and the amended Development Order was received. We will continue to negotiate with the government to obtain the best development potential.

POLICY AND OUTLOOK

The Extradition Bill as proposed by the Chief Executive of Hong Kong was hijacked by the radical protesters and used it to spread fear among the people of Hong Kong and developed a propaganda to undermine the Hong Kong starting from June 2019. The propaganda is still going on at the time of writing, its impact together with the continued US-China trade war already has tremendous negative impact on the Hong Kong’s economy especially the tourism and catering sectors.

Our investment in China, Macau and Malaysia is anticipated achieved satisfactory results in the years to come.

FINAL DIVIDEND

The Directors resolved to recommend the payment of a final dividend of HK15.0 cents (2018: HK15.0 cents) per share payable to those shareholders whose names appeared in the register of members as at the close of business on 21 November 2019, which together with the interim dividend of HK7.5 cents (2018: HK7.5 cents) per share, makes a total distribution of HK22.5 cents (2018: HK22.5 cents) per share this year.

After approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 23 December 2019.

CLOSURE OF REGISTER

The register of members of the Company will be closed during the following periods:

- (i) from Thursday, 7 November 2019 to Wednesday, 13 November 2019 (both days inclusive) during which period no transfers of shares would be effected. In order to qualify to attend and vote at the 2019 Annual General Meeting, all transfer of shares together with the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 6 November 2019.
- (ii) From Tuesday, 19 November 2019 to Thursday, 21 November 2019 (both days inclusive) during which period no transfers of shares would be effected. In order to qualify for the final dividend, all transfer of shares together with the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 18 November 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (THE "MODEL CODE")

The Company has adopted codes of conduct regarding securities transactions by Directors (the "Securities Code") and relevant employees on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 of the Listing Rules throughout the year ended 30 June 2019. The Company had also made specific enquiries of all Directors and the Company was not aware of any non-compliance with the required standard of dealings set out in the Model Code.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except the following:

- (i) the non-executive directors were not appointed for a specific term. However, they are subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Bye-Laws of the Company. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code;
- (ii) the role and responsibilities of Chairman and the Chief Executive Officer are not separated as we are still looking for suitable person to act as Chief Executive Officer.

BOARD AUDIT COMMITTEE

The results for the year ended 30 June 2019 have been reviewed by the Audit Committee of the Company. The Group’s consolidated financial statements have been audited by the Company’s auditor, Grant Thornton Hong Kong Limited and they have issued an unqualified opinion.

INFORMATION REQUIRED UNDER SECTION 436 OF THE COMPANIES ORDINANCE

The financial information relating to the Company for the years ended 30 June 2019 and 2018 included in the Announcement is derived from, but does not constitute the Company’s statutory annual consolidated financial statements for these two years.

The Company has delivered the financial statements for the year ended 30 June 2018 to the Registrar of Companies of Hong Kong as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 30 June 2019 to the Registrar of Companies of Hong Kong within the prescribed time limit.

The Company’s auditor has reported on the financial statements of the Group for both the years ended 30 June 2019 and 2018. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

By order of the Board
HO SAU FUN CONNIE
Company Secretary

Hong Kong, 26 September 2019

As at the date of this announcement, the Executive Directors are Dr. Chao Sze Tsung Cecil (Chairman), Ms. Chao Gigi (Vice Chairman), Mr. Yung Philip and Ms. Ho Sau Fun, Connie; the Non-Executive Director are Mr. Chao Howard and Mr. Lee Ding Yue Joseph; the Independent Non-Executive Directors are Dr. Sun Ping Hsu, Samson, Mr. Ting Woo Shou, Kenneth and Mr. Lam Ka Wai, Graham.