XIWANG PROPERTY HOLDINGS COMPANY LIMITED
西王置業控股有限公司*

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock code 股份代號：2088

Annual Report 2019 年報

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Jin Tao *(Chief Executive Officer)*
Mr. WANG Wei Min

Non-Executive Directors

Mr. WANG Di *(Chairman)*
Mr. WANG Yong *(Deputy Chairman)*
Mr. SUN Xinhu

Independent Non-Executive Directors

Mr. WONG Kai Ming
Mr. WANG An
Mr. WANG Zhen

COMMITTEES

Audit Committee

Mr. WONG Kai Ming *(Chairman)*
Mr. WANG An
Mr. WANG Zhen

Remuneration Committee

Mr. WANG An *(Chairman)*
Mr. WONG Kai Ming
Mr. SUN Xinhu

Nomination Committee

Mr. WONG Kai Ming *(Chairman)*
Mr. SUN Xinhu
Mr. WANG Zhen

COMPANY SECRETARY

Mr. WONG Kai Hing (resigned on 17 October 2019)
Mr. YU Chi Kit (appointed on 1 November 2019)

AUTHORISED REPRESENTATIVES

Mr. WANG Yong
Mr. WONG Kai Hing (resigned on 17 October 2019)
Mr. WANG Jin Tao (appointed on 17 October 2019, ceased on 1 November 2019)
Mr. YU Chi Kit (appointed on 1 November 2019)
Mr. SUN Xinhu
(alternate to Mr. WANG Yong and Mr. YU Chi Kit)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Xiwang Industrial Area
Zouping County
Shandong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2110, 21/F Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Construction Bank
The Bank of East Asia, Limited
Wing Lung Bank

AUDITORS

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong law:
Woo Kwan Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

As to Bermuda law:
Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

INVESTOR RELATIONS AND CORPORATE COMMUNICATION

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COMPANY WEBSITE

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CHAIRMAN'S STATEMENT

I would like to take this opportunity to thank our shareholders, business partners, customers, the board ("**Board**") of directors ("**Directors**") of the Company and our staff for their contribution in the past year.

In 2019, regulation and control of real estate policy was facing a more complicated macro-economic environment. While continuing to deepen the regulation and control on the demand side, local governments were more concerned on the strengthening of market supervision, determined to curb the real estate speculation and protect the reasonable living demand. On the supply side, the local governments were focused on the housing supply structural adjustment, vigorously developing indemnificatory housing including rental markets and co-ownership housing, so as to increase the effective demand and supply ratio. On the issue of land, the provision and sales continued to rise, while the enthusiasm has dropped significantly. With the surprising arising of bought-ins and the prudent attitude in the acquisition of land, the land investment enthusiasm dropped. The number of bought-ins has increased significantly, with the ratio of bought-ins to the total land provision reaching a peak. The loan capital for the real estate demand and supply side was tightened gradually and many land sale restriction policies were implemented frequently. Competing for self-sustainment, competing for building allocation and property price restriction have become the basic requirement for major cities in land provision. Some land parcels with many conditions attached as well as non-premium land parcels were bought-in. On the issue of price, the price index was generally stable, and the price increase in third-tier cities has decreased significantly. The cumulative effect of regulation and control of policy and self-adjustment of market after growth has made its influence. On the issue of demand and supply, with the growth in demand and the stability in transaction, the short-term inventory level became more reasonable. Total lump sum prices and medium prices of different property types in different tier cities were on an upward trend, but the upward trend of prices of different property types in representative cities were under control. The regulation, control and reform on the supply side in first-tier cities was gradually showing its effects. The inelastic demand and small and medium products transaction ratio were constantly increasing. The inelastic demand for housing improvement from people in the second and third tier cities remained the same, the combination of sale restriction and loan restriction changed the market expectation. The purchasing power for large-sized products decreased, and the investment demand significantly dropped. With the continuous deepening of the city-specific regulation and control of real estate market, it is expected that the Shandong Province real estate market will operate more smoothly. In view of the progress of urbanization and improvement of living standard of people in Shandong, our strategy will pay particular attention on developing properties of higher class.

WANG Di
Chairman

6 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Group was established in 2001 with headquarters located in Zouping County, Shandong Province of the PRC. Xiwang Property Holdings Company Limited (the "**Company**", together with its subsidiaries collectively referred to as the "**Group**") was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in December 2005. The Group is principally engaged in property development in the PRC.

LANTING PROJECT

Lanting Project is located at the junction between the south of Heban 3rd Road and the west of Liquan 1st Road in Zouping County, Shandong Province, which is a newly developed area in Zouping County closed to the county government headquarters. Lanting Project is a comprehensive residential development which is developed in two phases, known as North Zone and South Zone. There are 11 blocks of 6 to 14-storey residential buildings providing around 390 residential units.

MEIJUN PROJECT

Meijun Project is located at the east of Daixi 3rd Road South of Chengnan New District in Zouping County, Shandong Province, a newly developed area in Zouping County and the county government headquarters, hospital and schools are nearby. The Meijun Project is a residential development divided into 3 phases. Phase One, completed in December 2008, comprises 4 blocks of 5-storey residential buildings providing around 110 residential units. Phase Two comprises 19 blocks of 5 to 18-storey residential buildings providing around 700 residential units and was completed in December 2013. Phase Three is in the planning stage.

QINGHE PROJECT

Qinghe Project is located at Kaihe Village, Handian Town of Zouping County, Shandong Province. The project comprises a parcel of land with a site area of approximately 131,258 square metres for the construction of residential units. Home settlements were completed and the Group is in the course of obtaining the State-owned Land Use Certificates.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Review

The Group's sole source of revenue of the year ended 31 December 2019 (the "**Year**") is sales of developed properties. Geographically, Shandong remains as the Group's main market. All revenues of the Group during the Year were derived from Shandong. The Group's revenue increased from RMB42,088,000 in 2018 to RMB111,702,000 in 2019. The revenue from the sales of properties in Qingdao City increased from RMB7,276,000 in 2018 to RMB91,477,000 in 2019, mainly due to the increase in gross floor area (the "**GFA**") sold from 472 sq m in 2018 to 5,695 sq m in 2019. The revenue from the sales of properties in Binzhou City decreased from RMB34,812,000 in 2018 to RMB20,225,000 in 2019 mainly due to the decrease in GFA sold in 2019 as compared to 2018, offset by the revenue from bulk sales of carpark units of RMB14,257,000. Gross loss for the Year amounted to RMB35,044,000 (2018: Gross profit of RMB2,822,000) mainly due to the disposal of the Group's completed properties held for sale, representing certain units in an office building in Qingdao, Shandong Province, PRC, at a loss in December 2019.

II. Financial Review

Operating results

1. Revenue

The Group's revenue increased from RMB42,088,000 in 2018 to RMB111,702,000 in 2019. The increase in sales of properties in Qingdao City outweighed the decrease in the sales of properties in Binzhou City as compared to 2018.

2. Cost of sales

The Group's cost of sales increased from RMB39,266,000 in 2018 to RMB146,746,000 in 2019. The increase in cost of sales was mainly due to the increase in GFA sold in Qingdao City in 2019.

3. Other income

Other income represented compensation income, interest income and rental income. The amount in 2018 mainly represents the compensation income of RMB48,272,000 received in 2018. The compensation income is related to the Yintaishan Corn Cultural Project which the vendor promised to compensate the Group for its failure to obtain the State-owned Land Use Certificates and the construction work planning permit.

4. Administrative expenses

Administrative expenses include general administrative fees, legal and professional fees, salaries of management and administrative staff. The amount increased from RMB10,848,000 in 2018 to RMB13,464,000 in 2019, which was mainly in line with the increase with revenue in 2019.

5. Income tax credit

Income tax credit increased from RMB1,298,000 in 2018 to RMB13,572,000 in 2019 mainly due to the utilisation of deferred income tax liabilities from fair value adjustment arising from acquisition of subsidiary.

Financial position

Liquidity and capital resources

As at 31 December 2019, the Group's cash and cash equivalents increased from RMB128,666,000 in 2018 to RMB143,833,000 in 2019. The Group primarily utilized the cash flow from operations, cash inflow from investing activities and cash on hand to finance operational requirements during the Year.

As at 31 December 2019, the gearing ratio, being the ratio of total liabilities divided by total equity was 28% (31 December 2018: 39%). As at 31 December 2019, the Group had no bank and other borrowings (31 December 2018: Nil).

Significant investments held, significant acquisitions and disposals of subsidiaries and future plans for significant investments or capital asset acquisitions

During the Year, the Group had no significant investments and neither it had entered into any significant acquisitions and disposals of subsidiaries nor had made future plans for significant investments or capital asset acquisitions.

Pledge of assets

As at 31 December 2019, none of the property, plant and equipment of the Group was pledged to secure bank and other borrowings (31 December 2018: Nil).

Capital commitments

As at 31 December 2019, the Group's capital commitment amounted to RMB1,497,000 (31 December 2018: RMB2,477,000), which was mainly expenditures for property developments.

Foreign exchange risk

The Group primarily operates in the PRC with RMB as its functional currency. During the Year, majority of the Group's assets, liabilities, incomes, payments and cash balances were denominated in RMB. Therefore, the Directors believed that the risk exposure of the Group to fluctuation of foreign exchange rate was not significant as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS

Human resources

As at 31 December 2019, the Group employed approximately 29 staff (31 December 2018: 36). Staff-related costs (including Directors' remuneration) incurred during the Year was RMB3,508,000 (2018: RMB3,073,000). The Group reviews regularly the remuneration packages of the Directors and employees with respect to their experience and responsibilities to the Group's business. The Group has established a remuneration committee to determine and review the terms of remuneration packages, bonuses and other compensation payables to the Directors and senior management.

Contingent liabilities/advance to an entity

The Group did not have any contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

III. Business Outlook

Under the pretext of stable operation for the real estate market, many regulation and control policies were aimed at maintaining stability, while emphasizing on the city-specific policies, reasonable implementation of policy and structural moderation. Many restrictive regulation and control policies on the demand side will be advancing, and with the moderation of certain administrative regulation and control methods, the overall policy will be more reasonable and more conducive to the smooth operation of the market. The supply side will centre on increasing short-term supply, adjusting the housing and land supply structure, enhancing financing service for indemnificatory housing, advancing for the policy establishment for the medium to long term housing system reform, and continuing to protect the "effective demand and supply". In the medium and long term, the policies will change comprehensively into a basket of policy tools including aspects in financial, land, finance and taxation, housing protection and market management, so as to maintain the stability, rationality and long term effectiveness of the policies. Shandong Province is currently speeding up the establishment of long term effective real estate market system to guarantee the smooth development of the real estate market. It is expected that the effective demand and supply will further increase and the total price of commercial buildings will remain stable. The business of the Group was mainly conducted in Zouping City, Shandong Province. Apart from the influence of overall policy and market trend, the business has displayed specific local characteristics. With the strong inelastic demand in housing, strong demand for housing improvement and the limited land supply and few development of new housing projects. It is expected that the prices in commercial housing in Zouping City will fluctuate narrowly within the present high price level.

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Jin Tao (王金濤)
Chief Executive Officer

Mr. WANG Jin Tao, aged 36, is executive Director and the chief executive officer of the Company since 26 October 2015. He possess more than 10 years of management experience. He graduated from the professional course in business administration of The Open University of China(中央廣播電視大學)in January 2011 and worked as the deputy department head of the security department of the Xiwang Group, ultimate holding company of the Company between July 2005 to May 2006. He became the administrative deputy general manager of Xiwang Foodstuffs Company Limited(西王食品股份有限公司)(a company listed on the Main Board of the Shenzhen Stock Exchange under stock code 000639 in February 2010 and is effectively held as to 52.32% by the Xiwang Group) ("**Xiwang Foodstuffs**") from May 2006 to December 2006. He was appointed as the procuring deputy general manager of the Xiwang Foodstuffs from December 2006 to October 2008, the executive deputy general manager of Shandong Xiwang Biotechnology Company Limited*(山東西王生化科技有限公司)("**Xiwang Biotechnology**") from October 2008 to August 2009, the production deputy general manager of Shandong Xiwang Sugar Company Limited*(山東西王糖業有限公司) from August 2009 to December 2009, the executive deputy general manager of the Xiwang Group First Industrial Park*(西王集團第一工業園)from December 2009 to November 2010, the factory manager of the Fourth Starch Plant of Xiwang Biotechnology (山東西王生化科技有限公司澱粉四廠)from May 2011 to August 2012, and the general manager of the Zouping County Xiwang Power Co. Ltd*(鄒平縣西王動力有限公司)from August 2012 to May 2015. Since June 2015, he has been the general manager of Shangdong Xiwang Property Company Limited*(山東西王置業有限公司)("**Shangdong Xiwang Property**"), a wholly-owned subsidiary of the Company.

Mr. WANG Wei Min (王偉民)

Mr. WANG Wei Min, aged 50, is executive Director of the Company since 26 October 2015. He joined the Group in September 1992 and has more than 22 years of experience in engineering management. He graduated from the professional course in microcomputer of the Zouping County Professional College*(鄒平縣成人中等專業學校)of Shandong Province in July 1992 and worked in the Zouping Xiwang Oil Cotton Factory*(鄒平西王油棉廠) from September 1989 to September 1992. He joined the Shandong Xiwang Property as the department head of the engineering department from September 1992 to October 2001 and became the general manager of Xiwang Real Estate Development Company Limited*(西王房地產開發有限公司), a subsidiary of Shangdong Xiwang Property from October 2001 to February 2008. Since February 2008, he has been the deputy general manager of Shangdong Xiwang Property.

BOARD OF DIRECTORS

Non-executive Directors

Mr. WANG Di (王棣)
Chairman

Mr. WANG Di, aged 37, is non-executive Director and the chairman of the Company. He was appointed as an executive Director in November 2010 and the deputy chairman of the Company in July 2012. He was the head of branding of the Group from 2006 to June 2013. Mr. WANG has been re-designated as non-executive Director and the chairman of the Company from 15 July 2013. Mr. WANG attended the bachelor's degree course of Information Conflict from the Electronic Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍電子工程學院) from 2001 to 2005. He joined Xiwang Group Company Limited* (西王集團有限公司) ("**Xiwang Group**") in August 2005 and the Group in January 2006. He was in charge of the international trading business of the Group from 2005 to June 2013 and has been in charge of international trading business of Xiwang Group for more than eight years. Mr. WANG has also served as a director of each of Xiwang Hong Kong Limited (a wholly-owned subsidiary of Xiwang Group) ("**Xiwang Hong Kong**") since April 2006, Xiwang Holdings Limited (a company held as to 95% by Xiwang Hong Kong) ("**Xiwang Holdings**") since November 2015 and Xiwang Investment Company Limited (being a wholly-owned subsidiary of Xiwang Holdings and the holding company of the Company) since November 2015. Mr. WANG has been granted with various awards and honours, including outstanding worker for enterprise education and training of Shandong Province in 2006, labour model of Binzhou City of Shangdong Province of the PRC, labour model of Shandong Province and outstanding entrepreneur in food industry of Shandong Province. Mr. WANG is a director of Xiwang Foodstuffs, and the chairman and non-executive director of Xiwang Special Steel Company Limited ("**Xiwang Special Steel**") (a company listed on the Main Board of the Stock Exchange under stock code 1266 in February 2012 and is effectively held as to approximately 63.23% by Xiwang Holdings as at 31 December 2019). Mr. WANG Di is the son of Mr. WANG Yong, who is a non-executive Director and the deputy chairman of the Company.

Mr. WANG Yong (王勇)
Deputy Chairman

Mr. WANG Yong, aged 70, is non-executive Director and the deputy chairman of the Company. He is one of the founders of the Group. Mr. WANG was appointed as executive Director and the Chairman of the Company in March 2005 and has been re-designated as non-executive Director and the deputy chairman of the Company from 15 July 2013. Mr. WANG was the legal representative of Zouping County Xiwang Social Benefits Oil and Cotton Factory* (鄒平縣西王社會福利油棉廠) from 1986 to 1992 and of Zouping County Xiwang Industrial Head Company* (鄒平縣西王實業總公司) from 1993 to 1996. He was the managing director of Xiwang Group from 1996 to 2001. Mr. WANG has been the chairman of the board of directors of Xiwang Group since 2001. Mr. WANG has been assessed by Professional Position Evaluation Committee of Binzhou Non-Public Ownership Organisations* (濱州市非公有制經濟組織專業技術職務評審委員會) as a senior economist. He was awarded as the National Labour Role Model (全國勞動模範) by the State Council in 2000 and was appointed as the vice president of the third council of China Fermentation Industry Association* (中國發酵工業協會) in 2004.

Mr. WANG was awarded with several prizes and titles, including the National Advanced Worker in Quality Management of Township Enterprise (全國鄉鎮企業質量管理先進工作者) awarded by the Ministry of Agriculture of China (中國農業部) in 2000, the Fourth National Township Entrepreneur Award (第四屆全國鄉鎮企業家) and National Advanced Worker in Technological Progress of Township Enterprise of the Eighth Five-year Plan (「八五」全國鄉鎮企業科技進步先進工作者) awarded by the Ministry of Agriculture of the PRC in 2001. Mr. WANG Yong received secondary education in the PRC. Mr. WANG Yong is father of Mr. WANG Di, who is a non-executive Director and the chairman of the Company.

Mr. SUN Xinhu (孫新虎)

Mr. SUN Xinhu, aged 46, is a non-executive Director and the head of the Business Development Department of the Group. Mr. SUN joined the Group since 2003. He had over 4 years of experience in an international fast food chain in China. Mr. SUN graduated with a bachelor's degree in food science from Shandong Polytechnic University (山東輕工業學院) in July 1997, and a master's degree in food science from Southern Yangtze University (江南大學) in July 2004. Mr. SUN has been a director of Xiwang Foodstuffs since 2010 and the vice chairman of the board of Xiwang Foodstuffs since June 2014. Mr SUN was the secretary of the board of Xiwang Foodstuffs from 2010 to October 2013. Mr. SUN has been a non-executive director of Xiwang Special Steel since 2011 and was re-designated as an executive director in April 2015. Mr. SUN has been serving as vice general manager since he joined Xiwang Group in March 2003 and has served as a director of Xiwang Group since January 2013. Mr. SUN was appointed as an executive Director in December 2008 and re-designated as a non-executive Director on 5 July 2012. Mr. SUN is a member of the nomination committee ("**Nomination Committee**") and the remuneration committee (the "**Remuneration Committee**") of the Company.

BOARD OF DIRECTORS

Independent non-executive Directors

Mr. WONG Kai Ming (黃啟明)

Mr. WONG Kai Ming, aged 66, is an independent non-executive Director. Mr. WONG has over 30 years of experience in accounting and finance and is presently the sole director of EMKT CPA Limited, Certified Public Accountant and the sole proprietor of Wong Kai Ming, Certified Public Accountant. Mr. WONG has obtained a higher diploma in accountancy and a bachelor of arts in accountancy degree from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in 1980 and 1996 respectively. He is a fellow member of the Association of Chartered Certified Accountants and a practising member of the Hong Kong Institute of Certified Public Accountants. Mr. WONG was appointed as an independent non-executive Director in November 2005. Mr. WONG is the chairman of the audit committee of the Company (the "**Audit Committee**") and the Nomination Committee, and also a member of the Remuneration Committee.

Mr. WANG An (王安)

Mr. WANG An, aged 74, is an independent non-executive Director. Mr. WANG has extensive experience in agriculture and knowledge in economics. He graduated from Beizhen Agricultural Professional College of Shandong Province* (山東省北鎮農業專科學校) in 1968. In 1971, he graduated from the Professional Course in Economic Statistics from the Party School of Liaoning Province* (遼寧省黨校函授經濟統計專業班) and was promoted to Senior Professor. During the period from 1968 to 1998, Mr. WANG worked at Agricultural Bureau and Forestry Bureau of Zouping County (鄒平縣農業局及林業局) and was the secretary and deputy director of the County Government Office and Director of Bureau of the Legislative Affairs (法制局), Director of the County Government Office, and communist party member of the County Government Office of Zouping County, Shandong Province, of the PRC. Before retirement in 2007, he was the secretary of the Party's Committee at the Luzhong Professional School in Shandong Province, of the PRC* (山東省魯中職業學院). Mr. WANG was appointed as an independent non-executive Director on 1 April 2013. Mr. WANG is the chairman of the Remuneration Committee and a member of the Audit Committee.

Mr. WANG Zhen (王鎮)

Mr. WANG Zhen, aged 35, is an independent non-executive Director, Mr. WANG, has over 6 years of experience in the legal field. He graduated with a bachelor degree from Weifang University* (濰坊學院) in 2009. After obtaining his professional legal qualifications in the PRC in 2009, Mr. WANG has served as a professional lawyer of Shandong Lizhi Law Office* (山東勵志律師事務所) from 2010 till present. Mr. WANG was appointed as an independent non-executive Director on 23 March 2016. Mr. WANG is a member of the Audit Committee and the Nomination Committee.

* *For identification purpose only*

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company is committed to maintain good corporate governance practices and procedures. The Company has adopted the principles of good governance and code provisions contained in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. Save as disclosed herein, the Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year. The Board is committed to uphold the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the shareholders.

The Board is responsible for performing the duties on corporate governance function as set out below:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance and legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the Year, the Board has reviewed the Company's corporate governance practices and the duties performed by the committees of the Board. Detailed discussion of the major corporate governance practices adopted and observed by the Company during the Year or where applicable, up to the date of this report is set out below.

A. Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the Year and up to the date of this report.

CORPORATE GOVERNANCE REPORT

B. Board of Directors

(i) Board composition

The Board currently comprises a combination of two executive Directors, three non-executive Directors and three independent non-executive Directors. During the Year and up to the date of this annual report, the Board consisted of the following Directors:

Executive Directors:
Mr. WANG Jin Tao *(Chief Executive Officer)*
Mr. WANG Wei Min

Non-executive Directors:
Mr. WANG Di *(Chairman)*
Mr. WANG Yong *(Deputy Chairman)*
Mr. SUN Xinhu

Independent non-executive Directors:
Mr. WONG Kai Ming
Mr. WANG An
Mr. WANG Zhen

During the Year, the Board at all times met the requirements under Rules 3.10 and 3.10 (A) of the Listing Rules that, at least one-third of members of the Board being independent non-executive directors, with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

(ii) Appointment and re-elections of directors

All the non-executive Directors and all independent non-executive Directors have entered into letters of appointment with the company with a specific term of 3 years. In accordance with the Bye-laws of the Company, the Board is authorized to appoint any person as a director of the Company either to fill a casual vacancy on the Board or, subject to authorization by the members in general meeting, as an additional member of the Board. According to the Bye-laws of the Company, new appointments to the Board are subject to re-election by shareholders at the next following annual general meeting. Moreover, one-third of the Directors of the Board (or, the number nearest to but not less than one-third if the number of directors is not a multiple of three) shall retire from office by rotation and is eligible for re-election by shareholders at the annual general meeting. A retiring Director shall continue to act as a Director throughout the meeting at which he retires. The Board should ensure that every Director shall be subject to retirement at least once every three years. In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of shareholders of the Company as a whole. One of the independent non-executive Directors, Mr. WONG Kai Ming, has over 30 years of experience in the accounting and finance fields and is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Non-executive Directors are appointed for a term of three years. The Company has received the annual written confirmations from each of Mr. WONG Kai Ming, Mr. WANG An and Mr. WANG Zhen in respect of their independence respectively pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers that all independent non-executive Directors are independent.

(iii) Responsibilities, accountabilities and contributions of the Board

The Board, with the assistance from the senior management, forms the core management team of the Company. The Board takes the overall responsibility for management of the Company, formulating the business strategies and development plan of the Company, decision making on important issues, including but not limited to substantial mergers and acquisitions and disposals, Directors' appointments and significant operational and financial matters, and review and approval of annual and interim results of the Company. The senior management are responsible for supervising and executing the Board policies and strategies including the provision of monthly updates of the Group's performance, position and prospects to the Board, to enable the Board and each of the Directors to deliver and discharge their duties under the Listing Rules. Daily management, administration and operation of the Company are delegated to the management team of the Company. The Directors have timely and full access to all relevant information of the Company. The company secretary of the Company (the "**Company Secretary**") provides advice and services to the Directors to ensure the Directors follow all the Company's Board procedures and all applicable rules and regulations. Company Secretary notifies the Directors of rule amendments and updates in respect of corporate governance practices, to assist the Directors of the Company to fulfill their responsibilities.

(iv) Financial reporting

The Directors acknowledge their responsibility for preparing the financial statements for the Year, which give a true and fair view of the state of affairs of the Group, and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The financial statements of the Company and the Group for the Year were prepared on a going concern basis. The Audit Committee reviewed and recommended the Board to adopt the audited accounts for the Year. The Board is not aware of any material uncertainties relating to the events or condition that may undermine the Company's ability to continue as a going concern. The statements of the external auditors of the Company with regard to their reporting responsibilities on the financial statements of the Company are set out in the Independent Auditors' Report on pages 44 to 49.

CORPORATE GOVERNANCE REPORT

(v) Relationship among members of the Board

Mr. WANG Di, the chairman and a non-executive Director, is the son of Mr. WANG Yong, the deputy chairman and a non-executive Director. Saved as disclosed, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between any of the Directors or chief executive officer of the Company. Each of Mr. WANG Di, and Mr. SUN Xinhu, among others, have entered into a voting agreement in respect of their shares held in Xiwang Holdings dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012. Under these agreements, each of the shareholders of Xiwang Holdings shall only vote, when in the capacity of a shareholder of Xiwang Holdings, in accordance with the instruction of Mr. WANG Yong at any shareholders meeting of Xiwang Holdings.

(vi) Continuous professional development of directors

Induction seminars of comprehensive guidance on directors' duties and liabilities are provided by the Company's legal advisors to Directors once they joined the Board. Senior management of the Company provides briefings to all Directors for updates of their knowledge and skills of the industry of the Company. Company Secretary provides updates or amendments of the Listing Rules of the Stock Exchange and other statutory regulations for Directors' fulfillment of their responsibilities and duties in the Company. During the Year, the Company provided the Directors with written materials for the updates of corporate governance practices, especially the sections related to the disclosure of inside information and disclosure responsibilities. All Directors have confirmed they have studied the materials provided by the Company.

	Studying written materials for the updates of corporate governance practices
WANG Jin Tao	✓
WANG Wei Min	✓
WANG Di	✓
WANG Yong	✓
SUN Xinhu	✓
WONG Kai Ming	✓
WANG An	✓
WANG Zhen	✓

C. Chairman and Chief Executive Officer

Mr. WANG Di is the chairman of the Company who is principally responsible for formulation of plans and policies of the Group. The chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The chief executive officer of the Company is Mr. WANG Jin Tao who is responsible for the supervision for the execution of the plans and policies determined by the Board.

D. Board Committees

The Board has three board committees, namely Audit Committee, Remuneration Committee and Nomination Committee. Independent non-executive Directors are majority of members of these committees appointed by the Board. Written terms of reference of these committees based on the CG Code have been approved and adopted by the Board. Sufficient resources are provided to the Board committees for their discharge of their duties. They are able to seek independent professional advice, at the Company's expenses, upon reasonable request and under appropriate circumstances.

(i) Audit Committee

In accordance with the written terms of reference of the Audit Committee, all members of the Audit Committee should be non-executive Directors with majority of them being independent non-executive Directors. At least one of them shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. Former partner of the Company's existing external auditors from time to time may not act as a member of the Audit Committee for a period of at least two years from the date of the person ceasing (a) to be a partner of the firm or (b) to have any financial interest in the firm, whichever is later. At present, the members of Audit Committee comprised Mr. WONG Kai Ming (chairman), Mr. WANG An and Mr. WANG Zhen. The primary responsibilities of the Audit Committee are to monitor the integrity of the Group's financial statements and reports and to review significant financial reporting judgements contained therein, to review the Company's financial controls, risk management and internal control system, to make recommendations to the Board for the improvement of the Group's risk management and internal control procedures and system and to make recommendations to the Board for the appointment and removal of external auditors. The terms of reference of the Audit Committee are available on the Company's website and the website of the Stock Exchange. Two meetings were held by the Audit Committee during the Year. During the Year, the Audit Committee reviewed the Company's risk management and internal control systems, the effectiveness of its internal audit function and financial reporting system. The Audit Committee reviewed and recommended the Board to adopt the audited accounts and final results announcement for the year ended 31 December 2018 and the unaudited accounts and interim results announcement for the six months ended 30 June 2019. The Audit Committee reviewed and made recommendation to the Board for the re-appointment of external auditor.

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(ii) Remuneration Committee

In accordance with the written terms of reference of the Remuneration Committee, majority of members of the Remuneration Committee should be independent non-executive Directors, with the chairman must be an independent non-executive Director. The terms of reference of the Remuneration Committee are available on the Company's website and the website of the Stock Exchange. At present, the members of Remuneration Committee comprised Mr. WANG An (chairman), Mr. WONG Kai Ming and Mr. SUN Xinhu. The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the policy and structure of the Company for all Directors and senior management remuneration, to review and recommend to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights and compensation payments. One meeting was held by the Remuneration Committee during the Year. During the Year, Remuneration Committee has reviewed remuneration of Directors.

(iii) Nomination Committee

In accordance with the written terms of reference of the Nomination Committee, majority of members of the Nomination Committee should be independent non-executive Directors, with the chairman must be an independent non-executive Director. The terms of reference of the Nomination Committee are available on the Company's website and the website of the Stock Exchange. At present, the members of the Nomination Committee comprised Mr. WONG Kai Ming (chairman), Mr. WANG Zhen and Mr. SUN Xinhu. The primary responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to identify individuals suitably qualified to become Board members and to select or make recommendations to the Board on the selection of individuals nominated for directorship, and to assess the independence of the independent non-executive Directors. Pursuant to the nomination policy, the Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election or re-election as Directors at general meetings or appoint as Directors to fill casual vacancies. The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled. The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate: (i) Reputation for integrity (ii) Accomplishment and experience in the property industry (iii) Commitment in respect of available time and relevant interest (iv) Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, qualifications, professional experience, skills, knowledge, independence and length of service. These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate, in accordance with the requirements and subject to any restrictions in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Retiring Directors are eligible for nomination by the Nomination Committee and recommendation by the Board to stand for re-election at a general meeting. The Secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also identify candidates pursuant to the criteria set out above and put forward candidates who are not nominated by Board members. The Nomination Committee may use any process it deems appropriate to evaluate the candidates pursuant to the criteria set out above, which may include personal interviews, background checks, presentations or written submissions by the candidates and third party references. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration, approval and appointment. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. For proposing candidates to stand for election or re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation to the shareholders. In case of election or re-election at a general meeting, until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting. In order to provide information of the candidates nominated by the Board to stand for election or re-election at a general meeting, and to invite nominations from shareholders, a circular will be sent to shareholders. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders. A shareholder can serve a notice to the Company Secretary within the lodgement period of its intention to propose a resolution to elect certain person(s) as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular. The particulars of the candidates so proposed will be sent to all shareholders for information by a supplementary circular. A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the Company Secretary. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting. Unless required by law or any regulatory authority, under no circumstances shall a member of the Nomination Committee or a staff member of disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the circular to shareholders is issued. Following the issue of the circular, the Nomination Committee or Company Secretary or other staff member approved by the Nomination Committee may answer enquiries from the regulatory authorities or the public but

CORPORATE GOVERNANCE REPORT

confidential information regarding nominations and candidates should not be disclosed. The Board adopted a board diversity policy (the "**Board Diversity Policy**") which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board, the summary of which is as follows: the Board has set objectives (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee is responsible for monitoring the implementation of the Board Diversity Policy and review the same as appropriate. In designing the Board's composition, board diversity has been considered and the Board should have a balance of skills, experience and knowledge in the industry and diversity of perspectives appropriate to the Company's business. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee having reviewed the Board's composition, nominated Mr. WANG Jin Tao, Mr. SUN Xinhu and Mr. WONG Kai Ming to the Board for it to recommend to the Shareholders for re-election at the annual general meeting of the Company held on 6 June 2019. The nomination were made in accordance with the nomination policy of he Company, having took into account the diversity aspects (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out under the Board Diversity Policy. One meeting was held by the Nomination Committee during the Year. The Nomination Committee performed annual review of the structure of the Board and recommended the nomination of Directors for re-election at the annual general meeting of the Company held on 6 June 2019.

(iv) Attendance record of the Board, and Board committee meetings and general meetings

The details of Directors' attendance of the Board and board committee meetings as well as general meetings held during the Year are set out in the following table:

	No. of meetings attended/no. of meetings held				
	Board Meeting	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors:					
WANG Jin Tao *(Chief Executive Officer)*	5/5	N/A	N/A	N/A	2/2
WANG Wei Min	5/5	N/A	N/A	N/A	2/2
Non-executive Directors:					
WANG Di *(Chairman)*	5/5	N/A	N/A	N/A	2/2
WANG Yong *(Deputy Chairman)*	5/5	N/A	N/A	N/A	2/2
SUN Xinhu	5/5	N/A	1/1	1/1	2/2
Independent Non-executive Directors:					
WONG Kai Ming	5/5	2/2	1/1	1/1	2/2
WANG An	5/5	2/2	1/1	N/A	2/2
WANG Zhen	5/5	2/2	N/A	1/1	2/2

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E. Auditors' Remuneration

A breakdown of the remuneration of the Group's external auditor is as follows:

	For the year ended 31 December 2019 (RMB'000)
HLB Hodgson Impey Cheng Limited	
Annual audit services	576
Non-audit services	
– Review and issue comfort letter for continuing connected transaction	132
	708

F. Internal Control

Risk Management and Internal Control

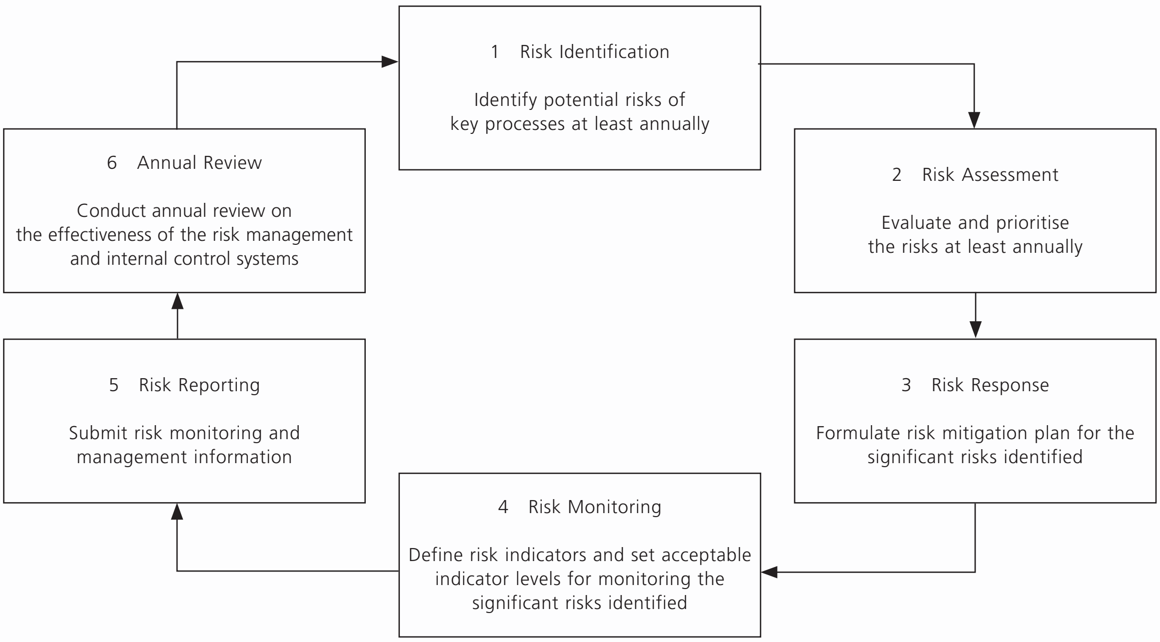
Maintaining sound risk management and internal control systems is pivotal to the fulfillment of the Group's business objectives and its long-term sustainable growth. The Board acknowledges its overall responsibility for evaluating and determining the nature and extent of the risks the Group is willing to take in achieving the Group's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems to safeguard shareholders' investment and the Group's assets. To this end, the Board continuously reviews and makes improvements in its risk management and internal control framework. During the Year, the Group has set up its own internal audit department which conducted a comprehensive review of the Group's risk management system, resulting in an enhanced enterprise risk management ("**ERM**") framework through a robust and inclusive system that manages risks at all levels of the organisation. During the Year, the Board, through the Audit Committee, also reviewed the effectiveness of the Group's risk management and internal control systems, covering operational, financial and compliance controls of the Group.

Risk Management Framework

The Group's risk management system is aligned with the internal control framework of international body consisting of the five elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failure to achieve business objectives of the Group and can provide reasonable, but not absolute assurance against material misstatement or loss. The systems consist of two essential features, the risk governance structure and the risk management process.

Risk Governance Structure – The Group's risk governance structure is based on the "3 lines of defence" model, which comprises day-to-day operational management and control, risk and compliance oversight, and independent assurance. The ERM policy formalised by the Group clearly defines roles and responsibilities of each of the multiple layers of the structure, including the Board, the Audit Committee, senior management, department heads, operational level and internal audit.

Risk Management Process – The Group's ERM approach is a structured mechanism and a continuous process of identifying, evaluating, prioritising, managing and monitoring the risks that the Group faces. The key process of the Group's ERM is illustrated below:



The ERM adopted by the Group is embedded in our strategy development, business planning and day-to-day operations. The Group adopts a control and risk self-assessment methodology and continuously assesses and manages its risk profile on a regular basis. Risks that are relevant to the Group's business are identified, assessed and ranked according to their likelihood, financial consequence and reputational impact on the Group. The ERM system uses risk indicators and red flags to monitor the priority risks identified. Risk owners are required to submit risk alerts with risk mitigation plan promptly and regular risk reports are presented to the senior management and Audit Committee for ongoing review and monitoring. The key risks identified, managed and monitored during the Year include sale and taxation process. Action plans were formulated and implemented during the Year to address the areas of concern effectively.

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The Group's internal audit department conducts risk management and internal control reviews covering operational, financial and compliance controls of the Group. The Group's internal audit function reports directly to the Audit Committee. It carries out independent reviews of key business processes and controls in accordance with its annual audit plan approved by the Audit Committee. The head of internal audit has regular meetings with the Audit Committee to report the key findings and recommendations for improvement of audit issues. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be effective and adequate.

G. Inside Information

The Company takes seriously of its obligations under the Part XIVA of the Securities and Futures Ordinance ("**SFO**") and the Listing Rules with respect to procedures and internal controls for the handling and dissemination of inside information. The Group has a disclosure policy which sets out guidelines and procedures to the Directors and officers of the Group to ensure inside information of the Group is to be disseminated to the public in equal and timely manner (the "**Disclosure Policy**"). Under the Disclosure Policy, the Company's disclosure team comprising executive Director and members of senior management have the overall delegated authority to decide whether the information reported is inside information and require disclosure and refer the subject matter to the Board for decision. Measures are in place to preserve the confidentiality of inside information and to ensure that its recipients recognise their obligations to maintain it confidential. In communicating with external parties, only designated officers are authorised to respond to enquiries in allocated areas of issues. Briefing session is held regularly for officers to facilitate their understanding and compliance with the policy.

H. Company Secretary

The Company Secretary provides advice and services to the Board to ensure that the Board follows all the Company's Board procedures and all applicable rules and regulations. The Company Secretary notifies the Board of rule amendments and updates in respect of corporate governance practices, to assist the Directors in fulfilling their responsibilities. The Company Secretary, Mr. YU Chi Kit has confirmed that he has sufficient relevant professional training during the Year as required under Rule 3.29 of the Listing Rules.

I. Directors' and Officers' Liability Insurance

The Company has taken out liability insurance to indemnify its Directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the Year.

J. Shareholders' Rights and Investor Relations

Under the Companies Act of Bermuda (the "**Companies Act**") and the Bye-laws of the Company, dividends may be paid out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium accounts. However, no dividend shall exceed the amount recommended by the Board of the Company. The Company does not have any predetermined dividend payout ratio. Declaration and recommendation of payment of dividends of the Company is subject to the approval of the Board of the Company, depending on results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Board of the Company may consider relevant from time to time. Shareholders will be entitled to receive dividends apportioned and paid pro rata according to the amounts paid up on the shares. Any future declaration, recommendation and payment of dividends of the Company may or may not reflect or follow the historical declarations and payments of dividends and will be at the absolute discretion of the Board of the Company. The Company's shareholders' communication policy is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors. General meetings of the Company are formal channels for communication between shareholders and the Board. The chairmen of the Board and the Board committees are invited to attend the general meetings to have direct communication with the shareholders. External auditor of the Company should also attend annual general meetings to answer shareholders' enquiries. Under the Company's bye-laws, the Bermuda Companies Act 1981 and applicable legislation and regulation, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton, HM11 Bermuda and its principal place of business in Hong Kong at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong, for the attention of the Board or the Company Secretary, to require a special general meeting ("**SGM**") to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. The written requisition must state the purpose(s) of the general meeting, signed by the shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those shareholders. If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the requisition is invalid, the shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested. The notice period to be given to all the registered shareholders for consideration of the proposal raised by the shareholder(s) concerned at a SGM varies according to the nature of the proposal, as follows: (i) at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and (ii) at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company. Shareholders who have enquiries about the above procedures or have enquiries to put to the Board or have suggestions on the Company's business may write to the Company Secretary at Unit 2110, 21/F, Harbour Centre, 25 Harbour

CORPORATE GOVERNANCE REPORT

Road, Wanchai, Hong Kong. The Board and senior management of the Company will seriously consider shareholders' enquiries and address them accordingly and in compliance with the Listing Rules. During the Year, no shareholders' written enquiry was received. The investor relations and corporate communication department of the Company in Hong Kong maintains regular communication and dialogue with shareholders, investors and analysts. It can be accessed during normal business hour by phone (Telephone: 3188 4518) or email (ir@xiwangproperty.com). Shareholders and investors can also visit the Company's website at www.xiwangproperty.com and the Stock Exchange's website for the Company's announcements, circulars, financial information, corporate governance practices, annual reports, interim reports and other corporate information and updates of business development and operations. During the year, there have been no changes to the Company's constitutional documents.

K. Business Model and Strategy

The Group generates revenue from selling properties in the PRC. The Group will maintain flexible strategies in business development and prudent risk and capital management in order to achieve sustainable long term profitability and asset growth which in turns will maximize the shareholders' interest. The Group aims in maintaining its gearing at reasonable level and good banking relationships which enables the Group to obtain the funding for business needs and investments when opportunities arise. The Group is optimistic about the long term economic potentials of the real estate market in China, and will focus on the development of residential projects in Shandong Province and look for development potential in other areas in China from time to time to explore new markets.

On behalf of the Board

WANG Di
Chairman

Hong Kong, 6 May 2020

DIRECTORS' REPORT

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Principal Activities

The Group is principally involved in property development.

Dividend

No final dividend was proposed by the Board for both ordinary shares and convertible preference shares in respect of the Year (2018: Nil). Payment of the preferred annual distribution of RMB0.01 per convertible preference share will be deferred as at 31 December 2019.

Business Review

Business review of the Company and a discussion and analysis of the Group's performance during the Year, the material factors underlying its results and financial position, and an indication of likely future development in the Company's business are set out on pages 5 to 8 of this Annual Report. An analysis of Group's performance using financial key performance indicators is provided on pages 5 to 8 of this Annual Report. These discussions form part of this Directors' report.

Principal Risks and Uncertainties

A number of factors may affect the results and business operations of the Group, some of which are inherent to property development business and some are from external sources. Major risks are summarized below.

(i) Market Risk

The accumulative increase in average prices of the 100 City narrowed down, with price generally stable. The accumulative price increase by city tier slowed down, where the price increase in third-tier cities had decreased significantly, but remained in high level. Meanwhile, we need to bear in mind the negative impact brought by high property prices. For an enterprise, high property prices have increased its cost of purchasing or leasing a property and the cost of living of its staff, which in turn will drive up the wages of its staff, and thus the costs of the enterprise. Moreover, persistently high property prices have also increased the risk for the market price to fall. In response to the change in the government's policy, the Group has enhanced the quality of its products, as well as its competitiveness. We will adopt a policy of marketing aggressively and pricing reasonably, in order to be in well position to adapt to price changes circle.

DIRECTORS' REPORT

(ii) Policy Risk

China's real estate industry is strictly regulated by the government. The changes of governmental policies will probably affect the development of the industry. Meanwhile, property developers are required to obtain various permissions, licenses, certificates and other approvals from relevant administrative authorities at different stages of property development. Each approval is subject to several conditions. Failure to obtain relevant approvals will affect the development of our subject property projects, undermining the business, financial condition and operating results of the Company. The Central Economic Work Conference took destocking in the real estate market as the focus of our country's supply-side structural revolution. Destocking is also a core measure to achieve a stable and healthy real estate market. Thanks to our government's various measures, the destocking in real estate made significant progress. In the short term, China's real estate policies will not change a lot, and the regulation will be stepped up. The development pattern of real estate industry features a strong high-end market, a supportive mid-range market and a solid entry-level market. The establishment and improvement of our long-term mechanism takes time. Promoting housing system revolution and establishing of long-term mechanism were proposed in a meeting of the Central Politburo. The implementation of long-term mechanism will be accelerated. Meanwhile, short-term regulation and long-term mechanism have come closer. Taking multilevel housing supply system to a higher level while maintaining the stability of real estate market is of importance. It is also going to change real estate market a lot in the future. For example, the concept of housing on people's mind will change, and house buyers are more likely to be the actual users of the houses they buy. The foundation of the real estate is going to be more solid. Many cites have issued their own regulatory policies. Regulations on real estate finance have become stricter, curbing the demand originating from speculation. The tightening regulations in property market is leading to a "Four Restrictions Era", namely, restrictions on purchasing, borrowing, pricing and selling. The Group closely monitors the laws, regulation and policies in China, so as to duly apply for licences and permits in advance, carry out its operation activities in strict compliance with relevant government policies, tackle and deal with ad hoc issues in an immediate and active manner.

Environmental Policies and Performance

The Group paid attention to nourish and enhance employees' awareness of cherishing resources and utilizing resources with high efficiency, and proactively promoted environmental protection. It urged and encouraged supervisory employees on duty to save energy and paper at work. The ultimate goal is to save resources and costs and protect the environment.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the Mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the Mainland China and Hong Kong. During the year ended 31 December 2019 and up to the date of this report, we have complied with all the relevant laws and regulations in the Mainland China and Hong Kong.

Explanatory Notes to Important Relationship with Employees, Customers and Suppliers

The Group promoted people-oriented management cultures and emphasized the value of employees as it believed employees were important resources for enhancing the Company's productivity and core competency. To provide employees with competitive remunerations and opportunities to receive skill trainings is closely connected to the realization of employees' individual values as well as the Group's strategic goals. The Group maintained good cooperation and communications with upstream builders and material suppliers, and ensured both sides were mutually benefited. The Group also paid close attention to customers' satisfaction, carefully listened to opinions of property owners and constantly enhanced service quality in order to maintain good reputation of the Company.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 12 to the consolidated financial statements.

Share Capital

Details of movements in the Company's share capital for the Year are set out in note 22 to the consolidated financial statements.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 119.

DIRECTORS' REPORT

Share Option Scheme

In view of the expiry of the 2005 Scheme, the Company adopted a share option scheme pursuant to a resolution passed at a shareholders' meeting held on 10 May 2018 (the "**2018 Scheme**"), as incentives or rewards for eligible participants' contribution to the Group. Participants of the 2018 Scheme include (i) any employee or proposed employee (whether full-time or part-time and including any executive Director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest; (ii) any non-executive Directors (including Independent non-executive Directors) of the Company, any of its Subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity. The 2018 Scheme became effective on 10 May 2018 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No share options have been granted under the 2018 Scheme since its adoption. The maximum number of shares issuable upon exercise of all outstanding options which may be granted under the 2005 Scheme, the 2018 Scheme and any other share option scheme of the Group shall not exceed 140,877,331 ordinary shares in aggregate, representing approximately 10.00% of ordinary shares in issue and listed on the Stock Exchange as at the date of this report, and which must not in aggregate exceed 30% of the ordinary shares in issue from time to time. The maximum number of ordinary shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued ordinary shares from time to time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting (with such participant and his associates abstaining from voting). The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the Directors. The exercise price of share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer, and (iii) the nominal value of a share in the Company. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The Company operated a share option scheme (the "**2005 Scheme**"), which was adopted pursuant to a resolution passed at a shareholders' meeting held on 6 November 2005, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The principal terms of the 2005 Scheme are summarised as follows: The maximum number of ordinary shares of the Company which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other schemes of the Group must not exceed 80,000,000 ordinary shares, being 10% of ordinary shares in issue on the date of listing of the ordinary shares on the Stock Exchange and approximately 5.68% of ordinary shares in issue and listed on the Stock Exchange as at the date of this report, and which must not in aggregate exceed 30% of the ordinary shares in issue from time to time. The maximum number of ordinary shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued ordinary shares from time to time. The subscription price for the ordinary shares under the 2005 Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the ordinary share as stated in the Stock Exchange's daily quotations sheet on the date of the Board approving the grant of an option, which must be a business day; (ii) the average closing price of the ordinary share as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the offer date; and (iii) the nominal value of the ordinary share. An option may be exercised in whole or in part in accordance with the terms of the 2005 Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme (the "**2005 Commencement Date**") and expiring on such date of the expiry of the option as the Board may in its absolute discretion determine and which shall not exceed ten years from the 2005 Commencement Date but subject to the provisions for early termination thereof as set out in the 2005 Scheme. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The 2005 Scheme became effective on 6 November 2005 and expired on 5 November 2015. The share options granted under the 2005 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2005 Scheme.

DIRECTORS' REPORT

As at 31 December 2019, options to subscribe for 6,400,000 ordinary shares of the Company, representing approximately 0.45% of ordinary shares in issue and listed on the Stock Exchange as at the date of this report, were outstanding, details of which are set out in note 23 to the consolidated financial statements and below:

Class of grantee	Date of grant	During the year ended 31 December 2019 Granted	Exercised	Cancelled	Lapsed	Outstanding as at 1 January 2019	Outstanding as at 31 December 2019	Exercise price per Share (HK$)	Exercise period
Directors									
WANG Di	5 November 2013	–	–	–	–	3,000,000	3,000,000	1.112	(Note 2, 3)
SUN Xinhu	5 November 2013	–	–	–	–	3,000,000	3,000,000	1.112	(Note 2, 3)
Employees									
(Note 1)	5 November 2013	–	–	–	–	400,000	400,000	1.112	(Note 2, 3)
		–	–	–	–	6,400,000	6,400,000		

Notes:

1. Employees include employees of the Group (other than the directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

2. The closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on 4 November 2013, being the trading day immediately preceding the date of grant of options, was HKD1.10 per share.

3. The validity period of the options is from 5 November 2013 to 5 November 2023. The options can only be exercised by the grantees in the following manner:

Commencing from	Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options
5 November 2014	2,100,000
5 November 2015	2,100,000
5 November 2016	2,200,000

Equity-linked Agreements

Other than the share option schemes as disclosed above, no equity-linked agreements were entered into by the Company, or existed during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Reserves

Details of movements in the reserves of the Company during the Year are set out in note 33 to the consolidated financial statements and in the consolidated statement of changes in equity.

As the 31 December 2019, the reserves available for distribution to shareholders of the Company was RMB227,181,000 (31 December 2018: RMB230,645,000).

DIRECTORS' REPORT

Major Customers and Suppliers

For the Year, purchases from the largest supplier of the Group accounted for approximately 95% (2018: 12%) of the Group's total purchase and purchases from the Group's five largest suppliers accounted for approximately 98% (2018: 33%) of the Group's total purchase. For the Year, the Group's largest customer accounted for approximately 96% (2018: 15%) of the Group's total revenue and the Group's five largest customers accounted for approximately 99% (2018: 30%) of the Group's total revenue. Save as disclosed in note 28 to the consolidated financial statements and save as disclosed above, none of the Directors or any of their close associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest suppliers and five largest customers of the Group during the Year.

Directors and Directors' Service Contracts

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

Executive Directors:

Mr. WANG Jin Tao *(Chief Executive Officer)*
Mr. WANG Wei Min

Non-executive Directors:

Mr. WANG Di *(Chairman)*
Mr. WANG Yong *(Deputy Chairman)*
Mr. SUN Xinhu

Independent Non-executive Directors:

Mr. WONG Kai Ming
Mr. WANG An
Mr. WANG Zhen

Pursuant to Bye-law 87(1) of the Bye-laws of the Company, each of Mr. WANG Di, Mr. WANG Yong, and Mr. WANG An shall retire from office at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. None of the Directors has a 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. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all the independent non-executive Directors to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 12 of this annual report.

Directors' Interests in Contracts of Significance

Save as disclosed in note 28 to the consolidated financial statements, no transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party in which a Director or an entity connected with a Director had a material interest, either directly or indirectly, is subsisting at the end of the Year or at any time during the Year.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries or the holding company or a subsidiary of the Company's holding company a party to any arrangements to enable the Directors to acquire benefits by means of an acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

Permitted Indemnity Provision

The Company has taken out liability insurance to indemnify its Directors for their liabilities arising from the performance of their duties.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year ended 31 December 2019.

Remuneration Policy

The remuneration policy of the Group is set on the basis of the employees' merit, qualifications and competence and reviewed by the Remuneration Committee periodically. The remuneration package of the Directors are reviewed and recommended by the Remuneration Committee and approved by the Board, with consideration to the Group's operating results, individual performance and comparable market statistics.

DIRECTORS' REPORT

Directors' Interests in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested *(Note 1)*	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2019
WANG Yong	Company	Interest of controlled corporations *(Note 2)*	982,999,588 ordinary shares (L) *(Note 4)*	69.78%
			506,244,669 convertible preference shares (L) *(Note 4)*	99.75%
	Xiwang Investment Company Limited ("**Xiwang Investment**")	Interest of controlled corporations *(Note 2)*	3 shares (L)	100%
	Xiwang Holdings	Beneficial owner *(Note 2)*	6,738 shares (L)	3.37%
		Interest of controlled corporations *(Note 2)*	190,000 shares (L)	95%
	Xiwang Hong Kong	Interest of controlled corporations *(Note 2)*	694,132,000 shares (L)	100%

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested *(Note 1)*	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2019
	Xiwang Group	Beneficial owner *(Note 2)*	RMB1,383,000,000 (L)	31%
	Xiwang Special Steel	Interest of controlled corporations *(Note 2)*	1,498,000,000 shares (L) *(Note 3)*	63.23%
WANG Di	Company	Beneficial owner	3,000,000 ordinary shares (L) *(Note 5)*	0.21%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,400,000 (L)	1.77%
	Xiwang Special Steel	Beneficial owner	11,000,000 shares (L)	0.46%
SUN Xinhu	Company	Beneficial owner	3,000,000 ordinary shares (L) *(Note 5)*	0.21%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB35,400,000 (L)	1.77%
	Xiwang Special Steel	Beneficial owner	2,102,000 shares (L)	0.09%

DIRECTORS' REPORT

Notes:

(1) The letter "L" represents the Director's interests in the shares.

(2) As at 31 December 2019, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 31% by Mr. WANG Yong, 29.25% by 西王村委 (Xiwang Village Villagers' Committees), and remaining 39.75% by 20 individuals. Further, these 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 20 individuals of their voting powers as a shareholder of Xiwang Group. Accordingly, Mr. WANG Yong is deemed to be interested in all the shares of the Company in which Xiwang Group is interested.

Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group. Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings. Therefore, Xiwang Holdings, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(3) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all the shares of Xiwang Special Steel held by Xiwang Investment.

(4) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all shares held by Xiwang Investment.

(5) These interests represent the Directors' beneficial interests in the underlying shares in respect of the share options granted by the Company to the Directors. Details of which are set out in the section headed "Share Option Scheme".

Substantial Shareholders and Other Persons who are Required to Disclose their Interests pursuant to Part XV of the SFO

(a) Substantial shareholders of the Company

As at 31 December 2019, so far as it is known to any Directors of the Company, the following shareholders (other than the Directors and chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company are set out above) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares of the Company held *(Note 1)*	Approximate percentage of interest as at 31 December 2019
Xiwang Investment	Beneficial owner	982,999,588 ordinary shares (L)	69.78%
		506,244,669 convertible preference shares (L)	99.75%
Xiwang Holdings	Interest of a controlled corporation *(Note 2)*	982,999,588 ordinary shares (L)	69.78%
		506,244,669 convertible preference shares (L)	99.75%
Xiwang Hong Kong	Interest of controlled corporations *(Notes 2, 3)*	982,999,588 ordinary shares (L)	69.78%
		506,244,669 convertible preference shares (L)	99.75%

DIRECTORS' REPORT

Name of substantial shareholder	Capacity	Number of shares of the Company held *(Note 1)*	Approximate percentage of interest as at 31 December 2019
Xiwang Group	Interest of controlled corporations *(Notes 2, 3)*	982,999,588 ordinary shares (L)	69.78%
		506,244,669 convertible preference shares (L)	99.75%
ZHANG Shufang	Interest of spouse *(Note 4)*	982,999,588 ordinary shares (L)	69.78%
		506,244,669 convertible preference shares (L)	99.75%
Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) ("**Qilu**")	Person having a security interest in shares *(Note 5)*	982,999,588 ordinary share (L)	69.78%
		506,244,669 convertible preference shares (L)	99.75%
Zhongtai International Asset Management Limited	Investment Manager *(Note 6)*	982,999,588 ordinary share (L)	69.78%
		506,244,669 convertible preference shares (L)	99.75%

Notes:

(1) The letter "L" represents the entity's interests in the shares.

(2) Xiwang Holdings directly holds 100% of the issued share capital of Xiwang Investment and therefore is deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(3) Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Therefore, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(4) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares in which Mr. WANG Yong is deemed to be interested.

(5) The controlling shareholder of the Company notified the Board on 28 September 2017 that it entered into share charge agreements with an independent third party pursuant to which it charged all of its shareholding in the Company in favour of such independent third party as security for notes issued by its subsidiary to such independent third party in the aggregate principal amount of HK$200,000,000.

(6) Zhongtai International Asset Management Limited is the fund manager of Qilu, as such it is deemed to be interested in all the shares Qilu is interested pursuant to the SFO.

(b) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in the paragraph headed "Directors' Interests in shares, underlying shares and debentures of the Company and its associated corporations" and paragraph (a) above, as at 31 December 2019, no other person had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Connected Transactions

The related party transactions set out in note 28 to the consolidated financial statements constitute continuing connected transactions under Chapter 14A of the Listing Rules. Save as the provision of financial services under the Financial Services Framework Agreement dated 27 October 2016 and the new Financial Services Framework Agreement dated 12 August 2019 entered into between the Company and Xiwang Group Finance Company Limited ("**Xiwang Finance**") as described below which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements, all other continuing connected transactions as set out in note 28 to the consolidated financial statements were exempt continuing connected transactions under Rule 14A.33 of the Listing Rules and were exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. On 27 October 2016, the Company and Xiwang Finance, a subsidiary of Xiwang Group, the ultimate holding company of the Company and a connected person of the Company), entered into the Financial Services Framework Agreement in respect of the provision of a range of financial services, including but not limited to deposit services, loan services and other financial services, commencing from 16 December 2016 to 30 November 2019. For each of the years ending 31 December 2016, 31 December 2017, 31 December 2018 and for the eleven months ending 30 November 2019, the caps on the maximum daily outstanding balance of deposits (including accrued interests) at Xiwang Finance shall be RMB120 million, RMB200 million, RMB300 million and RMB580 million respectively. For the year ended 31 December 2019, the transaction amount did not exceed the annual cap. Further details of the Financial Services Framework Agreement were disclosed in the announcement of the Company dated 27 October 2016 and the circular of the Company dated 24 November 2016.

DIRECTORS' REPORT

On 12 August 2019, the Company and Xiwang Finance entered into a new Financial Services Framework Agreement to renew the existing arrangement for a term commencing from the effective date, being the date on which all the conditions precedent set out in the agreement are fulfilled, to 30 November 2022. For each of the period from the effective date to 31 December 2019, for the years ending 31 December 2020, 31 December 2021 and for the eleven months ending 30 November 2022, the caps on the maximum daily outstanding balance of deposits (including accrued interests) at Xiwang Finance shall be RMB150 million, RMB150 million, RMB250 million and RMB500 million respectively. For the year ended 31 December 2019, the transaction amount did not exceed the cap. Further details of the new Financial Services Framework Agreement were disclosed in the announcement of the Company dated 12 August 2019 and the circular of the Company dated 25 October 2019. Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and are of the opinion that the above continuing connected transactions have been (i) carried out in the usual and ordinary course of business of the Group; (ii) conducted on normal commercial terms; and (iii) entered into in accordance with the terms of the agreement which are fair and reasonable and in the interests of the Company's shareholders as a whole. The Company's external auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, the auditor of the Company, has provided a letter to the Board confirming that nothing has come to their attention to cause them to believe that the continuing connected transactions:

a. have not been approved by the board.

b. were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

c. the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The Board also considers that the transactions have been conducted in accordance with the pricing policies under the Financial Services Framework Agreement and the Company's internal control procedures are adequate and effective.

Corporate governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 13 to 26 of this annual report.

Audit Committee

The Company established an Audit Committee with written terms of reference based upon the provisions and recommended practices of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures and system of the Group. During the Year, members of the Audit Committee comprised Mr. WONG Kai Ming (chairman), Mr. WANG An and Mr. WANG Zhen, being the independent non-executive Directors. The Group's consolidated financial statements for the Year have been reviewed by the Audit Committee, which is of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float not less than 25% of the total issued share capital as at the date of this report.

Auditors

The financial statements for the Year have been audited by HLB Hodgson Impey Cheng Limited. A resolution will be proposed at the upcoming annual general meeting of the Company to re-appoint HLB Hodgson Impey Cheng Limited as auditors of the Company.

On behalf of the Board

WANG Di
Chairman

Hong Kong, 6 May 2020

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

To the Shareholders of Xiwang Property Holdings Company Limited

(incorporated in the Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Xiwang Property Holdings Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 50 to 118, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill

Refer to Notes 2.4 and 14 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
The Group has goodwill of approximately RMB180,405,000 relating to the property development projects as at 31 December 2019. Management performed impairment assessment on the goodwill and concluded that an impairment of RMB20,178,000 was recognised. This conclusion was based on value in use model that required significant management judgement with respect to the selling price and construction cost of properties, plot ratio and the discount rate.	Our procedures in relation to management's impairment assessment included: • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

Carrying values of properties under development and completed properties held for sale

Refer to Notes 2.4 and 15 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
The carrying values of properties under development and completed properties held for sale were approximately RMB293,878,000 and RMB18,163,000 as at 31 December 2019 respectively. The management estimated the net realisable values of the property under development and completed properties held for sale by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion or by management estimates based on prevailing marketing conditions, which involve significant management estimation.	Our procedures in relation to management's determination of the carrying values of properties under development and completed properties held for sale included: • Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable values of properties under development and completed properties held for sale; • Comparing the management's estimates to relevant market data; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found the carrying values of properties under development and completed properties held for sale were supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("**Other Information**").

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Kwok Tsz Chun.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Tsz Chun
Practicing Certificate Number: P06901

Hong Kong, 6 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Notes	**2019** **RMB'000**	2018 RMB'000
Revenue	5	**111,702**	42,088
Cost of sales		**(146,746)**	(39,266)
Gross (loss)/profit		**(35,044)**	2,822
Other income	5	**3,305**	54,795
Impairment loss recognised in respect of goodwill	14	**(20,178)**	–
Selling and marketing expenses		**(167)**	(167)
Administrative expenses		**(13,464)**	(10,848)
(Loss)/Profit from operation		**(65,548)**	46,602
Finance cost	20	**(25)**	–
(Loss)/Profit before tax	6	**(65,573)**	46,602
Income tax credit	9	**13,572**	1,298
(Loss)/Profit for the year		**(52,001)**	47,900
(Loss)/Profit attributable to:			
Owners of the Company		**(52,001)**	47,900
(Loss)/Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted	11		
– (Loss)/Profit for the year		**RMB(3.7) cent**	RMB3.4 cent

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	**2019** **RMB'000**	2018 RMB'000
(Loss)/Profit for the year	**(52,001)**	47,900
Other comprehensive income/(loss)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**838**	(740)
Total comprehensive (loss)/income for the year	**(51,163)**	47,160
(Loss)/Profit attributable to:		
Owners of the Company	**(51,163)**	47,160

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**57**	151
Right-of-use asset	13	**503**	–
Goodwill	14	**180,405**	200,583
Total non-current assets		**180,965**	200,734
CURRENT ASSETS			
Completed properties held for sale	15	**18,163**	159,579
Properties under development	15	**293,878**	293,878
Prepayments and other receivables	16	**100,409**	91,763
Cash and cash equivalents	17	**143,833**	128,666
Total current assets		**556,283**	673,886
CURRENT LIABILITIES			
Trade and other payables	18	**51,000**	126,313
Lease liability	20	**511**	–
Contract liabilities	19	**1,084**	1,426
Tax payable		**4,711**	–
Amounts due to related companies	28(a)	**10,497**	7,979
Total current liabilities		**67,803**	135,718
Net current assets		**488,480**	538,168

As at 31 December	Notes	**2019** **RMB'000**	2018 RMB'000
Total assets less current liabilities		**669,445**	738,902
Less: Non-current liabilities			
Deferred tax liabilities	21	**93,325**	111,619
Total non-current liabilities		**93,325**	111,619
Net assets		**576,120**	627,283
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	**175,672**	175,672
Reserves	24	**400,448**	451,611
Total equity		**576,120**	627,283

These consolidated financial statements were approved and authorised for issue by the Board on 6 May 2020 and signed on its behalf by:

WANG Jin Tao
Director

SUN Xinhu
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital	Share option reserve	Capital reserve	Statutory reserve	Contributed surplus	Merger reserve	Exchange fluctuation reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 24)		*(note 24)*	*(note 24)*	*(note 24)*			
At 1 January 2018	175,672	1,770	102,910	52,738	373,006	(118,063)	6,167	(14,077)	580,123
Profit for the year	–	–	–	–	–	–	–	47,900	47,900
Other comprehensive loss for the year	–	–	–	–	–	–	(740)	–	(740)
Total comprehensive income for the year	–	–	–	–	–	–	(740)	47,900	47,160
At 31 December 2018	175,672	1,770*	102,910*	52,738*	373,006*	(118,063)*	5,427*	33,823*	627,283
At 1 January 2019	175,672	1,770	102,910	52,738	373,006	(118,063)	5,427	33,823	627,283
Loss for the year	–	–	–	–	–	–	–	(52,001)	(52,001)
Other comprehensive income for the year	–	–	–	–	–	–	838	–	838
Total comprehensive loss for the year	–	–	–	–	–	–	838	(52,001)	(51,163)
At 31 December 2019	**175,672**	**1,770**	**102,910**	**52,738**	**373,006**	**(118,063)**	**6,265**	**(18,178)**	**576,120**

Note:

* These reserve accounts comprise the consolidated other reserves of RMB400,448,000 (2018: RMB451,611,000) in the consolidated statement of financial position.

The accompany notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019	Notes	**2019** **RMB'000**	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		**(65,573)**	46,602
Adjustments for:			
Interest income		**(1,001)**	(2,404)
Depreciation – property, plant and equipment	12	**47**	80
Depreciation – right-of-use asset	13	**597**	–
Finance cost	20	**25**	–
Reversal of write-down of completed properties held for sale to net realisable value	6	**(929)**	(2,671)
Loss on write-off of property, plant and equipment	6	**46**	–
Impairment loss recognised in respect of goodwill	14	**20,178**	–
		(46,610)	41,607
Decrease in completed properties held for sale		**142,345**	39,968
(Increase)/decrease in prepayment and other receivables		**(8,646)**	3,142
Decrease in trade and other payables		**(75,322)**	(11,271)
Decrease in contract liabilities		**(342)**	(31,347)
Decrease in amount due from related parties		**–**	3
Increase in amount due to related companies		**2,518**	1,815
Cash generated from operations		**13,943**	43,917
Mainland China taxes paid		**–**	–
Net cash flows generated from operating activities		**13,943**	43,917

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019	Notes	**2019** **RMB'000**	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,001**	2,196
Purchases of items of property, plant and equipment	12	**–**	(91)
Net cash outflow from acquisition of a subsidiary	25	**–**	(42,927)
Net cash flows from investing activities		**1,001**	(40,822)
CASH FLOW FROM FINANCING ACTIVITY			
Repayment of lease liability		**(615)**	–
Net cash flow from financing activity		**(615)**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		**14,329**	3,095
Cash and cash equivalents at beginning of year		**128,666**	126,311
Effect of foreign exchange rate changes, net		**838**	(740)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**143,833**	128,666
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of cash flows	17	**143,833**	128,666

The accompany notes form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. CORPORATE AND GROUP INFORMATION

Xiwang Property Holdings Company Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally involved in property development. In the opinion of the directors, the immediate holding company of the Company is Xiwang Investment Company Limited ("**Xiwang Investment**"), which is a private company incorporated in the British Virgin Islands (the "**BVI**"). The ultimate holding company of the Company is Xiwang Group Company Limited ("**Xiwang Group**"), which is established in the People's Republic of China (the "**PRC**").

Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest and voting rights attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Keen Lofty Investments Limited	BVI	US$15,756,000	100	–	Investment holding
Glorious Prosper Limited	Hong Kong	HK$1	–	100	Investment holding
Shandong Xiwang Property Company Limited# (Xiwang Property Company Limited 山東西王置業有限公司)	PRC	RMB200,000,000	–	100	Property investment and development
Xiwang Property Company Limited (西王地產有限公司)	PRC	RMB200,000,000	100	–	Property investment and development

Established in the PRC as a wholly-foreign-owned enterprise

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These consolidated financial statements are presented in Renminbi ("**RMB**") which is the same as the functional currency of the Group. All values are rounded to the nearest thousand except when otherwise indicated.

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

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

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 *Leases*

Transition and summary of effects arising from initial application of HKFRS 16

On 1 January 2019, the Group has applied HKFRS 16. HKFRS 16 superseded HKAS 17, and the related interpretations. The Group applied the HKFRS 16 in accordance with the transition provisions of HKFRS 16. The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applied HKAS 17 and HKFRIC – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application. For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

(i) *As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment, and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 *Leases* (continued)

(i) As a lessee (continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16. As at 1 January 2019, the Group recognised lease liability and right-of-use asset at amounts equal to the related lease liability adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. When recognising the lease liability for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rate applied by relevant group entity approximates 3.04%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	**1,239**
Change in allocation basis between lease and non-lease components	**(150)**
Effect from discounting at the incremental borrowing rate as at 1 January 2019	**(6)**
Lease liability as at 1 January 2019	**1,083**
Analysed as:	
Current	**583**
Non-current	**500**
	1,083

	Right-of-use assets RMB'000
Right-of-use asset as at 1 January 2019	1,083
By class	
Building	1,083

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 *Leases* (continued)

(ii) As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. During the year ended 31 December 2019, application of HKFRS 16 by the Group as a lessor has no material impact on the Group's consolidated financial statements. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously report at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB'000	RMB'000	RMB'000
Non-current asset			
Right-of-use asset	–	1,083	1,083
Current liabilities			
Lease liability – due within one year	–	583	583
Non-current liabilities			
Lease liability – due over one year	–	500	500

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.3 NEW AND AMENDMENTS TO HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9 HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

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

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

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The Group anticipates that the application of all theses new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee). When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the Group's voting rights and potential voting rights.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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 either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of 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 the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Plant and machinery	6.3%
Equipment and motor vehicles	9.5%-31.7%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end. An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Definition of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (upon application HKFRS 16)

As a lessee

(i) *Allocation of consideration to components of a contract*

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

(ii) *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use asset includes: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Group; and (d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

(iii) *Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (upon application HKFRS 16) (continued)

As a lessee (continued)

(iv) Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The lease payments include: (a) fixed payments (including in-substance fixed payments) less any lease incentives receivable; (b) variable lease payments that depend on an index or a rate; (c) amounts expected to be paid under residual value guarantees; (d) the exercise price of a purchase option reasonably certain to be exercised by the Group; and (e) payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when the lease term has changed by discounting the revised lease payments using a revised discount rate at the date of reassessment.

(v) Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (upon application HKFRS 16) (continued)

As a lessee (continued)

(vi) Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities. For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

(i) Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

(ii) Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

(iii) Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Leasing (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Rental income which is derived from the Group's ordinary course of business is presented as other income.

The Group as Lessee

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 lessee, rentals payable under the operating leases are charged to the statement of 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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. Financial assets and financial liabilities are initially measured at fair value except for trade receivables from property management services arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income which are derived from the Group's ordinary course of business are presented as revenue.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

(i) Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost: (a) the financial asset is held within a business model whose objective is to collect contractual cash flows; and (b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significant reduces an accounting mismatch.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(i) Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset.

(ii) Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including Other receivables and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The Group always recognises lifetime ECL for trade receivable. The ECL on these assets are assessed individually for debtors with significant balance and/or collectively using a provision matrix with appropriate groupings. For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account when assessing whether credit risk has increased significantly: (a) an actual or expected significant deterioration in the financial instruments' external (if available) or internal credit rating; (b) significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread; (c) existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; (d) an actual or expected significant deterioration in the operating results of the debtor; and (e) an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions. The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables from property management services and lease receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17. Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis: (a) Past-due status; and (b) Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics. Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables from property management services, lease receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account.

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

(i) 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, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, and amounts due to related parties.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

(ii) Subsequent measurement of loans and borrowings

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

(iii) 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 contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and net realisable value. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions. Development costs of property comprise cost of land use rights, construction costs, and professional fees incurred during the development period. On completion, the properties are transferred to completed properties for sale. Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction of the relevant property development project is expected to complete beyond normal operating cycle.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

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, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates. Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except: (a) 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 (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and a joint venture when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, 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: (a) when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and a joint venture, 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income recognition

Revenue from contracts with customers

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; (b) the Group's performance creates and enhances an asset that the customer controls as the Group performs; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due. A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Sales of properties

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income recognition (continued)

Revenue from contracts with customers (continued)

Revenue from other source

(a) *Interest income*

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(b) *Rental income*

Rental income under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 23 to the financial statements. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period. Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payments or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Each of the Group's subsidiaries operating in Mainland China participates in the central pension scheme (the "**CPS**") operated by the local municipal government for all of its staff in Mainland China. These subsidiaries are required to contribute a percentage of their payroll costs to the CPS. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the CPS.

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on the settlement or transaction of monetary items are recognised in the statement of 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 measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain Hong Kong and overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate. For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

(i) Income tax

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 assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and to the extent that there is sufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses carried forward, and that the asset balance will be reduced and charged to the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(ii) Land appreciation tax

Under the Provisional Regulations on Land Appreciation Tax ("**LAT**") implemented upon the issuance of the Provisional Regulations of the Public on 27 January 1995, all gains arising from the transfer of real estate properties in Mainland China with effect from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures. The subsidiaries of the Group engaging in the property development business in Mainland China are subject to LAT, which has been included in income tax. However, the implementation of these taxes varies amongst various Mainland China cities and the Group has not finalised its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. When the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact the income tax and provisions for land appreciation taxes in the period in which the determination is made.

Estimation uncertainty

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

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB180,405,000 (2018: RMB200,583,000). Further details are given in note 14.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(ii) 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. 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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.

(iii) Provision of ECL for financial assets at amortised cost

The loss allowances for financial assets at amortised cost are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 31. As at 31 December 2018 and 2019, the directors have assessed that the effect of ECL is limited. The provision of ECL is sensitive to changes in estimates. The information about the ECL are disclosed in notes 31.

4. OPERATING SEGMENT INFORMATION

Information reported to the Group's management for the purpose of resources allocation and performance assessment, focuses on the operating results of the property development business which is the sole operating segment of the Group. Accordingly, no operating segment information is presented.

Geographical information

All revenues are from Mainland China.

Non-current assets

	2019	2018
	RMB'000	RMB'000
Mainland China	**43**	120
Hong Kong	**14**	31
	57	151

The non-current asset information above is based on the locations of the assets and excludes goodwill.

4. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2019	2018
	RMB'000	RMB'000
Customer A	**91,477**	–
Customer B	**19,435**	–
Customer C[1]	**–**	6,324

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2019.

5. REVENUE AND OTHER INCOME

Revenue represents proceeds from the sale of properties.

An analysis of revenue and other income is as follows:

	2019	2018
	RMB'000	RMB'000
Revenue		
Sale of properties#	**111,702**	42,088
Other income		
Rental income	**2,299**	3,481
Interest income from a related party *(Note 28(b))*	**997**	2,401
Bank interest income	**4**	3
Compensation income* *(Note 28(b))*	**–**	48,272
Others	**5**	638
	3,305	54,795

* The compensation income is related to Yintaishan Corn Cultural Project which the vendor promised to compensate the Group for its failure to obtain the State-owned Land use Certificates and the construction work planning permit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. (LOSS)/PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	RMB'000
Cost of inventories sold	**147,675**	41,937
Reversal of write-down of completed properties held for sale to net realisable value along with properties sold	**(929)**	(2,671)
	146,746	39,266
Auditors' remuneration	**576**	559
Auditors' remuneration for non-audit service	**132**	26
Depreciation		
– Property, plant and equipment	**47**	80
– Right-of-use asset	**597**	–
Foreign exchange loss, net	**1,043**	1,671
Minimum lease payments under operating leases: Land and buildings	**–**	679
Loss on write-off of property, plant and equipment	**46**	–
Employee benefit expense (including directors' and chief executive's remuneration):		
– Wages and salaries	**3,256**	2,794
– Pension scheme contributions	**252**	279
	3,508	3,073

7. 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 **RMB'000**	2018 RMB'000
Fees	**233**	228
Other emoluments:		
– Salaries, allowances and benefits in kind	**338**	272
– Pension scheme contributions	**27**	25
	365	297
	598	525

(a) Independent non-executive directors

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

	Fees RMB'000
2019	
Mr. Wong Kai Ming	**133**
Mr. Wang An	**50**
Mr. Wang Zhen	**50**
	233
2018	
Mr. Wong Kai Ming	128
Mr. Wang An	50
Mr. Wang Zhen	50
	228

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019				
Executive directors:				
Mr. WANG Jin Tao	**–**	**254**	**15**	**269**
Mr. WANG Wei Min	**–**	**84**	**12**	**96**
	–	**338**	**27**	**365**
Non-executive directors:				
Mr. WANG Yong	**–**	**–**	**–**	**–**
Mr. WANG Di	**–**	**–**	**–**	**–**
Mr. SUN Xinhu	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
2018				
Executive directors:				
Mr. WANG Jin Tao	–	178	15	193
Mr. WANG Wei Min	–	94	10	104
	–	272	25	297
Non-executive directors:				
Mr. WANG Yong	–	–	–	–
Mr. WANG Di	–	–	–	–
Mr. SUN Xinhu	–	–	–	–
	–	–	–	–

No executive director remuneration was waived during the Year (2018: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: one director and the chief executive), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (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	970	819
Pension scheme contributions	29	46
	999	865

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

	Number of employees	
	2019	2018
Nil to RMB1,000,000	3	4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. INCOME TAX CREDIT

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year (2018: Nil). On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Pursuant to the PRC Corporate Income Tax ("**CIT**"), all PRC enterprises are subject to a standard enterprise income tax rate of 25%, except for enterprises under specific preferential policies and provisions. In 2019, the applicable tax rate for the subsidiaries of the Company established in the PRC was 25% (2018: 25%). PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights and all property development expenditures. LAT of RMB93,000 is credited (2018: RMB366,000 is charged to the consolidated statement of profit or loss) to the consolidated statement of profit or loss for the year ended 31 December 2019.

	2019 **RMB'000**	2018 RMB'000
Group:		
– Current – Mainland China	**4,711**	–
– LAT (credit)/charge in Mainland China	**(93)**	366
– Deferred Mainland China corporate income tax	**(18,190)**	(1,664)
Total tax credit for the year	**(13,572)**	(1,298)

9. INCOME TAX CREDIT (continued)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory income tax rate to the tax expense at the Group's effective income tax rate for the year, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2019		2018	
	RMB'000	**%**	RMB'000	%
(Loss)/Profit before tax	**(65,573)**		46,602	
Tax at the statutory tax rate	**(16,393)**	**25.0**	11,651	25.0
Lower statutory tax rates for Hong Kong subsidiaries	**411**	**(0.6)**	(3,665)	(7.8)
Income not subject to tax	**–**	**–**	(7,311)	(15.7)
Benefit arising from previously unrecognised temporary difference	**(18,276)**	**27.9**	(1,244)	(2.7)
Expense not deductible for tax	**24,104**	**(36.8)**	1,486	3.2
LAT	**(93)**	**0.1**	366	0.8
Tax effect of LAT and business tax	**–**	**–**	(321)	(0.7)
Utilisation of previous tax loss	**(3,325)**	**5.1**	(2,260)	(4.9)
Tax credit at the Group's effective rate	**(13,572)**	**20.7**	(1,298)	2.8

10. DIVIDENDS

No final dividend was proposed by the board of directors for both ordinary shares and convertible preference shares for the year ended 31 December 2019 (2018: Nil). Payment of the preferred annual distribution of RMB1 per convertible preference share as at 31 December 2019 will be deferred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,408,779,382 (2018: 1,408,773,319) in issue during the year. The calculation of the diluted (loss)/earnings per share amount for the year ended 31 December 2019 and 31 December 2018 is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company. 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 (loss)/earnings per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the impact of convertible preference shares and outstanding share options would not have a dilutive effect on the basic (loss)/earnings per share amounts presented.

The calculations of basic and diluted (loss)/earnings per share amounts are based on:

	2019	2018
	RMB'000	RMB'000
(Loss)/Profit		
(Loss)/Profit attributable to ordinary equity holders of the Company	**(52,001)**	47,900

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted (loss)/earnings per share calculations	**1,408,779,382**	1,408,773,319

12. PROPERTY, PLANT AND EQUIPMENT

	Equipment and motor vehicles RMB'000	Total RMB'000
Cost		
At 1 January 2018	2,950	2,950
Additions	91	91
Acquisition of a subsidiary *(note 25)*	48	48
At 31 December 2018 and 1 January 2019	3,089	3,089
Write-off	(91)	(91)
At 31 December 2019	**2,998**	**2,998**
Accumulated depreciation		
At 1 January 2018	2,858	2,858
Charge of the year	80	80
At 31 December 2018 and 1 January 2019	2,939	2,939
Charge of the year	47	47
Write-off	(45)	(45)
At 31 December 2019	**2,941**	**2,941**
Net carrying values		
At 31 December 2019	**57**	**57**
At 31 December 2018	151	151

13. RIGHT-OF-USE ASSET

	Total RMB'000
As at 1 January 2019 (Restated) *(Note 2)*	1,083
Depreciation charged	(597)
Exchange realignment	17
As at 31 December 2019	**503**

Notes:

1. For both years, the Group leased building for its operations. Lease contracts were entered into for fixed term of 2 years. In determining the lease term and assessing the length of the non-cancellable period, the Group applied the definition of a contract and determined the period for which the contract is enforceable.

2. The total cash outflow for leases amounted to HK$615,000 for the year ended 31 December 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. GOODWILL

	RMB'000
Cost at 1 January 2019, net of accumulated impairment	**200,583**
Impairment loss recognised	**(20,178)**
At 31 December 2019, net of accumulated impairment	**180,405**
At 31 December 2019:	
Cost	**200,583**
Accumulated impairment	**(20,178)**
Net carrying amount	**180,405**
Cost at 1 January 2018, net of accumulated impairment	180,405
Acquisition of a subsidiary *(note 25)*	20,178
At 31 December 2018, net of accumulated impairment	200,583
At 31 December 2018:	
Net carrying amount	200,583

Goodwill acquired through business combinations has been allocated to the following cash-generating units ("**CGUs**") for impairment testing:

	2019	2018
	RMB'000	RMB'000
Meijun Project Phase Three	**107,420**	107,420
Qinghe Project	**72,985**	72,985
Xiwang Property Company Limited	**–**	20,178
	180,405	200,583

14. GOODWILL (continued)

The recoverable amount of all the above CGUs has been determined based on a value in use calculation using cash flow projections based on financial budgets covering three to five-year periods approved by the senior management. The discount rates applied to the cash flow projections is 10% to 11% (2018: 14% to 16%). The key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill are as follows. The selling price of properties is forecasted based on the current selling price of similar properties in the same location with no expected growth. The construction cost of properties is based on the actual cost of similar properties in the same location considering the factors such as the increase of labour cost and inflation. During the year, upon disposal of all completed properties held for sale in Qingdao which adversely affect the cash flow projection of Xiwang Property Company Limited, it has minimal foreseeable future cash flow from its operation. The directors of the Company have consequently determined impairment of goodwill directly related to Xiwang Property Company Limited amounting to RMB20,178,000. The impairment loss has been included in profit or loss. The recoverable amount of the Xiwang Property Company Limited is considered minimal as at 31 December 2019.

Plot ratio is calculated by the total gross floor area dividing the land area and estimated based on the project design.

	Plot ratio	
	2019	2018
Meijun Project Phase Three	**3.06**	3.06
Qinghe Project	**2.20**	2.20
Xiwang Tower	**n/a**	9.8

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. STOCK OF PROPERTIES

(a) Completed properties held for sale

	2019 RMB'000	2018 RMB'000
Properties held for sale	**18,163**	159,579

Properties held for sale comprised the following:

(i) An office building in Qingdao, Shandong Province, PRC was acquired during the year ended 31 December 2018, at a fair value of RMB144,821,000 from an independent third party (note 25).

(ii) Two residential project in Zouping, Shandong Province, PRC.

As at the end of the reporting period, the Directors assessed whether there exists any objective evidence of impairment of the properties held for sale. Taking into consideration of the current market conditions in the PRC at 31 December 2019, the carrying amount exceeded the estimated amount to be recovered through sale of the property and, accordingly, a reversal of impairment loss of RMB929,000 (2018: RMB2,671,000) is recognised in the profit or loss.

(b) Property under development

	2019 RMB'000	2018 RMB'000
Land in Mainland China held at cost:		
At 1 January and 31 December	**291,983**	291,983
Development expenditure, at cost:		
At 1 January and 31 December	**1,895**	1,895
	293,878	293,878

16. PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Prepayments	79,729	79,709
Other receivables	13,252	4,708
Prepaid tax	7,428	7,346
	100,409	91,763

No ageing analysis of accounts receivables were presented as the Group did not have any accounts receivables as at 31 December 2019 and 2018.

17. CASH AND CASH EQUIVALENTS

	2019	2018
	RMB'000	RMB'000
Cash and bank balances	143,833	128,666

At the end of the reporting period, the cash and cash equivalents of the Company's subsidiary in Mainland China denominated in RMB amounted to RMB143,536,000 (2018: RMB127,235,000). 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. At the end of the reporting period, the cash and cash equivalents of the Company's subsidiary in Mainland China denominated in RMB amounting to RMB142,807,000 (2018: RMB126,171,000) was deposited into a related company, Xiwang Group Finance Company Limited. The effective interest rate of deposit is 1.95% (2018: 1.95%). Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	RMB'000
Trade payables	**16,286**	27,977
Other payables	**34,410**	97,969
Salary and welfare payables	**304**	367
	51,000	126,313

Trade payables

An aged analysis of the trade payables as at the end of the reporting period, based on the contract date or invoice date, is as follows:

	2019	2018
	RMB'000	RMB'000
0 – 30 days	**309**	11,124
31 – 60 days	**–**	–
61 – 90 days	**7**	75
Over 90 days	**15,970**	16,778
	16,286	27,977

The trade payables are non-interest-bearing and are normally settled on terms of one year. Other payables include the amount arising from acquisition of a subsidiary disclosed in note 25. Other payables are non-interest-bearing and payable on demand.

19. CONTRACT LIABILITIES

	2019	2018
	RMB'000	RMB'000
Contract liabilities	**1,084**	1,426

The Group receives payment from customers, payments are usually received in advance of the performance under contracts which are mainly from sales of properties.

(a) Revenue recognised in relation to contract liabilities

	2019	2018
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**342**	31,648

(b) Unsatisfied contracts related to sales of properties

	2019	2018
	RMB'000	RMB'000
Revenue expected to be recognized:		
– within one year	**1,084**	1,694
– after one year	**–**	–
	1,084	1,694

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. LEASE LIABILITY

The following table shows the remaining contractual maturities of the Group's lease liability at the current reporting periods and at the date of transition of HKFRS 16:

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**511**	**518**	583	608
After 1 year but within 2 years	**–**	**–**	500	506
	511	**518**	1,083	1,114
Less: total future interest expenses		**(7)**		(31)
Present value of lease obligations		**511**		1,083

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach to recognise lease liability relating to lease which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in Note 2. The incremental borrowing rate approximates 3.04% and relevant interest expense recognised in profit or loss approximates RMB25,000.

Analysed for reporting purpose as:

	2019 RMB'000	2018 RMB'000
Current liability	**511**	583
Non-current liability	**–**	500
	511	1,083

Lease obligation that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

HKD	511

21. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities:

	2019			
	LAT from sales of Properties RMB'000	**Fair value adjustment arising from acquisition of subsidiaries RMB'000**	**Prepaid tax for advance proceeds from properties RMB'000**	**Total RMB'000**
At 1 January 2019	**38,492**	**73,096**	**31**	**111,619**
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 9)*	**(104)**	**(18,190)**	**–**	**(18,294)**
Gross deferred tax liabilities at 31 December 2019	**38,388**	**54,906**	**31**	**93,325**

	2018			
	LAT from sales of Properties RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Prepaid tax for advance proceeds from properties RMB'000	Total RMB'000
At 1 January 2018	39,089	55,536	352	94,977
Acquisition of a subsidiary *(note 25)*	–	18,903	–	18,903
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 9)*	(597)	(1,343)	(321)	(2,261)
Gross deferred tax liabilities at 31 December 2018	38,492	73,096	31	111,619

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. DEFERRED TAX (continued)

Deferred tax assets:

No deferred tax assets have been recognised as at 31 December 2019 and 2018. Deferred tax assets have not been recognised in respect of the following items:

	2019	2018
	RMB'000	RMB'000
Tax losses	**160,924**	174,200
Deductible temporary differences	**–**	–
	160,924	174,200

The Group has tax losses of RMB151,163,000 (2018: RMB151,163,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of RMB9,761,000 (2018: RMB23,057,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

22. SHARE CAPITAL

Shares

	2019	2018
	HK$'000	HK$'000
Authorised:		
4,000,000,000 (2018: 4,000,000,000) ordinary shares of HK$0.1 (2018: HK$0.1) each	**400,000**	400,000
2,000,000,000 (2018: 2,000,000,000) convertible preference shares of HK$0.1 (2018: HK$0.1) each	**200,000**	200,000
	600,000	600,000
Issued and fully paid:		
1,408,784,198 (2018: 1,408,773,319) ordinary shares of HK$0.1 (2018: HK$0.1) each	**140,879**	140,878
507,492,257 (2018: 507,503,136) convertible preference shares of HK$0.1 (2018: HK$0.1) each	**50,749**	50,750
	191,628	191,628

23. SHARE OPTION SCHEME

In view of the expiry of the 2005 Scheme, the Company adopted a share option scheme pursuant to a resolution passed at a shareholders' meeting held on 10 May 2018 (the "**2018 Scheme**"), as incentives or rewards for eligible participants' contribution to the Group. The 2018 Scheme became effective on 10 May 2018 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No share options have been granted under the 2018 Scheme since its adoption. The maximum number of shares issuable upon exercise of all outstanding options which may be granted under the 2005 Scheme, the 2018 Scheme and any other share option scheme of the Group shall not exceed 140,877,331 ordinary shares in aggregate. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting (with such participant and his associates abstaining from voting). Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting. The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors. The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share in the Company. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2019		2018	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January and 31 December	**1.1120**	**6,400**	1.1120	6,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. SHARE OPTION SCHEME (continued)

Grantee	Date of grant	Exercisable period	Exercise price HK$ per share	Number of share option at 1 January and 31 December 2019 '000
Directors	5-11-2013	5-11-2014 to 5-11-2023	1.112	2,000
	5-11-2013	5-11-2015 to 5-11-2023	1.112	2,000
	5-11-2013	5-11-2016 to 5-11-2023	1.112	2,000
Employees	5-11-2013	5-11-2014 to 5-11-2023	1.112	100
	5-11-2013	5-11-2015 to 5-11-2023	1.112	100
	5-11-2013	5-11-2016 to 5-11-2023	1.112	200
				6,400

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019

Number of options '000	Exercise price* HK$ per share	Exercise period
2,100	**1.112**	**5-11-2014 to 5-11-2023**
2,100	**1.112**	**5-11-2015 to 5-11-2023**
2,200	**1.112**	**5-11-2016 to 5-11-2023**
6,400		

23. SHARE OPTION SCHEME (continued)

2018

Number of options '000	Exercise price* HK$ per share	Exercise period
2,100	1.112	5-11-2014 to 5-11-2023
2,100	1.112	5-11-2015 to 5-11-2023
2,200	1.112	5-11-2016 to 5-11-2023
6,400		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period, the Company had 6,400,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,400,000 additional ordinary shares of the Company and additional share capital of HK$640,000 and share premium of approximately HK$6,477,000 (equivalent to RMB5,092,000) (before issue expenses). As at the date of this report, options carrying rights to subscribe for 6,400,000 shares remain outstanding and yet to be exercised, which represented approximately 0.45% of the Company's ordinary shares in issue as at that date.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements. Pursuant to the relevant laws and regulations for Foreign Invested Enterprise ("**FIEs**") registered in the PRC, a portion of the profits of the Group's subsidiaries in Mainland China has been transferred to the statutory reserve which is restricted as to use and discretionary reserve which is not restricted to use. Merger reserve represents the reserve arising from business combinations under common control. Contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. Pursuant to Bermuda company law, a company may make distributions to its members out of the contributed surplus in certain circumstances. The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. ACQUISITION OF A SUBSIDIARY

On 6 February, 2018, the Group acquired 100% of the issued share capital of Xiwang Property Company Limited for consideration of RMB46,100,000. The amount of goodwill arising as a result of the acquisition was RMB20,178,000.

Consideration transferred

	RMB'000
Cash	46,100

Acquisition-related costs amounting to RMB35,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment *(note 12)*	48
Properties held for sale *(note 15)*	144,821
Trade and other receivable	1,668
Cash and cash equivalents	3,173
Trade and other payable	(104,885)
Deferred tax liabilities	(18,903)
	25,922
Goodwill *(note 14)*	20,178
	46,100

The fair value of properties held for sale at the date of acquisition amounted approximately to RMB144,821,000.

25. ACQUISITION OF A SUBSIDIARY (continued)

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	46,100
Less: net assets acquired	25,922
Goodwill arising on acquisition	20,178

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of Xiwang Property Company Limited:

	RMB'000
Cash consideration paid	46,100
Less: cash and cash equivalent balances acquired	(3,173)
Net cash outflow	42,927

Included in the profit for the year ended 31 December 2018 of approximately RMB1,925,000 and turnover for the year ended 31 December 2018 of approximately RMB7,276,000 attributable to additional business generated by Xiwang Property Company Limited. Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been approximately RMB42 million, and profit for the year would have been approximately RMB48 million.

26. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for the properties are negotiated for terms ranging within two years. As 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	676
In the second to fifth year inclusive	563
	1,239

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. OPERATING LEASE ARRANGEMENTS (continued)

As lessor

Property rental income earned during the year was RMB2,299,000 (2018: RMB3,481,000). At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 RMB'000
Within one year	2,185
In the second to fifth year inclusive	9,416
Over five years	5,443
	17,044

27. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had the following capital commitments at the end of the reporting period:

	2019 **RMB'000**	2018 RMB'000
Property development expenditure		
Contracted but not provided for	**1,497**	2,477

28. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in these consolidated financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Outstanding balances with related companies

	Notes	**2019 RMB'000**	2018 RMB'000
Due to related parties:			
Xiwang Investment Company Limited	(i), (ii)	**8,568**	6,087
Xiwang Hong Kong Company Limited	(i), (iii)	**1,042**	1,018
Master Team International Limited	(i), (iii)	**887**	874
		10,497	7,979

(i) These outstanding balances with related companies are unsecured, interest-free and have no fixed terms of repayment.

(ii) The immediate holding company of the Company.

(iii) The subsidiaries of the ultimate holding company of the Company.

(b) Transaction with related parties:

Name to related parties:	Notes	**Nature of transaction**	**2019 RMB'000**	2018 RMB'000
Xiwang Group Finance Company Limited ("**Xiwang Finance**")	5	Interest income	**997**	2,401
Xiwang Investment Company Limited	5	Compensation income	**–**	48,272

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group:

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**571**	500
Pension Scheme contributions	**27**	25
Total compensation paid to key management personnel	**598**	525

Further details of directors' and the chief executive's emoluments are included in note 7 to the financial statements.

(d) On 27 October 2016, the Company and Xiwang Finance, a subsidiary of Xiwang Group, the ultimate holding company of the Company and a connected person of the Company), entered into the Financial Services Framework Agreement in respect of the provision of a range of financial services, including but not limited to deposit services, loan services and other financial services, commencing from 16 December 2016 to 30 November 2019. For each of the years ending 31 December 2016, 31 December 2017, 31 December 2018 and for the eleven months ending 30 November 2019, the caps on the maximum daily outstanding balance of deposits (including accrued interests) at Xiwang Finance shall be RMB120 million, RMB200 million, RMB300 million and RMB580 million respectively. On 12 August 2019, the Company and Xiwang Finance entered into a new Financial Services Framework Agreement to renew the existing arrangement for a term commencing from 1 December to 30 November 2022. For each of the period from 1 December to 31 December 2019, for the years ending 31 December 2020, 31 December 2021 and for the eleven months ending 30 November 2022, the caps on the maximum daily outstanding balance of deposits (including accrued interests) at Xiwang Finance shall be RMB150 million, RMB150 million, RMB250 million and RMB500 million respectively.

	2019 RMB'000	2018 RMB'000
Maximum cap during the period under previous arrangement	**580,000**	300,000
Maximum cap during the period under new arrangement	**150,000**	–
Outstanding balance of deposit as at year ended *(note 17)*	**142,807**	126,171

29. FINANCIAL INSTRUMENTS BY CATEGORY

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

	2019	2018
	RMB'000	RMB'000
Financial asset – at amortised cost		
Other receivables *(note 16)*	**13,252**	4,708
Cash and cash equivalents	**143,833**	128,666
	157,085	133,374
Financial liabilities at amortised cost		
Trade and other payables *(note 18)*	**51,000**	126,313
Amount due to related parties	**10,497**	7,979
	61,497	134,292

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

At 31 December 2019 and 2018, the fair values of the Group's financial assets and financial liabilities approximated to their carrying amounts. 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. Management has assessed that the fair values of cash and cash equivalents, restricted cash, financial assets included in other receivables, amount due from a related party, financial liabilities included in trade and other payables, amounts due to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

All of the Group's revenue and substantially all of the Group's cost of sales and operating expenses are denominated in RMB. Accordingly, the transactional currency exposures of the Group are not significant.

Credit risk

There are no significant concentrations of credit risk within the Group as the Group's receivables are widely dispersed among different customers. The credit risk of the Group's other financial assets, which mainly comprise other receivable, cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets. To manage the risk, deposits are mainly placed with different financial institutions which are all high credit quality financial institutions. As at 31 December 2019 and 2018, the Group did not have trade receivable. The Group would not release the property ownership certificates to the buyers before the buyers fully settle the payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Other receivables and cash and cash equivalents

The Group performs impairment assessment under ECL model upon application of HKFRS 9 on other receivables and cash and cash equivalents based on 12m ECL. The credit risk on other receivables is limited because the counterparties have no historical default record and the directors expect that the general economic conditions will not significantly changed for the 12 months after the reporting date. The credit risk on cash and cash equivalents and bank balances is limited because the counterparties are financial institutions with high credit ratings assigned by international credit-rating agencies. Based on the Group's internal credit rating, no material expected credit loss is recognised for other receivables and cash and cash equivalents. The tables below detail the credit risk exposures of the Group's financial assets and lease receivables which are subject to ECL assessment:

2019	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amounts
					RMB'000
Other receivables	16	N/A	Low risk	12-month ECL	**13,252**
Cash and cash equivalents	17	AA+	N/A	12-month ECL	**143,833**

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk arises when the Group is unable to meet its current liabilities that fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term bank loans. Through maintaining a reasonable proportion in its asset and liability structure, the Group is able to meet its ongoing financial needs. The maturity profile of the Group's financial liabilities as at the end of the reporting period is as follows:

	2019					
	On demand RMB'000	**Within one year RMB'000**	**One to two years RMB'000**	**Two to five years RMB'000**	**Over five years RMB'000**	**Total RMB'000**
Trade and other payables	**51,000**	**–**	**–**	**–**	**–**	**51,000**
Amount due to related companies	**10,497**	**–**	**–**	**–**	**–**	**10,497**
Lease liability	**–**	**511**	**–**	**–**	**–**	**511**
Total	**61,497**	**511**	**–**	**–**	**–**	**62,008**

	2018					
	On demand RMB'000	Within one year RMB'000	One to two years RMB'000	Two to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade and other payables	126,313	–	–	–	–	126,313
Amount due to related companies	7,979	–	–	–	–	7,979
Total	134,292	–	–	–	–	134,292

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management policy are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debts (included trade and other payables and amounts due to related companies) divided by equity attributable to owners of the parent. The Group's policy is to keep the gearing ratio at a reasonable level.

Net debts are trade and other payables less cash and cash equivalents and restricted cash. The gearing ratios as at the end of the reporting periods are as follows:

	2019 **RMB'000**	2018 RMB'000
Trade and other payables *(note 18)*	**51,000**	126,313
Amounts due to related companies *(note 28(a))*	**10,497**	7,979
Total liabilities	**61,497**	134,292
Equity attributable to owners of the Company	**576,120**	627,283
Gearing ratio	**10.7%**	21.4%

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Lease liability RMB'000
As at 31 December 2018	–
Impact on adoption of HKFRS 16	1,083
As at 1 January 2019	1,083
Changes from financing cash flows	
Repayment of lease liability	(615)
Total changes from financing cash flows	468
Finance costs	25
Exchange realignment	18
As at 31 December 2019	**511**

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**14**	31
Investments in subsidiaries	**217,260**	263,360
Total non-current assets	**217,274**	263,391
CURRENT ASSETS		
Other receivables	**387**	378
Amount due from subsidiaries	**76,801**	364,431
Cash and cash equivalents	**181**	1,231
Total current assets	**77,369**	366,040
CURRENT LIABILITIES		
Other payables	**1,319**	994
Amount due to related parties	**10,497**	7,979
Total current liabilities	**11,816**	8,973
NET CURRENT ASSETS	**65,553**	357,067
TOTAL ASSETS LESS CURRENT LIABILITIES	**282,827**	620,458
Net assets	**282,827**	620,458
EQUITY		
Share capital	**175,672**	175,672
Other reserves	**107,155**	444,786
Total equity	**282,827**	620,458

Approved and authorised for issue by the board of directors on 6 May 2020 and signed on behalf by:

WANG Jin Tao	**SUN Xinhu**
Director	*Director*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Note:

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

	Share premium account RMB'000	Share option reserve RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
		note 24		*note 24*			
At 1 January 2018	–	1,770	151,442	373,006	47,112	(186,670)	386,660
Profit for the year	–	–	–	–	–	44,309	44,309
Other comprehensive income for the year	–	–	–	–	13,817	–	13,817
Total comprehensive income for the year	–	–	–	–	13,817	44,309	58,126
At 31 December 2018 and 1 January 2019	–	1,770	151,442	373,006	60,929	(142,361)	444,786
Loss for the year	–	–	–	–	–	(345,572)	(345,572)
Other comprehensive income for the year	–	–	–	–	7,941	–	7,941
Total comprehensive income for the year	–	–	–	–	7,941	(345,572)	(337,631)
At 31 December 2019	–	1,770	151,442	373,006	68,870	(487,933)	107,155

34. APPROVED OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 6 May 2020.

FIVE-YEAR FINANCIAL SUMMARY

	2019	2018	2017	2016	2015
For the year (RMB million)					
Revenue	**112**	42	41	28	101
Gross profit/(loss)	**(35)**	3	(12)	3	(9)
EBITDA*/(LBITDA)	**(66)**	47	(10)	(15)	(20)
Operating profit/(loss)	**(66)**	47	(10)	(15)	(20)
Net profit/(loss)	**(52)**	48	(8)	(14)	(15)
As at December 31 (RMB million)					
Current assets	**556**	674	565	607	644
Non-current assets	**181**	201	181	181	235
Total assets	**737**	875	746	788	879
Current liabilities	**68**	136	71	100	186
Non-current liabilities	**93**	112	95	97	98
Total liabilities	**161**	248	166	197	284
Total equity	**576**	627	580	591	595
Total liabilities and equity	**737**	875	746	788	879
Per share (RMB)					
Basic earnings/(loss) per share	**(0.03)**	0.03	(0.01)	(0.01)	(0.01)
Dividends per ordinary share**	**–**	–	–	–	–
Dividends per CPS**	**–**	–	–	–	–

PARTICULARS OF PROPERTIES

COMPLETED PROPERTIES HELD FOR SALE

Property name	Location	Approximate gross floor area	Use	Attributable interest of the Group
		sq.m.		
Meijun Project	The east of Daixi 3rd Road South of Chengnan New District, Zouping County, Shandong Province	8,149	Residential	100%
Lanting Project	The south of Heban 3rd Road and the west of Liquan 1st Road, Zouping County, Shandong Province	982	Residential	100%

PROPERTIES UNDER DEVELOPMENT

Property name	Location	Approximate site area	Estimated approximate gross floor area	Use	Stage of completion	Attributable interest of the Group
		sq.m.	sq.m.			
Meijun Project	The east of Daixi 3rd Road South of Chengnan New District, Zouping County, Shandong Province	159,800	489,100	Residential & Commercial	Construction in progress	100%

XIWANG PROPERTY HOLDINGS COMPANY LIMITED
西王置業控股有限公司*

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

* For identification purpose only 僅供識別