



勒泰集團有限公司
LERTHAI GROUP LIMITED

Incorporated in Hong Kong with limited liability
Stock Code : 112

ANNUAL REPORT 2019



Corporate Overview

Lerthai Group Limited (Stock Code: 112) (the “Company”, together with its subsidiaries collectively referred to as the “Group” or “Lerthai”) is incorporated in Hong Kong and the issued shares of which are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and is one of the leading property investment, management, and development groups in China. The controlling shareholder of the Company is China Lerthai Group (“China Lerthai”) which was founded in 2003, built its unique brand and quality property portfolio for 16 years. The Company built its quality through excellence, integrity and partnership. The Group invests, develops, owns and manages about 22,000,000 sq. ft. of mixed use projects including large scale regional malls, luxurious residential units, Grade A office space, international quality hotels, serviced apartments, cinemas, ice-skating rinks, department stores, theatres, hypermarkets, entertainment complex and car-parking ports in China. Lerthai Capital Group Limited is a wholly-owned subsidiary of the Company which holds Type 1, 2, 4 and 9 Licenses of the Securities and Futures Commission of Hong Kong to carry out regulated activities in the financial services sector. At Lerthai, we create spaces for improving communities, inspiring people and inducing quality living!

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Forward-Looking Statements

This annual report contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company’s control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

Corporate Information

Directors	<p><i>Executive Directors:</i> Mr. Yang Longfei <i>(Chairman and Chief Executive Officer)</i> Ms. Zhang Yan <i>(Vice Chairlady and Co-Chief Executive Officer)</i></p> <p><i>Non-executive Directors:</i> Mr. Yang Shao Ming Mr. Chan Ho Yin Ms. Chi Lai Man Jocelyn</p> <p><i>Independent Non-executive Directors:</i> Mr. Wong Hon Kit Mr. Wong Tat Keung Ms. Chan Lai Ping</p>	Auditor	ZHONGHUI ANDA CPA Limited Unit 701, 7/F. Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong
		Principal Banker	Industrial and Commercial Bank of China Limited The Bank of East Asia (China) Limited China Construction Bank Corporation Bank of China (Hong Kong) Limited
		Registered Office and Principal Place of Business	Room 3303, Tower Two Lippo Centre 89 Queensway Admiralty, Hong Kong
Audit and Risk Management Committee	Mr. Wong Tat Keung <i>(Chairman)</i> Mr. Wong Hon Kit Ms. Chan Lai Ping	Registrar and Transfer Office	Tricor Secretaries Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Remuneration Committee	Mr. Wong Hon Kit <i>(Chairman)</i> Mr. Wong Tat Keung Mr. Yang Longfei	Website	http://www.lerthai.com.hk
Nomination Committee	Mr. Wong Tat Keung <i>(Chairman)</i> Mr. Wong Hon Kit Mr. Yang Longfei	Stock Code	112
Corporate Social Responsibility Committee	Mr. Yang Longfei <i>(Chairman)</i> Mr. Yang Shao Ming Ms. Zhang Yan	Board Lot	2,000 Shares
Company Secretary	Mr. Wong Shui Yeung	Investor Relations	Investor Relations Department Tel: (852) 2530 3313 Fax: (852) 3102 9203 E-mail: info@lth.com.hk

Chairman's Statement

Dear Shareholders,

I am pleased to present to all shareholders the business review of the Company for the year ended 31 December 2019 and the outlook for 2020.

2019 Review

1. Development Environment Review

In 2019, global economic outlook turns around, shift from "Synchronized Recovery" in the previous year to "Synchronized Slowdown", major economies adjusted their monetary policies from "Interest rate Hikes" and "Contraction of balance sheets" to "Interest rate Cuts" and "Expansion of balance sheets". With the persistence of trade war tensions, intensifying protectionism, unsolved Brexit, geopolitical conflicts and populism had emerged one after another have slowed down global economic growth and are in turmoil. Under the more complex external environment and internal condition, China's economic development challenges have increased significantly. With the supply-side structural reform as the focus, the national economy achieved stable growth and outperformed its estimation. China's economy is generally stable and progresses steadily. The gross domestic product ("GDP") increased by 6.1% over the previous year.

For real estate industry, the central government restated "Houses are for Living and not for Speculation" and adhered to the control goal of "Stabilizing Land Prices, Housing Prices and Expectations", and local governments' "Implementing Policies by City" began to show its flexibility. The real estate market has bid farewell to the era dominated by growth in scale and embraces a new competition pattern that emphasises more on the fine management capability of real estate companies, improve their quality and efficiency, and creates stronger endogenous growth drivers. For commercial sector, investment will return to cautious. Moreover, whether it is development, operation, financing or exit, we are striving to downplay the attributes of generating revenue from sales properties.

For commercial retail, retail sales of community commodities achieved stable growth and outperformed its estimation, online and offline comprehensive ecological integration model are in progress, retail formats are getting more diversified, and new technology retail methods are getting more attention. At the same time, the consumption structure is changing, the mass consumption demand shifts from material and development needs in the past to a higher level of enjoyment, different business of commercial property have been upgraded in terms of service quality, consumer experience, personalized preference and the operational perspective has become more diversified.

All in all, the external environmental risk and challenge coexist.

2. Performance and Business Review

During the period under review, the Group continued to operate and followed its strategies stringently, more professional talent of the industry being drawn, integrated various resources, continuous improving management. During the year 2019, the total assets of the Group were HK\$241,834,000, net assets were HK\$5,550,209,000. Revenue was approximately HK\$1,106,288,000, representing an increase of 21.6%; gross profit was HK\$592,592,000; net profit was HK\$136,706,000.

Chairman's Statement

Property Investment Conditions

During the period under review, we completed the disposal of two properties in the USA held by the Group. The disposal is in line with the Group's strategy to improve operational efficiency and performance of the portfolio and create value to our shareholders. The Group will continue to review the mix and diversity, and enhance the performance of the portfolio.

At the same time, The current property portfolio comprises commercial projects, namely, Tangshan Pelagic Mall, Shijiazhuang Lerthai Centre, Tangshan Lerthai City, Handan Lerthai City, as well as a residential project in Handan City, namely, Lerthai Jiayuan. All of the other property investment projects of the Group are located in the central business district of Hebei. The categories of the properties include retail business, offices, hotels, and residential units, etc.

Tangshan Pelagic Mall is a commercial complex with a total gross floor area ("GFA") of approximately 1,257,000 sq. ft., of which a total GFA of approximately 33,000 sq. ft. have been sold, and the remaining approximately 1,232,000 sq. ft. are held by Tangshan Oceancity Real Estate Development Company Limited for leasing purpose, as well as for the office uses by the Group. Tangshan Pelagic Mall is located in a popular business and entertainment district of Tangshan, Hebei Province surrounded by high-end residential real estate projects of renowned property developers in the PRC.

Shijiazhuang Lerthai Centre is a commercial complex with a GFA of approximately 6,425,000 sq. ft.. It comprises a tower phase of approximately 2,308,000 sq. ft. and a shopping mall phase of approximately 4,117,000 sq. ft.. The tower phase is served as both offices and hotel purpose while the shopping mall phase comprise shops and car parking lots. Shijiazhuang Lerthai Centre brings together diversified types of business, including the mega-size international shopping mall, fashionable landmark Zhuangli Street, romantic sky square, five-star hotels, super 5A intelligence office buildings, creative LOFT, the Bitaoe Hot Spring SPA hotel as well as apartments above five-star hotels.

Tangshan Lerthai City, a large-scale mixed use complex, situated in the western part of Tangshan which is adjacent to the Tangshan Highspeed Railway station and Beijing Tangshan Intercity Railway station. This project has a GFA of approximately 8,988,000 sq. ft. comprised residential units, regional retail shopping mall, hotels, commercial offices, entertainment facilities and sports facilities within the mega complexes. Tangshan Lerthai City mainly comprises the Lerthai Centre, a regional shopping mall with a total GFA of approximately 4,024,000 sq. ft.; and the residential area of a total GFA of approximately 2,510,000 sq. ft. with approximately 1,700 residential units.

Handan Lerthai City, a large-scale mixed use complex, located at the central business district in Handan City. Chuancheng Street is situated at the north of Renmin Road, south of Congtai Road, east of Lingxi Street and west of Congtai Park. This project has a planned GFA of approximately 3,037,000 sq. ft. with regional shopping mall, hotels, tourism facilities and mega commercial space. It also comprises mega commercial facilities, leisure shopping, luxurious hotel, quadruple courts, as well as a wide range of dining, entertainment and sports venues. The project was designed by Haoshikai Architectural Design Company (豪世凱建築設計事務所), a US architecture firm. Adhering to the commercial philosophy of "One City, One Landscape and One Landmark" of Lerthai brand, the project deeply explores the integration of historical and folk cultural resources, and follows the ancient architectural style to connect north and south, fully restoring the historical landscape of Handan and displaying the culture of the capital city of the ancient Zhao kingdom. Handan Lerthai City is expected to have an official opening at the end of 2020. Currently, most of the shops have been leased out as various quality tenants are attracted to place their retail presences in the shopping mall and Handan Lerthai City will be another key revenue driver to the Group in the future.

"Lerthai Jiayuan", a residential project in Handan City with a planned GFA of approximately 3,335,000 sq. ft., obtained the pre-sale permit in the fourth quarter of 2016. The pre-sale of the residential units was initiated in 2017. The Company expected that the residential units will be delivered to buyers in December 2019.

Financial Services Businesses

Through its wholly owned subsidiaries, LERTHAI Securities (Hong Kong) Limited which holds Type 1 and Type 2 licenses, and LERTHAI Asset Management Limited which, holds Type 4 and Type 9 licenses from the Securities and Futures Commission of Hong Kong, the Group is currently actively developing a business in securities, futures and asset management. In August 2017, Lerthai Global Commercial Real Estate Fund SPC, a segregated portfolio Company, was incorporated in Cayman Islands. Since its setup, Lerthai Global Commercial Real Estate Fund SPC has established three segregated portfolios to invest in commercial real estates in mainland China. These three segregated portfolios are: China Handan Lerthai Commercial Real Estate Fund SP, China Shijiazhuang Lerthai Commercial Real Estate Fund SP, and China Tangshan Lerthai Oceancity Commercial Real Estate Fund SP. LERTHAI Asset Management Limited was appointed as investment manager China Handan Lerthai Commercial Real Estate Fund SP.

In 2018, LERTHAI Asset Management Limited established Lerthai Equity Investment Fund Management (Shenzhen) Co., Limited (勒泰股權投資基金管理(深圳)有限公司) in Qianhai, Shenzhen, under the Qualified Foreign General Partner (合格境外普通合夥人) scheme. Lerthai Equity Investment Fund Management (Shenzhen) Co., Limited aims at providing an efficient channel for overseas investors to invest in commercial real estate assets that benefit from the prosperous new retail and trading-up consumption in mainland China.

Business operations and management: improvement of quality and efficiency

As a commercial asset operating company with the mission of "Joining hands with world commerce to change urban life", Lerthai redefined the asset management concept as operation-oriented, focusing on commercial quality and long-term operation.

The Group gradually establishes a complete large operation management system, which is results-oriented, by adjusting the organizational structure, optimizing the governance mechanism, and striving to professionally and efficiently coordinate operations to achieve rapid and effective quality improvement and profit improvement, so as to promote quality growth of the Group. At the same time, on 25 December last year, we signed contracts with high-quality enterprises such as Sunsea Parking (陽光海天) to jointly explore the value of assets and empower commercial real estate. Through strong alliances, we achieve complementary advantages and improvement of efficiency.

Creating "Artisanal" products is a major development strategy of the Group, and quality improvement is also one of the keys to winning business operations in the future. In 2019, the Group continued to improve its product line, creating urban business card-level products such as "Shimen Old Street" (石門老街) to provide consumers with more high-quality and diversified shopping spaces and experiences.

We continued to promote organizational change and innovate organizational management models. During the reporting period, on the basis of continuing all-round and substantial organizational changes in 2018, the Group focused on the strategies of the Company and promoted the improvement of quality and efficiency in terms of "Increasing Revenue" and "Reducing Costs".

In order to ensure that human resources empower and increase the efficiency of the Group's business, the Group has been performance-oriented and strengthened its creation in 2019. A series of changes have been made from rank, salary to performance, which was establishing a differentiated salary distribution mechanism, optimizing salary structure, and implementing mandatory performance rankings, so as to stimulate the enthusiasm of employees, promote the normalization of officers to be ready to take a lower post as well as a higher one, and effectively guarantee the introduction, flow and transformation of talents. In 2019, the Group introduced a number of professional managers of leading housing companies or well-known consulting organizations in the industry. As the main responsible persons of various important positions, their rich experience will lead the Group to develop in a faster and better way.

Chairman's Statement

Efforts in Delivering Corporate Social Responsibility

The Group has always adhered to the business philosophy of "Simple and Direct, Open and Honest". Subject to compliance with the Exchange Listing Rules ("Listing Rules") issued by The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and legal requirements, we maintain effective two-way communication with commercial banks, investment banks, rating agencies, investors, and analysts, and establish good relationships to continuously enhance corporate transparency.

The Group actively fulfills its corporate social responsibilities and builds a commercial shopping space with empathy in line with the quality concept of "Make artisanal products, Strive for further excellence". Therefore, the Group focuses on supplier management to ensure that the quality of its products and services is improved.

The Group also strengthen the corporate incorrupt construction, joined the Enterprise Anti-Fraud Alliance, achieve anti-fraud data sharing with many domestic leading companies in the industry, jointly build a clean business environment, strive to implement the "Lerthai Dream" brand charity activities, help the weak, and actively participate in social charity, donation and consoling activities.

Outlook for 2020

Market Outlook

The COVID-19 epidemic started in the beginning of 2020 has a major impact on the economic industry. From a global perspective, the world economy is facing a major test. Problems such as global economic slowdown, complicated and changeable international pattern, and uneven domestic development will exist for a long time, and there is still high uncertainty of the movement of COVID-19, which made countries to gain a new understanding of the completeness of their own industrial chains and to think about de-globalization.

Through the effective control of the Chinese government, the domestic epidemic situation has been gradually controlled. The national economic development in 2020 and the near future will continue to be in a period of structural phase transition. The COVID-19 epidemic will bring changes to people's lifestyles and working methods and cause short-term impact on all walks of life. Commercial retail is also affected by the short-term psychological impact of the public on the epidemic.

Looking forward, we are cautiously optimistic about the upcoming macroeconomic environment. It is China's target to build a moderately prosperous society in all respects in 2020. It is also an important year for the satisfactory conclusion of the 13th five-year plan. Economic development is still very much focused on "Stability" and progress should be made within a reasonable range. It is expected that national economic growth will operate in a reasonable space under the new norm of the Chinese economy and will continue to optimize the industrial structure. The way characterized by digitization will usher in structural favorable changes in the epidemic.

Faced with the unexpected novel coronavirus epidemic, the Group is committed to being responsible and due diligence to do its utmost to do well in epidemic prevention and management services in all its business premises. In March 2020, the Group has gradually resumed its work on the premise of ensuring the safety and health of consumers and employees and on the premise of complying with local government regulations. At the same time, the Company has opened online sales office to provide At the same time, the Company has opened an online sales office to provide professional online consultation for potential buyers to reduce the impact of the epidemic on the Group's sales and daily operations.

Development Strategy

The Group will closely monitor the development of the Novel Coronavirus Outbreak and assess the impact of the Novel Coronavirus Outbreak on the Group's finance and operation, and adjust marketing plan and development strategy in a timely manner. The end of the epidemic is still uncertain while the various industries are facing severe challenge. The impact of the epidemic is not only unexpected, but also long-term and profound.

The Group believe that crisis always brings opportunities. Work from home/remote office is not only testing the communication tool, but also a connection between data and efficient and seamless collaboration online. Through this epidemic, while strengthening risk prevention and control awareness and establishing risk management mechanism, the Group also strengthens organizational process management, optimize internal cooperation capabilities, and also joins forces with outstanding partners to commit to action.

The Group will continue to focus on quality, operation and services, on commitments, on process management and control, and on sustainable development as usual.

Acknowledgement

In addition to the full trust of shareholders, local government, business partners, customers as well as all circles of society, the Company also attributes the development to the unremitting efforts of all employees. On behalf of the Board, I would like to express our heartfelt thanks to all of them. Your trust and support will be very important to our sustainable growth. Lerthai will remain prudent in its development, fight for a brighter future during the course of transformation.

Yang, Longfei

Chairman

Hong Kong, 19 June 2020

Management Discussion and Analysis

Business Review

The current property portfolio comprises five high quality properties, namely, Tangshan Lerthai City, Tangshan Pelagic Mall, Handan Lerthai City, Shijiazhuang Lerthai Centre, and Lerthai Jiayuan. All properties are located in the central business district of Hebei. The categories of the properties include retail business, offices, hotels, and residential units, etc.

Review by Segment

Real Estate Business in Tangshan, the PRC

Tangshan Lerthai City

Tangshan Lerthai City, a large-scale mixed use complex, situated in the western part of Tangshan which is adjacent to the Tangshan Highspeed Railway station and Beijing Tangshan Intercity Railway station. This project has a gross floor area ("GFA") of approximately 8,988,000 sq. ft. comprised residential units, regional retail shopping mall, hotels, commercial offices, entertainment facilities and sports facilities within the mega complexes. Tangshan Lerthai City mainly comprises (i) the Lerthai Centre, a regional shopping mall with a total GFA of approximately 4,024,000 sq. ft.; and (ii) the residential area of a total GFA of approximately 2,510,000 sq. ft. with approximately 1,700 residential units. Revenue of HK\$41,508,000 was recorded for the year (2018: HK\$198,526,000).

Tangshan Pelagic Mall

Tangshan Pelagic Mall is a commercial complex with a total GFA of approximately 1,257,000 sq. ft., of which a total GFA of approximately 33,000 sq. ft. have been sold, and the remaining approximately 1,232,000 sq. ft. are held by Tangshan Oceancity Real Estate Development Company Limited for leasing purpose, as well as for the office uses by the Group. Tangshan Pelagic Mall is located in a popular business and entertainment district of Tangshan, Hebei Province surrounded by high-end residential real estate projects of renowned property developers in the PRC. During the year, revenue of HK\$178,441,000 (2018: HK\$230,223,000) was generated from Tangshan Pelagic Mall.

Real Estate Business in Handan, the PRC

Lerthai Jiayuan

The residential project "Lerthai Jiayuan" obtained pre-sale permit in the fourth quarter of 2016 and commenced pre-sale in 2017. The Group received accumulated pre-sale deposits of HK\$1,352,456,000 as at 31 December 2019. Deposits was recorded as "Contract liabilities" in the consolidated financial statements. In the second half of 2019, Lerthai Jiayuan started delivered residential units to the buyers and generated revenue of HK\$287,988,000.

Handan Lerthai City on Chuancheng Street

Handan Lerthai City, a large-scale mixed use complex, located at the central business district in Handan City, Chuancheng Street is situated at the north of Renmin Road, south of Congtai Road, east of Lingxi Street and west of Congtai Park. This project has a planned GFA of approximately 3,037,000 sq. ft. with regional shopping mall, hotels, tourism facilities and mega commercial space.

The regional shopping mall of the Handan Lerthai City is expected to have an official opening at the end of 2020. Currently, most of the shops have been leased out as various quality tenants are attracted to place their retail presences in the shopping mall and Handan Lerthai City will be another key revenue driver to the Group in the future.

Real Estate Business in Shijiazhuang, the PRC

Shijiazhuang Lerthai Centre is a commercial complex with a GFA of approximately 6,425,000 sq. ft.. It comprises a tower phase of approximately 2,308,000 sq. ft. and a shopping mall phase of approximately 4,117,000 sq. ft.. The tower phase is served as both offices and hotel purpose while the shopping mall phase comprise shops and car parking lots. Thanks to the stable performance of the shopping mall and car parks, revenue increased 28.2% to HK\$596,599,000 in 2019.

Disposal of Real Estate Business in the US – South Hills Plaza and Lerthai Platinum Centre

In February 2019, we completed the disposal of LT International Investment Holdings Limited which holds two properties in the US and the sale loan for a total consideration of HK\$247,369,000. Details of the disposal have been disclosed in the circular of the Company dated 14 January 2019.

The disposal is in line with the Group's strategy to improve operational efficiency and performance of the portfolio and create value to our shareholders. The Group will continue to review the mix and diversity, and enhance the performance of the portfolio.

The disposal has generated a gain on disposal amounted to HK\$8,460,000 for the year ended 31 December 2019.

Financial Services Businesses

Through its wholly owned subsidiaries, LERTHAI Securities (Hong Kong) Limited which holds Type 1 and Type 2 licenses, and LERTHAI Asset Management Limited which holds Type 4 and Type 9 licenses from the Securities and Futures Commission of Hong Kong, the Company has been developing a vibrant business in securities, futures and asset management.

In August 2017, Lerthai Global Commercial Real Estate Fund SPC, a segregated portfolio Company, was incorporated in Cayman Islands. Since its setup, Lerthai Global Commercial Real Estate Fund SPC has established three segregated portfolios to invest in commercial real estates in mainland China. These three segregated portfolios are: China Handan Lerthai Commercial Real Estate Fund SP, China Shijiazhuang Lerthai Commercial Real Estate Fund SP, and China Tangshan Lerthai Oceancity Commercial Real Estate Fund SP. LERTHAI Asset Management Limited was appointed as investment manager for China Handan Lerthai Commercial Real Estate Fund SP.

In May 2018, LERTHAI Asset Management Limited established Lerthai Equity Investment Fund Management (Shenzhen) Co., Limited (勒泰股權投資基金管理(深圳)有限公司) in Qianhai, Shenzhen, under the Qualified Foreign General Partner (合格境外普通合夥人) scheme. Lerthai Equity Investment Fund Management (Shenzhen) Co., Limited aims at providing an efficient channel for overseas investors to invest in commercial real estate assets that benefit from the prosperous new retail and trading-up consumption in mainland China.

Financial Review

During the year, total revenue of the Group was HK\$1,106,288,000 (2018: HK\$909,919,000). The increase in revenue for the year ended 31 December 2019 was mainly due to Lerthai Jiayuan started delivered residential units to the buyers from the second half of 2019.

Management Discussion and Analysis

Other income and gains decrease to net gain of HK\$45,938,000 for the year (2018: HK\$73,551,000). The decrease was primarily due to the increase in exchange loss and offset by change in the fair value of convertible bonds designated at fair value through profits or loss.

The gain on voluntary surrender of properties of the Group was HK\$189,711,000, mainly due to certain properties transferred to suppliers to offset its overdue construction payment during the year.

The Group recorded an increase of fair value of the investment properties of HK\$227,593,000 (2018: HK\$1,387,700,000), mainly contributed by the capital appreciation of Lerthai Jiayuan and Handan Lerthai City on Chuancheng Street during the year.

Selling and marketing expenses decreased to HK\$6,831,000 (2018: HK\$17,417,000). Since most of the pre-sale activities of Tangshan Lerthai City and Handan Projects were completed, the related promotion scale had been downsized.

Administrative expenses amounted to HK\$152,722,000 (2018: HK\$175,307,000) which mainly comprised of staff costs, rental and management fee for office premises and legal and professional fee. The decrease was primarily due to the reduction of professional fee incurred for the merger and acquisition during the year.

Finance costs recognised as expenses for the year were HK\$736,879,000 (2018: HK\$791,973,000). The decrease was mainly due to no interest was charged for loans from related companies for the year (2018: HK\$45,358,000).

As a result of the various factors outlined above, the profit for the year attributable to equity holders of the Company was HK\$136,706,000 (2018: HK\$709,677,000).

Liquidity and Financial Resources

As at 31 December 2019, the Group's cash and bank balances maintained at HK\$127,828,000 (2018: HK\$184,107,000). The current ratio was 0.36 times (2018: 0.53 times) as at 31 December 2019.

The Group's gearing ratio was 43.8% (2018: 46.4%), which is calculated based on the Group's total interest bearing borrowings of HK\$10,538,928,000 (2018: HK\$12,384,185,000) to total assets of HK\$24,094,756,000 (2018: HK\$26,675,345,000).

Cash Flow Management and Liquidity Risk

The objective of liquidity risk management is to ensure that the Group always has sufficient cash to repay its maturing debt, perform other payment obligations and meet other funding requirements for normal business development.

The Group's liquidity management involves the regular cash flow forecast and the consideration of its liquid assets level and new financings necessary to meet future cash flow requirements.

With banking and controlling shareholder's facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Foreign Exchange Exposure

The Group's investment, assets and liabilities are mainly denominated in Hong Kong dollar ("HK\$"), Renminbi ("RMB") and United States dollar ("US\$") and no hedging has been made during the year. The revenue generated from the Group's business operations in the PRC was denominated in RMB, while the convertible bonds, senior notes and bonds of the Group are denominated in HK\$. The Group will continue to monitor closely its exposure to exchange rate and interest rate risks, and may employ derivative financial instruments to hedge against risks when necessary.

Charge of Assets

As at 31 December 2019, the Group's facilities and other loans of HK\$7,937,618,000 (2018: HK\$9,560,154,000) were pledged with investment properties, properties under development for sales and pledged bank deposits with an aggregate carrying amount of HK\$20,043,329,000 (2018: HK\$22,869,233,000).

Capital Commitment and Contingent Liabilities

As at 31 December 2019, the Group's contingent liabilities amounted to HK\$834,335,000 (2018: HK\$853,178,000) relating to guarantees given by the Group to financial institutions on behalf of our purchasers of our property units in the PRC in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2019 (and such guarantees will be released upon the issuance of the Building Ownership Certificate). The guarantees were secured by the Group's pledged bank deposits amounting to HK\$28,483,000 (2018: HK\$33,936,000).

As at 31 December 2019, the Group issued financial guarantees to banks in respect of banking facilities granted to related parties and third parties with an aggregate amount of HK\$722,332,000 (2018: HK\$707,504,000). The amount represents the aggregate amount that could be required to be paid if the guarantees were called upon in entirety.

As at 31 December 2019, the Group had contracted but not provided for commitments for development cost and capital expenditure in amount of HK\$608,661,000 (2018: HK\$1,381,875,000).

Employee and Remuneration Policy

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include mandatory provident fund, medical insurance and performance related bonus. The Group has adopted the share award scheme and share option scheme as part of the long term incentives for the employees.

As at 31 December 2019, the Group had 169 employees (2018: 267 employees). Total staff costs for the year amounted to HK\$70,416,000 (2018: HK\$77,748,000), which comprised (i) Directors' remuneration of HK\$10,359,000 (2018: HK\$7,692,000) and (ii) staff costs (other than Directors' remuneration) of HK\$60,057,000 (2018: HK\$70,056,000).

Property Valuation

The Group's investment properties located in the PRC were revalued as at 31 December 2019 by independent qualified professional valuer, Knight Frank Hong Kong Limited. The valuation was based on income capitalisation approach and residual method by making reference to comparable market information as available in the relevant markets.

For investment properties under development, the valuation has also taken into account the construction costs expended and to be expended to complete the development.

Management Discussion and Analysis

The Group's investment properties were valued at HK\$19,977,883,000 as at 31 December 2019 (2018: HK\$20,658,520,000). The decrease is a net of (i) an increase in fair value of HK\$227,593,000 (2018: HK\$1,387,700,000) was recognized in the consolidated statement of profit or loss for the year; and (ii) the disposal of investment properties in the USA due to the disposal of subsidiaries in the USA of HK\$223,655,000.

Prospect

2020 is a year of challenge for the property industry in China. At the beginning of 2020, following the epidemic outbreak of Novel Coronavirus Pneumonia ("COVID-19") has spread across the world and the World Health Organization has also alerted that the COVID-19 might become an epidemic, as a result the resumption of business was delayed for different industries which adversely affected the real economy and led to uncertainties to the global economic growth.

Subsequent to the outbreak of the COVID-19, Chinese government has adopted a series of prevention and control measures and implemented a series of measures to mitigate the negative impact to the real economy. Given the resilience and potential of China's economy in the long run, it is believed that stable growth would remain unchanged.

Leveraging our outstanding performance in shopping mall operation and management, we believe the shopping mall performance in our current investment portfolio will continue to drive our revenue growth. Due to our business flexibility and stability, Lerthai is well prepared to withstand the potential turmoil in the market. We will continue to seize the opportunities in economic growth, policy and other aspects, sustain in strengthening our core competitiveness, enhance our operation capacity and profitability and share the development results with the society to shoulder the responsibilities together in promoting the urban construction and people's happiness with business development.

We are cautiously optimistic about the upcoming macroeconomic environment and are committed to promoting the revenue growth on a solid foundation of our investment portfolio and maximizing the long-term value for stakeholders and shareholders.

Events after the Reporting Period

- i. On 20 January 2020, the Company was informed of the appointment of receivers over 254,055,888 shares and 162,222,222 shares in the Company respectively held by China Lerthai (a substantial shareholder of the Company) and Mr. Yang Longfei, a director and controlling shareholder of the Company which were charged to Peace Winner Limited and Fantastic Stargaze Limited by way of share charges dated 26 January 2017 and 30 March 2019 (the "Charged Shares"). The Charged Shares represent approximately 38.8% of the issued share capital of the Company as at the date of this announcement.
- ii. On 20 January 2020 and 21 January 2020, the Company received the conversion notices from 4 securities holders to exercise the conversion rights attached to the Convertible Securities for the principal amount of HK\$788,000,000 and HK\$582,000,000 respectively. An aggregate of 304,444,443 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued.
- iii. After the outbreak of the COVID-19 ("COVID-19 Outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. With the extension of Chinese New Year holiday nationwide and travel restriction, the Group's shopping malls have been temporarily closed after Chinese New Year. As at the date of this announcement, all shopping malls have resumed operations. The Group expects that the COVID-19 Outbreak may bring temporary interruption to the business but will not significantly alter the long term business growth. The Group will pay close attention to the development of the COVID-19 Outbreak and continue to evaluate its impact on the financial position and operating results of the Group.

Profiles of Directors

Board of Directors

Mr. YANG Longfei, Executive Director

Mr. YANG Longfei, aged 54, is currently an executive Director, chairman of the Board (“Chairman”), chief executive officer, a member of the remuneration committee and the nomination committee of the Company. He is responsible for the land development and property investment business of the Group, monitoring the functions of the Board and formulating the strategies and policies for the Group’s overall long-term development. Mr. Yang is also the founder and sole director of China Lerthai Commercial Real Estate Holdings Limited (“China Lerthai”), a controlling shareholder of the Company. Mr. Yang led iconic project development of the Shijiazhuang Lerthai Center, Pelagic Mall of Tangshan and other mega scale development. Mr. Yang has over 20 years of experience in commercial retail and real estate business. Mr. Yang is currently a committee member of the eleventh Chinese People’s Political Consultative Conference of Hebei Province. Mr. Yang is also the director of certain subsidiaries of the Company. Mr. Yang is the father of Mr. Yang, Shao Ming, a non-executive Director.

Ms. ZHANG Yan, Executive Director

Ms. ZHANG Yan, aged 45, is currently the Vice Chairlady and an executive Director of the Company, mainly responsible for assisting Mr. Yang Longfei, the Chairman of the Company in formulating the overall development strategy of the listed company and supervising and managing the expansion and daily operation of the Group’s business. She serves China Lerthai for over 15 years, and held various important positions such as the CEO – Financial Services of China Lerthai. She is well experienced in cost control, taxation, financing and business operations and successfully issued the first ABS without single subject credit rating. She is Vice Chairman of Promoting Development Alliances. Ms. Zhang holds a master’s degree in business administration and a law degree awarded by People’s University of China. Ms. Zhang was a committee of People’s Congress Standing of Lubei District of Tangshan. Ms. Zhang was also a permanent member of Tangshan Tsinghua University Alumni Association and a member of Hebei Association of Women Entrepreneurs.

Mr. YANG Shao Ming, Non-Executive Director

Mr. YANG Shao Ming, aged 33, is currently a non-executive Director of the Company. He is the chief executive officer of LT Global Holdings Ltd, a subsidiary of the Company in the Canada. He joined China Lerthai in 2011 and has been actively involved in real estate development business for more than 7 years and participated in the Shijiazhuang Lerthai Center and Tangshan Ocean City projects. Mr. Yang leads the team in designing, building and operational planning of various projects in Vancouver, Canada and managing the acquisition, development, financing and leasing. Mr. Yang helps the Company in developing opportunistic property in Canada. Mr. Yang is the son of Mr. Yang Longfei, the executive Director, Chairman and chief executive officer of the Company.

Profiles of Directors

Mr. CHAN Ho Yin, Non-Executive Director

Mr. CHAN Ho Yin, aged 44, has been appointed as a non-executive Director since 15 May 2020. Mr Chan has over 18 years of corporate advisory and restructuring experience in various jurisdictions including Hong Kong, Mainland PRC, Cayman Islands, BVI, Singapore and Indonesia, including restructuring of property development, real estate and construction companies. Mr. Chan joined Borrelli Walsh Limited in 2006 and has been a director there since 2008. Mr. Chan graduated with a bachelor of commerce degree and a bachelor of law degree in 2000 from University of Melbourne, Australia, and obtained the Legal Practitioner of the Supreme Court of Australian Capital Territory, Australia.

Mr. Chan is a member of Certified Public Accountants of Australia, and a member of the Hong Kong Institute of Certified Public Accountants.

Ms. CHI Lai Man Jocelyn, Non-Executive Director

Ms. Chi Lai Man Jocelyn, aged 43, has been appointed as a non-executive Director since 15 May 2020. She has extensive experience in various restructuring, dispute resolution and financial investigation assignments in Asia. Ms. Chi joined Borrelli Walsh Limited as a manager in 2006 and is now a director. Ms. Chi graduated with a bachelor of commerce degree in accounting and finance from Monash University, Australia in 2000, and obtained a Postgraduate Diploma in Advance Accounting from the same university in 2001. She obtained a master degree in corporate finance from the Hong Kong Polytechnic University in 2005. Ms. Chi is a member of the Certified Practising Accountants of Australia and a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Chi was non-executive director of PanAsialum Holdings Company Limited (stock code: 2078) from 27 May 2016 to 3 May 2019.

Mr. WONG Hon Kit, Independent Non-Executive Director

Mr. WONG Hon Kit, aged 53, is currently an independent non-executive Director of the Company. He currently is a director and a responsible officer of SynerWealth Capital Limited who is directly responsible for the supervision of type 6 regulated activities under the SFO. Mr. Wong has over 17 years of experience in the corporate finance industry. He has held various positions, including chief financial officer, director and company secretary in different companies in Hong Kong, where he has experience in handling corporate finance transactions such as mergers and acquisitions, capital fund raising and restructuring. Mr. Wong obtained a Diploma in Accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 1991. He was admitted as an associate member of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in March 2000. Mr. Wong has been appointed as an independent non-executive director of Wanjia Group Holdings Limited (stock code: 401) since April 2013, as an independent non-executive director of Heng Xin China Holdings Limited (stock code: 8046) since June 2018 and the listing of its shares would be cancelled with effect from 2 July 2019 pursuant to its announcement dated 26 June 2019, and as an independent non-executive director of Xinhua News Media Holdings Limited (stock code: 309) from 12 February 2020, whose shares are listed on the Main Board of the Stock Exchange and the GEM Board of the Stock Exchange respectively. He was also an independent non-executive director of Xinhua News Media Holdings Limited (stock code: 309) from September 2017 to October 2017 and an independent non-executive director of Smart-Core Holdings Limited (stock code: 2166) from March 2016 to June 2018, whose shares are listed on the Main Board of the Stock Exchange.

Mr. WONG Tat Keung, Independent Non-Executive Director

Mr. WONG Tat Keung, aged 49, is currently an independent non-executive Director of the Company. He obtained a master's degree in business administration (financial services) from the University of Greenwich, England. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and has more than 21 years of experience in audit, taxation, accounting and business advisory. From January 2006 to February 2010, he was the proprietor of Aston Wong & Co., Certified Public Accountants practising in Hong Kong. Since January 2010, he has been a director of his own corporate practice, namely Aston Wong CPA Limited. Mr. Wong has been appointed as an independent non-executive director of Singapore eDevelopment Limited whose shares are listed on Singapore Exchange Securities Trading Limited since 27 January 2017. Mr. Wong was an independent non-executive director of ZH International Holdings Limited whose shares are listed on the Stock Exchange (Stock code: 185) between 7 December 2009 and 27 July 2015 and Roma Group Limited whose shares are listed on the Stock Exchange (Stock code: 8072) from 2 March 2016 to 24 January 2020.

Ms. CHAN Lai Ping, Independent Non-Executive Director

Ms. CHAN Lai Ping, aged 43, is a solicitor qualified to practise in Hong Kong and a member of The Law Society of Hong Kong. She is a consultant of a law firm in Hong Kong. Ms. Chan has many years of experience in advising on corporate finance, mergers and acquisitions, corporate governance, regulatory and compliance matters. She was the company secretary and general counsel of China Shandong Hi-Speed Financial Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 412). She is also serving as the general counsel and the company secretary of Hao Tian Development Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 474) and Hao Tian International Construction Investment Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1341). Ms. Chan has a bachelor of laws degree and a postgraduate certificate in laws from the University of Hong Kong. She also has a master of corporate finance degree from the Hong Kong Polytechnic University.

Corporate Governance Report

Corporate Governance

The Company is committed to maintain high standards of corporate governance in order to ensure high transparency and protection of interests of the shareholders and the Company as a whole. The Company has adopted the code provisions and certain recommended best practices (with amendments from time to time) as set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

Upon review of the corporate governance practice of the Company, the Board believed that the Company has applied the principles in the CG Code and complied with the code provisions of the CG Code during the year. None of the Directors was aware of any information that would reasonably indicate that the Company was during the year not in compliance with the code provisions of the CG Code, except for the deviations as follows:

Under code provision A.1.1 of the CG Code, which requires that regular board meetings should be held at least four times a year. The Board met regularly for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company as well as on an ad hoc basis, as required by business needs. During the year ended 31 December 2019, the Board did not have any material issues need to discuss and met three times of which two were regular Board meeting and make timely decision on corporate affairs from time to time via written resolutions signed by Directors. The Company will endeavour to hold at least four regular Board meetings, at approximately quarterly intervals, during the year ending 31 December 2020.

Under code provision A.1.8 of the Corporate Governance Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular, timely and effective communications among the directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the directors of the Company can be handled effectively, and the possibility of actual litigation against the directors of the Company is relatively low. The Company will review and consider to make such arrangement as and when it thinks necessary.

Under the Code Provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company. The chairman of the Board was unable to attend the annual general meeting of the Company held on 26 June 2019 due to an unexpected engagement. Mr. Wong Tat Keung, an independent non-executive Director of the Company was appointed as the chairman of that meeting to answer and address questions raised by shareholders of the Company.

Under Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit and risk management committee of every listed issuer must comprise a minimum of three members. After Mr. Wan Ka Ming’s resignation on 27 December 2019 and before Ms. Chan Lai Ping’s appointment on 27 March 2020, the Board and audit and risk management committee of the Company comprised only two independent non-executive Directors.

Save as the above, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code during the year.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as a code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

Board of Directors

Structure

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

Executive Directors

Mr. Yang Longfei (*Chairman and Chief Executive Officer*)
Ms. Zhang Yan (*Vice Chairlady and Co-Chief Executive Officer*)

Non-executive Directors

Mr. Yang Shao Ming
Mr. Chan Ho Yin (appointed on 15 May 2020)
Ms. Chi Lai Man Jocelyn (appointed on 15 May 2020)

Independent Non-executive Directors

Mr. Wong Hon Kit
Mr. Wong Tat Keung
Ms. Chan Lai Ping (appointed on 27 March 2020)

The number of independent non-executive Directors represents more than one-third members of the Board. The profiles of all Directors are set out on pages 13 to 15 of this annual report. Save as disclosed in this annual report, there is no other relationship among members of the Board, including financial, business, family or other material/relevant relationship. The independent non-executive Directors are highly experienced professionals and businessmen with a broad range of expertise and experience in accounting, finance, legal and business management and one of them has appropriate professional accounting qualification as required by the Stock Exchange.

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

All the Directors, including the independent non-executive Directors, must retire by rotation at least once every three years, and no Director shall hold office for a continuous period in excess of three years, or past the third annual general meeting, following the Director's appointment or re-election, whichever is longer, without submitting himself/herself for re-election at the annual general meeting, under the articles of association of the Company (the "Articles of Association"). As such, the term of office of each Director has been specified under the Articles of Association.

Corporate Governance Report

Assistance to Directors in Decision Making

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

The Directors are given access to the company secretary of the Company (the "Company Secretary") or independent professionals for advice at the Company's expense, when they deem it is necessary in order for them to carry out their responsibilities from time to time.

Conduct of Meetings

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

The Chairman has delegated the responsibility to the Company Secretary for drawing up and approving the agenda for each Board meeting, taking into account of any matter proposed by the other Directors for inclusion in the agenda.

The proceedings of the Board at its meetings are generally monitored by the Chairman who would ensure that sufficient time is allocated for discussion and consideration of each item on the agenda. Equal opportunities are given to each Director to express his/her views and concerns.

Each Director has to declare his/her interest and to abstain from voting on any board resolution in which he/she or any of his/her associates has a material interest pursuant to the Articles of Association and the Companies Ordinance (Cap. 622, Laws of Hong Kong).

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

During the year, 3 Board meetings, and 2 general meetings were held. The Company Secretary and the Company's senior management had attended the Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting, finance and business. The individual attendance of each Director at the Board meetings and general meeting held during the year is as follows:

Board meetings	No. of Board meetings attended/held (Percentage of attendance in total)	No. of General meetings attended/held (Percentage of attendance in total)
Directors during the year		
<i>Executive Directors</i>		
Mr. Yang Longfei	3/3 (100%)	0/2 (0%)
Ms. Zhang Yan	3/3 (100%)	2/2 (100%)
<i>Non-executive Directors</i>		
Mr. Yang Shao Ming	3/3 (100%)	2/2 (100%)
Mr. Chan Ho Yin (appointed on 15 May 2020)	N/A	N/A
Ms. Chi Lai Man Jocelyn (appointed on 15 May 2020)	N/A	N/A
<i>Independent Non-executive Directors</i>		
Mr. Wan Kah Ming (resigned on 27 December 2019)	2/3 (66.7%)	2/2 (100%)
Mr. Wong Hon Kit	3/3 (100%)	2/2 (100%)
Mr. Wong Tat Keung	3/3 (100%)	2/2 (100%)
Ms. Chan Lai Ping (appointed on 27 March 2020)	N/A	N/A

Works Performed

During the year, besides attending the Board meetings to consider and make decision on corporate governance, risk management, statutory compliance, accounting, finance and business matters, the Directors had brought professional opinion and judgement on the Company's strategy, performance and standards of conduct; had taken the lead where potential conflicts of interests arose; had served on Board committees; endorsed on various corporate governance related matters and policies; had ensured that the Board maintained high standards of financial and other mandatory reporting; carried out reviews on matters reported by the Board committees, and had provided adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole.

During the year, the independent non-executive Directors had actively participated in the Board meetings, brought independent opinion and judgment, and given their comments to the information or reports submitted to the meetings.

Besides attending the Board or committee's meetings, in order to make timely decision and have effective implementation of the Company's policy and practice, the Board had also adopted written resolutions signed by majority Directors to make decision on corporate affairs from time to time.

Corporate Governance Report

As part of the continuing process on supervising the Company's affairs, the Directors, acting through by the audit and risk management committee of the Company (the "Audit and Risk Management Committee"), had reviewed the adequacy of resources, qualifications and experience of the Company's accounting staff and financial reporting function.

Directors' Confirmation

The Company has received, from each independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the independent non-executive Directors are independent.

Chairman and Chief Executive Officer

Mr. Yang Longfei was appointed as the Chairman and the chief executive officer (the "CEO") on 28 February 2013 and 20 March 2014 respectively and Ms. Zhang Yan was appointed as the Co-CEO on 27 December 2018. The Board considered that Mr. Yang Longfei had in-depth knowledge and experience in the property investment and development industry and was the most appropriate person to manage the Group.

Board Committees

The Board has established the Audit and Risk Management Committee, remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and corporate social responsibility committee (the "Corporate Social Responsibility Committee") of the Company with defined roles and terms of reference.

The terms of reference of each of the board committees can be found on the websites of the Company and the Stock Exchange.

Audit and Risk Management Committee

Structure

The Audit and Risk Management Committee (formerly named as Audit Committee) has been established since December 2000 with the roles to assist the Board in establishing formal and transparent arrangements for considering how it will apply the financial reporting and the internal control principles and for maintaining an appropriate relationship with the Company's external auditor (the "Independent Auditor") as well as assess and make recommendations on the Group's risk appetite, profile and tolerance. It acts in an advisory capacity and makes recommendations to the Board.

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

As at the date of this annual report, the Audit and Risk Management Committee is made up of all the independent non-executive Directors, namely:

Mr. Wong Tat Keung (*Chairman*)
Mr. Wong Hon Kit
Ms. Chan Lai Ping

Function

The principal responsibilities of the Audit and Risk Management Committee are as follows:

- i) to make recommendations to the Board on the appointment, re-appointment and removal of the Independent Auditor, review and monitor their independence and objectivity as well as the effectiveness of the audit process;
- ii) to monitor the integrity of the interim and annual consolidated financial statements, reports and accounts of the Group, and to review any significant financial reporting judgments contained in them;
- iii) to review and ensure the effectiveness of the Company's internal controls (including financial controls) and risk management systems; and
- iv) to develop and review the Company's policies and practices on corporate governance, make recommendations to the Board and to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Conduct of Meetings

The Audit and Risk Management Committee shall meet at least three times each year. The Company prepares and delivers the supporting papers that includes all relevant information about the meetings to the Audit and Risk Management Committee members at least 14 days prior to such meetings, unless otherwise agreed.

During the year, the Audit and Risk Management Committee members reviewed the supporting papers with due care and discussed with the Company's senior management during the meetings.

During the year, the Audit and Risk Management Committee held 2 meetings with the presence of the Company's senior management. Minutes drafted by the Company Secretary were circulated to the Audit and Risk Management Committee members for comments within a reasonable time after each meeting. Executed minutes were kept by the Company and copies of the minutes were sent to the Audit and Risk Management Committee members for records.

Individual attendance of each Audit and Risk Management Committee member at the meetings held during the year is as follows:

Members	No. of Audit and Risk Management Committee meetings attended/held (Percentage of attendance in total)
Mr. Wan Kah Ming (resigned on 27 December 2019)	2/2 (100%)
Mr. Wong Hon Kit	2/2 (100%)
Mr. Wong Tat Keung	2/2 (100%)
Ms. Chan Lai Ping (appointed on 27 March 2020)	N/A

Corporate Governance Report

Works Performed

The works performed by the members of the Audit and Risk Management Committee during the year are summarised below:

- i) reviewed and considered the accounts and consolidated financial statements of the Group for the year ended 31 December 2018 and interim accounts for 2019;
- ii) reviewed, discussed and agreed with the Independent Auditor in respect of the audit fee for the year; the terms of the engagement letters; the nature, scope of audit and reporting obligations for the year;
- iii) reviewed and assessed the adequacy and effectiveness of the Group's financial reporting and controls, internal control procedures and risk management systems;
- iv) reviewed the corporate governance practices and monitored the progress of compliance of the CG Code and its disclosure in the Corporate Governance Report;
- v) reviewed the performance of the properties of the Group for the year;
- vi) reviewed the adequacy of resources, qualifications and experience of the staff in accounting and financial reporting function, and the training programmes and budget;
- vii) discussed with Independent Auditor with respect to the accounting principles and practices adopted by the Group, compliance with the Listing Rules and other financing reporting requirements;
- viii) discussed and agreed on the change of auditors and reviewed the nature and scope of the annual audit;
- ix) considered and approved the connected transactions and continuing connected transactions for the year;
- x) reviewed and adopted the new terms of reference of the Audit and Risk Management Committee.

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

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

Remuneration Committee

Structure

The Remuneration Committee has been established since June 2005 with the roles to assist the Board in reviewing and determining the framework or broad policy for remuneration packages of the Directors and senior management, overseeing any major changes in employee benefit structures and considering other topics as defined by the Board.

As at the date of this annual report, the Remuneration Committee is made up of two independent non-executive Directors and one executive Director, namely:

Mr. Wong Hon Kit (*Chairman*)
Mr. Wong Tat Keung
Mr. Yang Longfei

Function

The principal responsibilities of the Remuneration Committee are as follows:

- i) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedures for developing remuneration policy;
- ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights, compensation payments (including any compensation payable for loss or termination of their office or appointment);
- iii) to make recommendations to the Board on the remuneration of executive Directors; and
- iv) to review and make recommendations to the Board for approving the services contracts/agreements of all Directors.

The Remuneration Committee would seek internal and external professional advices about its proposals on remuneration packages of individual Directors and senior management if considered necessary.

Conduct of Meetings

The Remuneration Committee shall meet at least once a year. The Company prepares and delivers an information memorandum that includes all relevant information about the meetings to the Remuneration Committee members at least 7 days prior to such meetings.

During the year, the Remuneration Committee held 1 meeting to consider and recommend, among others, to the Board on the annual remuneration of the Directors and senior management for the year.

Corporate Governance Report

Individual attendance of each committee member at the meetings held during the year is as follows:

Members	No. of Remuneration Committee meetings attended/held (Percentage of attendance in total)
Mr. Wong Hon Kit	1/1 (100%)
Mr. Wong Tat Keung	1/1 (100%)
Mr. Yang Longfei	1/1 (100%)

Works Performed

The works performed by the members of the Remuneration Committee during the year are summarised below:

- i) considered and made recommendations to the Board for endorsement of the remuneration policy of the Company and letters of appointment of the Directors and senior management with major terms and conditions, to comply with the CG Code; and
- ii) assessed performance of executive Directors and considered and made recommendations to the Board on the remuneration of the Directors and senior management for the year.

Details of the amount of Directors' emoluments during the year are set out in note 15(a) to the consolidated financial statements in this annual report.

Nomination Committee

Structure

The Nomination Committee was established in 2012 with the role to lead the process and to make recommendations for appointments to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in the light of challenges and opportunities facing the Company, as well as business development and requirements of the Company.

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

Mr. Wong Tat Keung (*Chairman*)
Mr. Wong Hon Kit
Mr. Yang Longfei

Function

The principal responsibilities of the Nomination Committee are as follows:

- i) to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- ii) to assess on the independence of the independent non-executive Directors; and
- iii) to make recommendations to the Board on the appointment or re-appointment and succession planning for Directors and to identify individuals suitably qualified to become Board members.

The Nomination Committee has adopted a "Policy, Procedure and Process, and Criteria for Nomination of Directors" setting out the approach to achieve diversity on the Board. The basic nomination policy is to keep under review the leadership needs of Board as the core organ of the Company, both executive and non-executive, with a view to ensure the continued stability of the Company and continued ability of the Board to lead the Company's business and development and to compete effectively in the business sector, taking into account the challenges and opportunities facing the Company currently and in the future. The Nomination Committee may evaluate the balance of skills, experience and knowledge in the Board members and may seek independent professional advice or assistance including engagement of recruitment agent or external research consultancy, or use open advertising or other appropriate means in appropriate circumstances at the Company's expense to assess a wide base of potential candidates to become a director of the Company.

For the purpose of implementation of the policy on Board diversity, the following measurable objectives were adopted:

- (A) at least one-third of the members of the Board shall be independent non-executive directors;
- (B) at least one of the members of the Board shall possess accounting or other professional qualifications;
- (C) certain members of the Board shall be professionals recognized in both China and Hong Kong.

The Nomination Committee monitors the implementation of this policy and reviews the same as appropriate to ensure the effectiveness of the policy. The Nomination Committee will discuss any revises as may be required and submit the proposed amendments to the Board for approval.

Conduct of Meetings

The Nomination Committee shall meet at least once a year. The Company prepares and delivers an information memorandum that includes all relevant information about the meetings to the Nomination Committee members at least 7 days prior to such meetings.

During the year, the Nomination Committee held 1 meeting.

Corporate Governance Report

Individual attendance of each committee member at the meetings held during the year is as follows:

Members	No. of Nomination Committee meetings attended/held (Percentage of attendance in total)
Mr. Wong Tat Keung	1/1 (100%)
Mr. Wong Hon Kit	1/1 (100%)
Mr. Yang Longfei	1/1 (100%)

Works Performed

The principal works performed by the members of Nomination Committee during the year are summarised below:

- i) considered and reviewed the policy, procedures and process and criteria for the nomination of the Directors and made recommendations to the Board for its endorsement;
- ii) reviewed the structure, size and composition of the Board;
- iii) made recommendations to the Board on the retirement and re-election of Directors in the 2018 annual general meeting; and
- iv) made recommendations to the Board on the appointment of Directors.

Nomination Procedures and Process

The Nomination Committee may nominate any person that having the relevant qualities and criteria as determined by the Nomination Committee as well as required by the Companies Ordinance (Cap. 622, Laws of Hong Kong), the Listing Rules or other applicable laws and regulations in Hong Kong to become a director (whether executive or non-executive) whenever (i) the executive Director(s) or the Nomination Committee is/are of the view that according to the current or prospective business development and requirements of the Company; or (ii) for succession planning for the Board, there is a demand for an appointment of new Director as an addition to the Board or to fill up the casual vacancy in the Board.

During the nomination process, the Nomination Committee may evaluate the balance of skills, experience, independence and knowledge in the Board members and may prepare a description or job specification of the role and capabilities required for any new or particular appointment to the Board if it thinks fit and proper. The Nomination Committee may seek independent professional advice or assistance including engagement of recruitment agent or external research consultancy, or use open advertising or other appropriate means in appropriate circumstances at the Company's expense to assess a wide base of potential candidates to become a Director.

Corporate Social Responsibility Committee

Structure

The Corporate Social Responsibility Committee was established in 2019 with the role to assist the Board in reviewing the policies and overseeing the issues with respect to corporate social responsibility (“CSR”) including (a) workplace quality; (b) environmental protection; (c) operating practices; and (d) community involvement.

As at the date of this annual report, the Corporate Social Responsibility Committee is made up of two executive Directors and one non-executive Director, namely:

Mr. Yang Longfei (*Chairman*)
Mr. Yang Shao Ming
Ms. Zhang Yan

Function

The principal responsibilities of the Corporate Social Responsibility Committee are as follows:

- i) consider and formulate the Company’s value and strategy as regards to CSR;
- ii) develop and review the Company’s CSR policies relating to workplace quality, environmental protection, operating practices and community involvement;
- iii) identify CSR issues, and related risks and opportunities that are relevant to the Company’s operations, and incorporate the issues or factors into the Company’s existing risk management;
- iv) monitor and oversee the implementation of the Company’s CSR policies and practices to ensure compliance with the applicable legal and regulatory requirements;
- v) evaluate and enhance the Company’s CSR performance and make recommendation to the Board for improvement;
- vi) review the forms, surveys and questionnaires relating to the Company’s sustainability ratings, for submission; and
- vii) review and endorse the Company’s annual CSR report for the Board’s approval for public disclosure.

Conduct of Meetings

The Corporate Social Responsibility Committee shall meet at least once a year or such other times a year at appropriate times otherwise as required. The Company prepares and delivers the supporting papers that includes all relevant information about the meetings to the Corporate Social Responsibility Committee members at least 7 days prior to such meetings.

During the year, the Corporate Social Responsibility Committee held 1 meeting.

Corporate Governance Report

Individual attendance of each committee member at the meetings held during the year is as follows:

Members	No. of Corporate Social Responsibility Committee meetings attended/held (Percentage of attendance in total)
Mr. Yang Longfei	1/1 (100%)
Mr. Yang Shao Ming	1/1 (100%)
Ms. Zhang Yan	1/1 (100%)

Work Performed

The principal works performed by the members of the Corporate Social Responsibility Committee during the year are summarised below:

- i) engaged AVISTA Group to assist on the drafting of the 2018 Environmental Social and Governance Report for the year ended 31 December 2018 ("2018 ESG Report");
- ii) reviewed, approved and recommend the 2018 ESG Report for the Board's approval.

Management Functions

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

- i) oversee the general operations of the Company;
- ii) ensure effective implementation of the Board's decisions and corporate governance, with the assistance of the Company Secretary;
- iii) ensure the short and long term sustainability of the business;
- iv) lead the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;
- v) provide coherent leadership of the Company;
- vi) satisfy itself on the integrity of financial information and on robustness and defensibility of the financial controls and systems of risk management and carry out review thereon;
- vii) scrutinise the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;
- viii) constructively challenge and help developing proposals on business strategy;
- ix) uphold high standards of corporate governance and compliance;

- x) participate in the process of dealing with any conflict of interest between the Company and the Director, his/her associates or substantial shareholders who has material interest in the transaction with the Company;
- xi) attend the shareholders' meeting to help developing a balanced understanding of their issues and concerns; and
- xii) give independent opinion and advice to the shareholders where required by the Listing Rules or any applicable laws and regulations on the business affairs of the Company.

During the year, the management was mainly responsible for:

- 1) daily investment, management, operation and administration of the Company;
- 2) compliance with the rules and regulations, including the Listing Rules, as well as to implement corporate governance policy determined by the Board;
- 3) draw the Directors' attention on the new corporate governance requirements;
- 4) organise the Board and various meetings for the Directors' discussion;
- 5) prepare various reports to the Board for review and decision making; and
- 6) organise training for the Directors.

During the year, the management provided all members of the Board with monthly updates in accordance with the code provision C.1.2 of the CG Code.

Directors' Continuing Professional Development

Continuing Professional Development

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills through suitable trainings. These trainings included but are not limited to seminars and online debriefs regarding taxation, compliance, and global economic development. The participation in such trainings is to ensure that their contribution to the Board remains informed and relevant.

Auditor's Remuneration

The remuneration of the external auditor, ZHONGHUI ANDA CPA Limited in respect of audit service provided for the year amounted to HK\$2,250,000.

Financial Reporting

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

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

Corporate Governance Report

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

Internal Control and Risk Management

Scope of Works

The Board recognises its responsibility for establishment, maintenance and review of the internal control system that provides reasonable assurance on the reliability and integrity of financial and operational information, effective and efficient operations, safeguarding of assets and compliance with laws and regulations. The internal control system is designed to manage rather than to eliminate all risks of failure while its goal is to provide reasonable, not absolute, assurance regarding the achievement of organisational objectives. The Audit and Risk Management Committee is responsible to assist the Board for the annual review of the effectiveness of the internal control system of the Group.

During the year, the Group's internal control department had performed a review of the internal control system of the Group, which includes evaluation of control environment, risk assessment, control activities, information and communication and monitoring activities, evaluation of the internal control system by business cycles and evaluation of the company secretarial record, the Board's practice and annual report disclosure against the requirement of the CG Code. Such report is addressed to the Board to assist the Board in the evaluation of the internal control system of the Group.

Audit and Risk Management Committee's and Board's Review

The Audit and Risk Management Committee and the Board had reviewed the financial control, internal control and risk management systems of the Company for the year. It considered the internal control system effective and adequate as they allowed the Board to monitor the Group's overall financial position and to provide reasonable assurance that assets are safeguarded against unauthorised use or material financial misstatement; transactions were executed in accordance with management's authorisation; and the accounting records were reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities. Further reviews will be conducted on the request of any Audit and Risk Management Committee member, Company Secretary, or any Director.

Company Secretary

Mr. Wong Shui Yeung ("Mr. Wong") has been appointed as the Company Secretary since 12 December 2016. Mr. Wong reports to the Chairman on Board governance matters, and is responsible for ensuring that the Board procedures, applicable laws, rules and regulations are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully apprised of the relevant corporate governance developments relating to the Group and facilitating the induction and professional development of the Directors.

According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training for the year.

External Auditor

The Company has engaged ZHONGHUI ANDA CPA Limited as its external auditor. The aggregate remuneration in respect of services provided by ZHONGHUI ANDA CPA Limited for the year ended 31 December 2019 was HK\$2,250,000 (2018: HK\$1,600,000) represents annual audit and other audit-related services.

Directors' Responsibility for Financial Statements and Auditor's Responsibility

All Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2019 and of ensuring that the preparation of the consolidated financial statements of the Company is in accordance with the applicable standards and requirements.

The statement of the auditor about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 48 to 49 of this annual report.

Going Concern and Mitigation Measures

As at 31 December 2019 the Group had net current liabilities of HK\$6,933,224,000 and the cash and bank balances of HK\$127,828,000. These conditions, together with others described in Note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. However, a number of measures have been undertaken to improve the Group's liquidity and financial position, to refinance its operations and to restructure its debts.

The Group's ability to continue as a going concern is dependent on the ongoing availability of finance supports to the Group, including the credit facility from its immediate holding company and ultimate controlling party and the continued support of the Group's bankers. If these finance supports were not available, the Group may be unable to meet its financial obligations as and when they fall due. These conditions, indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The Group is in active negotiation with the banks and lenders for further arrangements, including the extension of repayment and renewal of the overdue borrowing. The Directors are optimistic that agreements will be reached in due course.

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

- (i) The Group has been actively negotiating with a number of commercial banks for renewal or extension of repayment of the loans;
- (ii) The Group is also negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments;
- (iii) The Group has accelerated the sales of its properties under development, completed properties and investment properties to solve the liquidity problem; and
- (iv) The Group will continue to take active measures to control administrative costs and containment of capital expenditures.

Corporate Governance Report

Taking into account the above-mentioned plans and measures, the Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the statement of financial position. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

Shareholders' Rights

The Company is committed to safeguarding the shareholders' and the Company's interests as a whole and encouraging shareholders to attend general meetings of the Company to participate in the important decisions of the Company for which the shareholders' approval is required under the Listing Rules and the Companies Ordinance. The Company regards general meetings of the Company as an important event as it provides an important opportunity for direct communication between the Board and the shareholders. The Directors, including the independent non-executive Directors were available to answer questions at the annual general meeting and extraordinary general meeting of the Company held on 26 June 2019. The chairmen of the Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Corporate Social Responsibility Committee and/or the Independent Auditor were also available at the general meetings of the Company to address shareholders' queries.

The following set forth the procedures on (a) how shareholders can convene an extraordinary general meeting of the Company ("EGM"), (b) the procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquires to be properly directed; and (c) the procedures and sufficient contact details for putting forward proposals at shareholders' meetings.

(a) Procedures on how shareholders can convene an EGM

1. Any registered shareholder in his/her sole name or the registered shareholders jointly or collectively (whose name(s) appear in the register of the members of the Company) holding at the date of the deposit of the requisition not less than one-twentieth (5%) of the issued and paid up capital of the Company carrying the right to vote at general meeting of the Company may send a requisition to the Company to convene an EGM.
2. The requisition must state the objects of the EGM, and must be signed by the requisitionists and deposited at the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary.
3. The request will then be verified with the share registrar of the Company. Upon receiving confirmation from the share registrar of the Company that the request is in order, the Company Secretary will tender the request of the shareholder to the Board to include the resolution in the notice and agenda for the EGM.
4. Upon receiving such requisition, the Directors shall, within 21 days from the date of the deposit of the requisition, proceed to convene the EGM. The EGM shall be held on a day not more than 28 days after the date on which the notice convening the meeting is given.
5. If the Directors fail to convene the EGM as requisitioned by the shareholder concerned in the aforesaid manner, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the EGM, but any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition.

6. Where the EGM is held by the requisitionists, the requisitionists may claim from the Company any reasonable expenses incurred through the Directors' default.
- (b) Procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquiries to be properly directed
1. For any enquiry that a shareholder may put to the Board otherwise than at the general meetings of the Company to be held from time to time, the shareholder concerned should send the enquiry to the Board by means of letter to the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary.
 2. The Company Secretary will collect and read the letters received from the shareholders.
 3. Any enquiry to the Board shall be made by means of a letter bearing the address, contact telephone number and signature of the enquirer who must be registered shareholder with his/her name appears in the register of members of the Company. No enquiry by other means like telephone, fax or email will be entertained.
 4. Any enquiry should confine to any factual information contained in the announcement, circular, interim or annual reports of the Company published within the recent 3 years.
 5. Any enquiry will be replied within 21 days in any ordinary case. If the Board regards the shareholder's enquiry is a complicate one, the reply will be given within 1 month or any extended period for reply that the Directors consider fit and proper.
 6. No enquiry shall be made by the shareholder on any publication, hearsay or rumour come from the unidentified source concerning the business affairs of the Company. The Board may consider issuing an announcement to the general public whenever it is necessary under the requirements of the Listing Rules or other applicable laws and regulations to clarify any publication, hearsay or rumour that may appear in the newspaper or from any source that the Company may have known.
 7. Reply by the Board to the shareholder concerning his/her enquiry is privy to the shareholder concerned and no such reply shall be made public without the consent of the Company and the Company reserves the legal right to pursue for any breach thereof.
 8. The Board reserves the right to turn down the request for answering enquiries or giving any explanation thereof in case:
 - (a) answering to the enquiry will require disclosure of any confidential or price-sensitive information of the Company;
 - (b) answering to the enquiry will require disclosure of any information that the Board considers (i) it is unlawful to disclose them under the current laws and regulations that the Company is subject to, including the laws and regulations of the place where the Company is incorporated or the place where the main business of the Company is operating or the place in which the Company is having its securities listed therein; or (ii) in the interest of the Company it should not be disclosed; or (iii) it is unreasonable to disclose them; and
 - (c) the enquiries themselves contain any defamatory or irresponsible statements with malice, or the enquiries are of irrelevance or of prejudicial or vexatious nature or showing any element of abuse of the rights by the shareholder concerned.

Corporate Governance Report

9. At the general meeting of the Company to be held from time to time, any shareholder, his/her proxy or corporate representative may raise any enquiry verbally to the Directors present at the general meeting concerning any business to be transacted at the general meeting of the Company as set forth in the notice and agenda of the general meetings of the Company. The Directors presented may answer verbally the enquiries raised by the shareholders at the general meeting of the Company as the Directors consider appropriate. The Directors may decline to answer any enquiry based on the factors mentioned above in item 8, or irrelevant to the core theme of the general meeting purpose, or in order to allow the general meeting of the Company to be conducted in the orderly and lawful manner without undue disruption and to achieve a good sense of the general meeting of the Company.
 10. Any reply by the Board or by any of its members (whether acting collectively or individually and in whatsoever manner or circumstances) to the shareholder concerned must not be treated as any advice for investment in the securities of the Company or for any other purpose whatsoever and the Board and any of its members and the Company disclaim any liability that may be suffered by the shareholder concerned or any third party as a result of or arising from any reliance on any reply made by the Board or any of its members on behalf of the Company to the enquiries raised by the shareholder concerned.
- (c) Procedures and sufficient contact details for putting forward proposals at shareholders' meetings
1. Any number of registered shareholders (whose name(s) appeared in the register of members) representing not less than one-fortieth (2.5%) of the total voting rights of all members having at the date of the requisition a right to vote at the meeting to which the requisition relates, or not less than 50 members holding shares in the Company on which there has been paid up an average number, of not less than HK\$2,000 (namely, such members holding between them a minimum of shares of the Company on which there has been paid up at least HK\$100,000), may request the Company to give to members of the Company a notice of any resolution which he/she/they may intend to move at the annual general meeting of the Company; and/or to circulate to members entitled to have notice of any general meeting of the Company sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolutions or the business to be dealt with at that general meeting of the Company.
 2. A copy of the requisition signed by the requisitionists shall be deposited at the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary not less than 6 weeks before the general meeting of the Company (in case of a requisition requiring notice of a resolution) and not less than 1 week before the meeting (in case of any other requisition) and there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.
 3. The request will be verified with the share registrar of the Company. Upon receiving confirmation from the share registrar of the Company that the request is in order, and provided that the shareholder(s) concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement, the Company Secretary will tender the request of the shareholder to the Board to include the resolution in the notice and agenda for the annual general meeting of the Company.
 4. Should the request be not in order after verification by the share registrar of the Company or the Company finds that the sum not reasonably sufficient to meet the Company's expenses, the Company is not bound to give notice of any such resolutions or to circulate any such statement. The shareholder will be advised accordingly and the proposed resolution will not be included in the agenda for the annual general meeting of the Company.

Regarding the "Procedures for shareholders to propose a person for election as a Director", please visit the website of the Company for details.

Investor Relations

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

The Company maintains a corporate website (<http://www.lerthai.com.hk>) to make the corporate information available on the internet to facilitate its communication with shareholders and to provide important information to the investing public, including corporate governance structure and terms of reference of Board committees.

The Company welcomes suggestions from investors and shareholders, and invites them to share their views and suggestions at info@lth.com.hk.

Directors' Report

The Directors present to the members their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Change of Company's Name

By a special resolution passed on 30 January 2019, the name of the Company was changed from "LT Commercial Real Estate Limited 勒泰商業地產有限公司" to "Lerthai Group Limited 勒泰集團有限公司" and the change of name of the Company has become effective on 15 February 2019.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, investment holding, securities investment and finance business.

An analysis of the Group's revenue and contribution from operations by business and geographical segments is set out in note 9 to the consolidated financial statements.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and Management Discussion and Analysis on pages 3 to 12 of this annual report.

Possible risks and uncertainties that the Group may be facing are set out in the Management Discussion and Analysis on pages 10 to 12 and the Corporate Governance Report on pages 31 to 32.

Particulars of important events affecting the Group that have occurred since the end of the financial year 2019 are set out in Management Discussion and Analysis Section on page 12. An analysis of the Group's performance during the year is provided in the Five year Financial Summary on page 139 of this annual report. An environmental policy has been put in place to give due consideration to environment issues and minimise the impact of business operations on environment. In addition, a discussion on the Group's environmental policies and performance and an account of the Group's key relationships with its stakeholders will be included in the Environmental, Social and Governance Report to be published in the Company's website in late September 2020.

Compliance with the Relevant Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and the risk of non-compliance. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain strong working relationships with regulators through effective communications.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 50 and the consolidated statement of comprehensive income on page 51.

The Board did not recommend the payment of final dividend for the year (2018: Nil). No interim dividend was declared for the year (2018: Nil).

Segment Information

An analysis of the Group's revenue and contribution to profit or loss for the year by its principal activities is set out in note 9 to the consolidated financial statements.

Financial Summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 139.

Investment Properties and Property, Plant and Equipment

Particulars of the movements of investment properties and property, plant and equipment are set out in notes 18 and 19 to the consolidated financial statements respectively.

Share Capital

Details in the share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 37(b) to the consolidated financial statements and the consolidated statement of changes in equity on page 54 respectively.

Purchase, Sale or Redemption of Listed Securities

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

Directors' Report

Major Suppliers and Customers

During the year, the Group's revenue represented rental income from investment properties and sales of properties and the total revenue of the top five customers accounted for less than 25% of the Group's total revenue.

The Group's top five suppliers accounted for approximately 42% of the total purchases for the year. In addition, the Group's largest supplier accounted for approximately 24% of the total purchases for the year.

At no time during the year have the then and current directors of the Company, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Directors

The Directors for the year ended 31 December 2019 and present directors were/are:

Executive Directors

Mr. Yang Longfei
Ms. Zhang Yan

Non-executive Directors

Mr. Yang Shao Ming
Mr. Chan Ho Yin (appointed on 15 May 2020)
Ms. Chi Lai Man Jocelyn (appointed on 15 May 2020)

Independent Non-executive Directors

Mr. Wan Kah Ming (resigned on 27 December 2019)
Mr. Wong Hon Kit
Mr. Wong Tat Keung
Ms. Chan Lai Ping (appointed on 27 March 2020)

Pursuant to Article 101 of the Articles of Association, Ms. Zhang Yan as an executive Director and Mr. Wong Tat Keung as independent non-executive director will retire from office by rotation as the Directors at the annual general meeting of the Company and being eligible, offer themselves for re-election.

Pursuant to Article 92, of the Articles of Association, Mr. Chan Ho Yin and Ms. Chi Lai Man Jocelyn as non-executive Directors and Ms. Chan Lai Ping as an independent non-executive Director will retire from office by rotation as the Directors at annual general meeting of the Company and being eligible, offer themselves for re-election.

The list of directors of the subsidiaries of the Company during the financial year and up to the date of this report is kept at the Company's registered office and available for inspection by the Company's shareholders during office hours.

Directors' Service Contracts

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

Share Award Scheme

The Company has adopted the share award scheme (the "Share Award Scheme") to recognise the contributions of certain employees and help retain them for the Group's operations and further development. The Share Award Scheme was adopted by the Board on 8 August 2014 ("Adoption Date") and shall remain in force for a period of 10 years.

The initial maximum number of shares which can be awarded under the Share Award Scheme is 10% (ie, 33,876,598 shares) of Shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Share Award Scheme shall not exceed 1% of the number of issued shares of the Company at the date of grant.

Further details of the Share Award Scheme are set out in note 39(a) to the consolidated financial statements.

Share Option Scheme

On 22 August 2014, the Company adopted the share option scheme (the "Share Option Scheme"), pursuant to which the Board may, at its discretion, grant options to any Directors and any employee of the Company or the Group, who, in the absolute opinion of the Board, have contributed or will contribute to the Company or the Group.

Based on the 338,765,987 shares in issue as at the date of adoption of the Share Option Scheme, the maximum number of shares to be issued upon the exercise of options that may be granted under the Share Option Scheme are 33,876,598 shares, being 10% of the shares in issue and the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Company is 30% of the shares in issue from time to time. The Share Option Scheme will remain in force for a period of 10 years commencing from 22 August 2014, the date of adoption of the Share Option Scheme. The Share Option Scheme is available on the Company's website.

On 16 May 2016, the Company granted 33,876,590 share options to the selected grantees under the Share Option Scheme, amongst which 3,387,659 share options were granted to each of Mr. Yang Shao Xing Max, the former executive Director and Ms. Zhang Yan, the executive Director.

The Company refreshed the scheme mandate limit on 26 June 2019, the refreshed scheme mandate limit comprised 76,765,486 Shares, representing 10% of the total number of issued Shares as at the date of the annual general meeting held on 26 June 2019.

Further details of the Share Option Scheme are set out in note 39(b) to the consolidated financial statements.

Directors' Report

Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations

As at 31 December 2019, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 (the "Model Code") to Listing Rules were as follow:

Ordinary Shares of the Company

Name of directors	Capacity/nature of interests	Number of ordinary share(s) held	Number of underlying share(s) held	Percentage of total number of shares in issue (approximately)
Yang Longfei ¹	Beneficial owner	206,666,666 (L)	155,555,556 (L)	47.19%
	Interest in controlled corporation	254,055,888 (L)	–	33.09%
Zhang Yan ²	Beneficial owner	2,178,000 (L)	3,387,659 (L)	0.73%

(L) denotes long position

Notes:

1. Mr. Yang Longfei is the holder of 206,666,666 Shares and 155,555,556 underlying shares of the Company under the convertible securities issued by the Company to him on 20 April 2018. The 254,055,888 shares were held by China Lerthai, a company wholly and beneficially owned by Mr. Yang Longfei. By virtue of the SFO, Mr. Yang Longfei is deemed to be interested in the 254,055,888 shares of the Company held by China Lerthai.
2. The 3,387,659 underlying shares of the Company hold by Ms. Zhang Yan represent the share options granted by the Company on 16 May 2016 under the Share Option Scheme. Details please refer to heading "Share Option Scheme" above.

Options

Particulars of the Company's share option scheme are set out in note 39(b) to the consolidated financial statements. The following table discloses details of the Company's share options in issue during the year:

Name of director	Date granted	Exercisable period	Exercise price per share HK\$	Outstanding at 1.1.2019	Exercised during the year	Outstanding at 31.12.2019
Category 1: Director						
Zhang Yan	16.5.2016	16.5.2016–15.5.2026	4.11	3,387,659	–	3,387,659
Total for director				3,387,659	–	3,387,659
Category 2: Employees	16.5.2016	16.5.2016–15.5.2026	4.11	30,488,931	–	30,488,931
Total for employees				30,488,931	–	30,488,931
Total for all categories				33,876,590	–	33,876,590

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

Save as disclosed above, during the year, none of the Directors or chief executives of the Company, nor their spouses or children under the age of 18 years, were granted or had exercised any right to subscribe for any securities of the Company or its associated corporations.

Directors' Report

Substantial Shareholders' Interests in the Securities of the Company

As at 31 December 2019, so far as are known to any Director or chief executives of the Company, the following parties (other than a Director or chief executives of the Company) had interests or short positions in the shares or 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 shareholders	Capacity/nature of interests	Number of ordinary share(s) held	Number of underlying share(s) held	Percentage of total number of shares in issue (approximately)
China Lerthai ¹	Beneficial owner	254,055,888 (L)	–	33.10%
Fantastic Stargaze Limited ²	Beneficial owner	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%
Peace Winner Limited ³	Having a security interest in shares	416,278,110 (L)	–	60.52%
Huarong Overseas Investment Holdings Co., Limited ⁴	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%
華融華僑資產管理股份有限公司 ⁵	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%
華融致遠投資管理有限責任公司 ⁶	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%
China Huarong Asset Management Co., Limited ⁷	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Security interest held by controlled corporation	416,278,110 (L)	–	60.52%
Ministry of Finance of the People's Republic of China ⁸	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%
廣東錦峰集團有限公司 ⁹	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%
Hong Kong Kam Fung Group Company Limited ¹⁰	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%

Name of shareholders	Capacity/nature of interests	Number of ordinary share(s) held	Number of underlying share(s) held	Percentage of total number of shares in issue (approximately)
Sun Siu Ki ¹¹	Beneficial interest held by controlled corporation	–	74,444,444 (L)	10.82%
	Having a security interest in shares	416,278,110 (L)	–	60.52%
中國同祥控股集團有限公司 ¹²	Beneficial interest	46,638,888 (L)	67,111,111 (L)	11.82%
Whitestream Development Limited	Beneficial interest	864,000 (L)	64,444,444 (L)	9.49%
Zhao Zhijiang	Beneficial interest	–	62,222,222 (L)	8.11%

(L) denotes long position

Notes:

- China Lerthai is wholly-owned by Mr. Yang Longfei, the chairman, chief executive officer and executive Director of the Company.
- Mr. Yang Longfei and China Lerthai have provided a first priority share charge in respect of (i) the HK\$200,000,000 convertible securities issued by the Company on 20 April 2018 and 254,055,888 shares and (ii) 162,222,222 shares of the Company held by them respectively in favour of Fantastic Stargaze Limited, a subsidiary of Huarong Overseas Investment Holdings Co., Limited, to secure the payment obligations under the convertible notes in the principal amount of HK\$450,000,000 issued by the Company. Fantastic Stargaze Limited is the holder of the convertible notes of the Company in the principal amount of HK\$450,000,000 convertible into 30,000,000 shares of the Company. Please refer to the announcement of the Company dated 22 January 2017 for further details.
- Peace Winner Limited is a wholly-owned subsidiary of Huarong Overseas Investment Holdings Co., Limited.
- Fantastic Stargaze Limited is a wholly-owned subsidiary of Huarong Overseas Investment Holdings Co., Limited.
- Huarong Overseas Investment Holdings Co., Limited is a wholly-owned subsidiary of 華融華僑資產管理股份有限公司.
- 華融致遠投資管理有限責任公司 is interested in 51% of equity interests in 華融華僑資產管理股份有限公司.
- 華融致遠投資管理有限責任公司 is a wholly-owned subsidiary of China Huarong Asset Management Co. Limited.
- Ministry of Finance of the People's Republic of China is interested in 67.75% of equity interests in China Huarong Asset Management Co. Limited.
- 廣東錦峰集團有限公司 is interested in 40% of equity interests in 華融華僑資產管理股份有限公司.
- 廣東錦峰集團有限公司 is a wholly-owned subsidiary of Hong Kong Kam Fung Group Company Limited.
- 香港錦峰集團有限公司 is wholly-owned by Mr. Sun Siu Ki.
- 中國同祥控股集團有限公司, a company owned as to 50% by 傅建永 and as to 50% by 傅一翔.

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Report

Arrangements to Purchase Shares or Debentures

Save as the Share Option Scheme and Share Award Scheme as disclosed in note 39 to the consolidated financial statements, there were no arrangements to which the Company, its ultimate holding company, or any of its ultimate holding company's subsidiaries was a party to enable the Directors to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the year.

Directors Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the paragraph headed "Connected Transactions & Continuing Connected Transactions" below, no transactions, arrangements or contracts of significance in connection with business of the Company, to which the Company, its parent company, subsidiaries or fellow subsidiaries were a party and in which any Director of the Company or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Related Party Transactions, Connected Transactions and Continuing Connected Transactions

Save as disclosed in note 43 to the consolidated financial statements and below, there were no significant related party transactions or connected transactions, or continuing connected transactions entered into by the Group for the year.

Connected Transactions & Continuing Connected Transactions

During the year, the Group entered into certain related party transactions which also constitute connected transactions under Chapter 14A of the Listing Rules. All the connected transactions and continuing connected transactions with disclosure requirements under the Listing Rules during the year were listed below and these transactions were also set out in note 43 to the consolidated financial statements. The Directors of the Company confirm they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Connected Transactions

Disposal of Equity Interest in LT International Investment and Sale Loan

On 23 October 2018, the Company entered into a sale and purchase agreement (the "Agreement") with Mr. Yang to sell the entire issued share capital in LT International Investment Holdings Limited ("LT International Investment"), and the sale loan which represents all obligations, liabilities and debts owing or incurred by LT International Investment to the Company for a total consideration of HK\$247,369,000. LT International Investment, through its wholly-owned subsidiaries, LTG Platinum LLC and LTG South Hills LLC, was principally engaged in properties development and investment in the USA. Such disposal had been subsequently approved by the independent shareholders of the Company at the extraordinary general meeting on 30 January 2019. The disposal was completed on 4 February 2019 and an aggregated principal amount of HK\$239,569,000 of the promissory note have been issued by Mr. Yang to the Company and fully settled during the year.

Continuing Connected Transactions

1. *Property Management Services Framework Agreement between the Oceancity Enterprise Management and LPSC (the services agreement is effective from 1 January 2019 until 31 December 2021)*

Pursuant to the property management services framework agreement dated 9 November 2018 (supplemented on 31 December 2018), Lerthai Property Services Company Limited ("LPSC") a company indirectly wholly-owned by Mr. Yang Longfei agreed to provide property management services at Tangshan Pelagic Mall to Tangshan Lerthai Oceancity Enterprise Management Company Limited ("Oceancity Enterprise Management", which is an indirect wholly owned subsidiary of the Company) as set out in the property management services framework agreement with an annual cap of RMB28,895,125, RMB29,151,732 and RMB29,375,583 for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 respectively.

The aforesaid continuing connected transaction have been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) no services was provided and charged during the year ended 31 December 2018.

Further details are set out in the Company's announcements dated 9 November 2018 and 31 December 2018.

2. *Entrusted Operation Services Framework Agreement between Oceancity Enterprise Management and LPSC (The terms of the services agreement is 8 years commencing on the date of establishment of the Asset-backed Special Program)*

Pursuant to the entrusted operation services framework agreement dated 9 November 2018, LPSC agreed to provide Entrusted Operation Services at Tangshan Pelagic Mall to Tangshan Lerthai Oceancity Enterprise Management as set out in the entrusted operation services framework agreement with an annual cap of RMB3,000,000.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) no services was provided and charged during the year ended 31 December 2018.

Further details are set out in the Company's announcement dated 9 November 2018.

Directors' Report

The aforesaid agreements have been reviewed by independent non-executive Directors of the Company who have confirmed that the above agreements were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or better or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties, and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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. The Company's auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 45 of this annual report in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Based on the work performed, the auditor of the Company has confirmed to us that, in respect of the above-mentioned continuing connected transactions: (a) nothing has come to the auditor's attention that causes the auditor to believe that the transactions have not been approved by the Company's Board of Directors; (b) nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material aspects, in accordance with the relevant agreements governing such transactions; and (d) with respect to the aggregate amount of each of the transactions, nothing has come to the auditor's attention that causes the auditor to believe that the transactions have exceeded the annual cap disclosed in the Company's announcement dated 9 November 2018.

Management Contracts

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

Permitted Indemnity Provision

Article 177 of the Company's Articles of Association provides that every Director, manager, secretary or other officer and every auditor of the Company shall be indemnified out of the asset of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director, manager, secretary or other officer or auditor shall be liable for any loss, damage or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto, to the extent permitted by the Companies Ordinance. The Company will review and consider to arrange appropriate insurance cover in respect of legal action against its directors as and when it thinks necessary.

Directors' Interests in Competing Businesses

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

Retirement Benefit Schemes

Particulars of retirement benefits schemes of the Group are set out in note 39 to the consolidated financial statements.

Public Float

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

Auditor

The consolidated financial statements for the year ended 31 December 2019 and 2018 were audited by ZHONGHUI ANDA CPA Limited. ZHONGHUI ANDA CPA Limited will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of ZHONGHUI ANDA CPA Limited as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company. The consolidated financial statements for the year ended 31 December 2017 were audited by Deloitte Touche Tohmatsu.

The Company appointed ZHONGHUI ANDA CPA Limited as auditors of the Group for the year ended 31 December 2018 to fill the causal vacancy following the resignation of Deloitte Touche Tohmatsu.

Save as disclosed above, there has been no other change in auditors of the Company in the preceding three years.

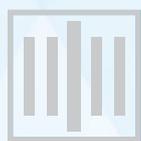
On behalf of the Board

Yang Longfei

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 19 June 2020

Independent Auditor's Report



中 汇
ZHONGHUI

TO THE MEMBERS OF LERTHAI GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Lerthai Group Limited (the "Company") and its subsidiaries (collectively referred to as "Group") set out on pages 50 to 138, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

We draw attention to note 2 to the consolidated financial statements which mentions that as at 31 December 2019 the Group had net current liabilities of HK\$6,933,224,000. The cash and bank balances decreased from HK\$184,107,000 to HK\$127,828,000. In addition, the Group has capital commitment of HK\$367,223,000 and other commitment of HK\$241,438,000 as at 31 December 2019. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing availability of finance supports to the Group, including the credit facility from its immediate holding company and ultimate controlling party and the continued support of the Group's bankers. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the ongoing availability of finance supports. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements.

However, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity of the financial support from the immediate holding company, ultimate controlling party and the Group's bankers described above. There are no other satisfactory audit procedures that we could adopt to determine whether the immediate holding company, ultimate controlling party and the Group's bankers has the financial ability and/or willingness to honour the financial support to the Group.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and 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, matter 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Report on Other Matters under Section 407(3) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the matter described in the Basis for Disclaimer of Opinion section of our report, we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Yeung Hong Chun

Audit Engagement Director

Practising Certificate Number P07374

Hong Kong, 19 June 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	8	1,106,288	909,919
Cost of sales		(513,696)	(295,639)
Gross profit		592,592	614,280
Gain on voluntary surrender of properties	10	189,711	–
Interest revenue		73,972	26,326
Other income and gains, net	11	45,938	73,551
Gain on disposal of a subsidiary		8,460	–
Increase in fair value of investment properties		227,593	1,387,700
Selling and marketing expenses		(6,831)	(17,417)
Administrative expenses		(152,722)	(175,307)
Profit from operations		978,713	1,909,133
Finance costs	12	(736,879)	(791,973)
Profit before tax		241,834	1,117,160
Income tax expense	13	(105,128)	(407,483)
Profit for the year attributable to equity holders of the Company	14	136,706	709,677
Earnings per share (HK dollars)	17		
– Basic		0.18	1.56
– Diluted		0.12	0.74

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Profit for the year	136,706	709,677
Other comprehensive income/(expense) after tax:		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value gain on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	26,918	29,236
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(6,668)	(424,081)
Release of exchange reserve upon disposal of a subsidiary	(1,949)	–
Other comprehensive income/(expense) for the year, net of tax	18,301	(394,845)
Total comprehensive income for the year attributable to equity holders of the Company	155,007	314,832

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investment properties	18	19,977,883	20,658,520
Property, plant and equipment	19	19,954	20,270
Right-of-use assets	20	2,712	–
Deposit and prepayment	21	202,342	125,246
Interest receivables	22	–	41,561
Pledged bank deposits	22	21,960	1,736,463
Deferred tax asset	34	6,167	6,199
Other non-current assets		3,300	3,300
		20,234,318	22,591,559
Current assets			
Properties under development for sales	23	3,023,091	2,655,213
Properties held for sales	23	314,199	406,968
Investment at fair value through profit or loss		2,409	4,075
Trade and other receivables, deposits and prepayments	24	386,384	441,955
Restricted bank balances	22	4	11,135
Pledged bank deposits	22	6,523	6,872
Cash and bank balances	22	127,828	184,107
		3,860,438	3,710,325
Non-current assets held for sale	25	–	373,461
		3,860,438	4,083,786
Current liabilities			
Trade and other payables and accruals	26	3,238,209	3,255,464
Contract liabilities	27	1,685,661	1,922,370
Tax payable		92,743	27,000
Bank and other borrowings	28	5,236,123	1,915,517
Convertible bonds	29	386,117	380,363
Senior notes	30	109,327	100,226
Bonds	32	42,485	39,062
Lease liabilities	33	2,997	–
		10,793,662	7,640,002
Net current liabilities		(6,933,224)	(3,556,216)
Total assets less current liabilities		13,301,094	19,035,343

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current liabilities			
Bank and other borrowings	28	4,708,209	9,892,573
Convertible securities	31	56,667	56,444
Deferred tax liabilities	34	2,986,009	2,994,089
		7,750,885	12,943,106
Net assets			
		5,550,209	6,092,237
Capital and reserves			
Share capital	35	1,548,192	2,086,958
Reserves	37	3,554,079	2,854,808
Equity attributable to equity holders of the Company			
Perpetual capital instruments	38	447,938	1,150,471
		5,102,271	4,941,766
Total equity			
		5,550,209	6,092,237

The consolidated financial statements on pages 50 to 138 were approved and authorised for issue by the board of directors on 19 June 2020 and signed on its behalf by:

Yang Longfei
Director

Zhang Yan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company										
	Share capital	Capital reduction reserve	Share option reserve	Statutory reserve	Convertible securities equity reserve	Exchange reserve	Merger reserve	Revaluation reserve	(Accumulated losses)/ retained profits	Perpetual capital instruments	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	498,548	-	69,242	5,548	-	(377,719)	53,068	(14,996)	5,949,197	-	6,182,888
Total comprehensive (expense)/income for the year	-	-	-	-	-	(424,081)	-	29,236	709,677	-	314,832
Issue of convertible securities upon combination of entities under common control (Note 31)	-	-	-	-	3,961,106	-	(4,049,057)	-	-	-	(87,951)
Combination of entities under common control (Note)	-	-	-	-	-	-	(53,068)	-	-	-	(53,068)
Amount written-off upon combination under common control	-	-	-	-	-	-	(1,447,621)	-	-	-	(1,447,621)
Perpetual capital instruments granted by related companies (Note 38)	-	-	-	-	-	-	-	-	-	1,150,471	1,150,471
Issue of shares upon conversion of convertible securities (Note 35(a))	1,588,410	-	-	-	(1,555,724)	-	-	-	-	-	32,686
At 31 December 2018	2,086,958	-	69,242	5,548	2,405,382	(801,800)	(5,496,678)	14,240	6,658,874	1,150,471	6,092,237
At 1 January 2019, as previously reported	2,086,958	-	69,242	5,548	2,405,382	(801,800)	(5,496,678)	14,240	6,658,874	1,150,471	6,092,237
Effect of changes in accounting policies (Note 3.1)	-	-	-	-	-	-	-	-	(231)	-	(231)
At 1 January 2019, as restated	2,086,958	-	69,242	5,548	2,405,382	(801,800)	(5,496,678)	14,240	6,658,643	1,150,471	6,092,006
Total comprehensive (expense)/income for the year	-	-	-	-	-	(8,617)	-	26,918	136,706	-	155,007
Issue of shares upon conversion of convertible securities (Note 35(b))	361,234	-	-	-	(355,505)	-	-	-	-	-	5,729
Capital reduction (Note 35(c))	(900,000)	133,440	-	-	-	-	-	-	766,560	-	-
Settlement of promissory note	-	-	-	-	-	-	-	-	-	(195,209)	(195,209)
Offset amounts due from related companies	-	-	-	-	-	-	-	-	-	(507,324)	(507,324)
At 31 December 2019	1,548,192	133,440	69,242	5,548	2,049,877	(810,417)	(5,496,678)	41,158	7,561,909	447,938	5,550,209

Note: It represents the effect of combination of Tangshan Oceancity Mall Property Management Services Company Limited by Greatpro Holdings Limited ("Greatpro") upon completion in early 2018. Details please refer to the Accountants' Report of Greatpro included in the Company's circular dated 28 March 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Note	2019 HK\$'000	2018 HK\$'000
Cash flows from operating activities		
Profit before tax	241,834	1,117,160
Adjustments for:		
Interest revenue	(73,972)	(26,326)
Gain on voluntary surrender of properties	(189,711)	–
Exchange loss/(gain), net	3,661	(120,275)
Increase in fair value of investment properties	(227,593)	(1,387,700)
Decrease in fair value of convertible bonds designated at fair value through profit or loss	3,224	35,943
Decrease/(increase) in fair value of investment at fair value through profit or loss	1,543	(350)
Depreciation	6,997	10,719
Gain on disposal of a subsidiary	(8,460)	–
Finance costs	736,879	791,973
Loss on disposal of property, plant and equipment	246	12,652
Operating profit before changes in working capital	494,648	433,796
Change in properties under development for sales and properties held for sales	281,094	(302,709)
Change in trade and other receivables, deposits and prepayments	55,381	(69,785)
Change in trade and other payables and accruals	135,195	(55,547)
Change in contract liabilities	(204,017)	188,177
Cash generated from operating activities	762,301	193,932
Income taxes paid	(191)	(137)
Interest element of lease payments	(427)	–
Net cash generated from operating activities	761,683	193,795
Cash flows from investing activities		
Interest received	105,462	9,082
Payment for investment properties	(100,364)	(115,933)
Additions to property, plant and equipment	(7,758)	(357)
Disposal of a subsidiary	(5,892)	–
Proceeds from settlement of promissory note	50,000	–
Advances to related parties	(2,307,287)	(1,920,654)
Repayment from related parties	1,799,962	1,912,622
Purchase of investment at fair value through profit or loss	–	(3,725)
Net cash used in investing activities	(465,877)	(118,965)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
Cash flows from financing activities	40(b)		
Bank and other borrowings raised		249,436	1,710,417
Repayment of bank and other borrowings		(1,817,957)	(1,503,660)
Repayment of convertible bonds		(5,667)	(121,073)
Principal portion of lease payments		(2,658)	–
Loan from a related company		–	535,854
Repayment on loan from a related company		–	(369,187)
Interest paid		(453,866)	(573,258)
Repayment to a former shareholder of a subsidiary		–	(350,444)
Advances from tenants and other companies		15,721	16,020
Repayment to tenants and other companies		(43,586)	(33,663)
Release of restricted bank balances		1,601,826	267,749
Placement of restricted bank balances		(1,590,887)	(4,216)
Release of pledged bank deposits		1,758,625	181,307
Placement of pledged bank deposits		(51,540)	(4,137)
Net cash used in financing activities		(340,553)	(248,291)
Net decrease in cash and cash equivalents		(44,747)	(173,461)
Effect of foreign exchange rate changes, net		(11,532)	(38,829)
Cash and cash equivalents at beginning of the year		184,107	396,397
Cash and cash equivalents at end of the year		127,828	184,107
Analysis of cash and cash equivalents			
Cash and bank balances		127,828	184,107

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. General Information

Lerthai Group Limited (the “Company”) was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance. The address of its registered office and principal place of business is Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”). The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 47 to the consolidated financial statements.

In the opinion of the directors of the Company (the “Directors”), as at 31 December 2019, China Lerthai Commercial Real Estate Holdings Limited (“China Lerthai”), a company incorporated in the British Virgin Islands (“BVI”), is the immediate holding company; and Mr. Yang Longfei (“Mr. Yang”), is the ultimate controlling party of the Company.

2. Going Concern Basis

As at 31 December 2019, the Group had net current liabilities of HK\$6,933,224,000. The cash and bank balances decreased from HK\$184,107,000 to HK\$127,828,000. In addition, the Group has capital commitment of HK\$367,223,000 and other commitment of HK\$241,438,000 as at 31 December 2019. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group’s ability to continue as a going concern is dependent on the ongoing availability of finance supports to the Group, including the credit facility from its immediate holding company and ultimate controlling party and the continued support of the Group’s bankers. If these finance supports were not available, the Group may be unable to meet its financial obligations as and when they fall due. These conditions, indicate a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years except as stated below.

Application of new and amendments to HKFRSs

HKFRS 16	<i>Leases</i>
HK(IFRIC) – Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and position for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

3.1 Impacts and changes in accounting policies and application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 superseded HKAS 17 Leases, and the related interpretations.

Upon the adoption of HKFRS 16, at the commencement date of the lease, the lessee recognises a “Lease liability” and a corresponding “Right-of-use asset”. After initial recognition of this asset and liability, the lessee recognises interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses continue to be recognised on a systematic basis over the lease term.

HKFRS 16 primarily affect the Group’s accounting as a lessee of premises which are classified as operating leases in previous years. The application of the new accounting model leads to an increase in both assets and liabilities and to impact on the timing of the expense recognition in profit or loss over the period of the lease.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (continued)

Application of new and amendments to HKFRSs (continued)

3.1 Impacts and changes in accounting policies and application on HKFRS 16 Leases (continued)

HKFRS 16 has been applied through a modified retrospective approach, with the cumulative effect of initial application recognised as an adjustment to the opening balances of accumulated losses as at 1 January 2019. Comparative information has not been restated. In addition, the Group elected the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group has used the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

Upon the initial application of HKFRS 16, the Group measured the right-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date and the opening balances of lease liabilities and the corresponding right-of-use assets has been adjusted as at 1 January 2019.

The following table summarises the impact, net of tax, of transition to HKFRS 16 on the opening balance of retained profits:

	HK\$'000
Retained earnings	
Impact at 1 January 2019	231

The operating lease commitments disclosed as at 31 December 2018 were HK\$10,982,000. The lease liabilities recognised as at 1 January 2019 were HK\$5,655,000, of which HK\$2,658,000 were current lease liabilities and HK\$2,997,000 were non-current lease liabilities.

The differences between the operating lease commitments discounted using the lessee's incremental borrowing rate of 10% and the total lease liabilities recognised in the consolidated statement of financial position at the date of initial application of HKFRS 16 comprised the exclusion of short-term leases recognised on a straight-line basis as expenses and the inclusion of adjustments as a result of a different treatment of extension options.

The change in accounting policy increase right-of-use assets by HK\$5,424,000 on 1 January 2019.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (continued)

New and amended standards and interpretations have been published but are not yet effective for the year ended 31 December 2019

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by investment properties and certain financial instruments which are carried at their fair values/fair values less costs to sell.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

4. Significant Accounting Policies (continued)

Consolidation (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's presentation currency. The functional currency of the Company is Renminbi ("RMB"). The Directors consider that choosing HK\$ as the presentation currency best suits the needs of the shareholders and investors.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. Significant Accounting Policies (continued)

Foreign currency translation (continued)

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	20–35 years
Furniture and fixtures and computer equipment	3–10 years
Leasehold improvements	Over the shorter of 8 years or remaining terms of the lease
Motor vehicles	4–6 years
Machinery	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

4. Significant Accounting Policies (continued)

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property including property that is being constructed or developed for future use as investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an investment property becomes owner-occupied or a property held for sale, it is reclassified as property, plant and equipment or properties held for sales as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If a property held for sale becomes an investment property, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in profit or loss.

Property that is being constructed or developed for future use as investment property is stated at cost less impairment losses until construction or development is complete, at which time it is stated at fair value. The difference between the fair value and the previous carrying amount is recognised in profit or loss.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Securitisation

The Group securitises certain investment properties, which generally results in the sale of these assets to special purpose entities, which, in turn issue securities to investors. Interests in the securitised assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests). Retained interests are stated at fair value on the consolidated statement of financial position of the Group.

When applying the policies on securitised assets, the Group has considered both the degree of transfer of risks and rewards on the transferred assets and the degree of control exercised by the Group over the transferred assets:

- when the Group transfers substantially all the risks and rewards of ownership of the assets, the Group shall derecognise the assets;
- when the Group retains substantially all the risks and rewards of ownership of the underlying assets, the Group shall continue to recognise the relevant assets; and
- when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the underlying assets. If the Group has not retained control, it shall derecognise the assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the assets to the extent of its continuing involvement in the assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. Significant Accounting Policies (continued)

Leases

(a) The Group as lessee

Policy applicable from 1 January 2019

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal useful life of building is three years.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below United States dollars 5,000.

Policy applicable before 1 January 2019

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(b) The Group as lessor – Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Properties for sale under development

Properties for sale under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition. On completion, the properties are reclassified to properties held for sales at the then carrying amount.

Properties held for sales

Properties held for sales are stated at the lower of cost and net realisable value. Costs of properties include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition.

4. Significant Accounting Policies (continued)

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investment at fair value through profit or loss ("FVTPL"). Transaction costs directly attributable to the acquisition of investment at FVTPL are recognised immediately in profit or loss.

Financial assets of the Group are classified as under the following categories:

- Financial assets at amortised cost; and
- Investment at FVTPL.

(a) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. Significant Accounting Policies (continued)

Financial assets (continued)

(b) Investment at FVTPL

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investment at FVTPL are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

4. Significant Accounting Policies (continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible securities

Convertible securities which entitle the holder to convert the securities into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The fair value of any derivative features embedded in the compound instruments is included in the liability component. The difference between the proceeds of issue of the convertible loans and the fair values assigned to the liability component, representing the embedded option for the holder to convert the securities into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative components are measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and equity components of the convertible securities based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. An embedded floor on the interest rate on a debt contract is closely related to the host contract, provided that the floor is at or below the market rate of interest when the contract is issued, and the floor is not leveraged in relation to the host contract.

The Group has designated the convertible bonds with conversion options and embedded floor on the interest rate as financial liabilities at FVTPL. At the date of initial recognition and at the end of subsequent reporting periods, the convertible bonds are measured at fair value with changes in fair value of these financial liabilities that is attributable to changes in the credit risk of these liabilities will be recognised in other comprehensive income with the remaining fair value change recognised in profit or loss.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. Significant Accounting Policies (continued)

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- 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.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognised using the effective interest method.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

4. Significant Accounting Policies (continued)

Employee benefits (continued)

(b) Pension obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The assets of the MPF Scheme are held separately from those of the Group, and are in funds under the control of trustees. Contributions are made based on a percentage of the participating employees' relevant income from the Group and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. When an employee leaves the MPF Scheme, the mandatory contributions are fully vested with the employee.

According to the relevant laws and regulations in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions.

Employees of the subsidiaries in the United States of America (the "USA") are members of pension schemes operated by the respective governments and private sectors. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes.

(c) Termination benefits

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

Share-based payment

The Group issues equity-settled share-based payments to certain director and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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, until such time as 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 eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

4. Significant Accounting Policies (continued)

Taxation (continued)

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

PRC land appreciation tax ("LAT")

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 land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for the PRC enterprise income tax purposes.

Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

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

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4. Significant Accounting Policies (continued)

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets except investment properties, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

4. Significant Accounting Policies (continued)

Impairment of assets (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Non-current assets held for sale

Non-current assets or disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

Provisions and contingent liabilities

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

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

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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5. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the immediate holding company, ultimate controlling party and the Group's bankers at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to the consolidated financial statements.

(b) Classification of properties as investment properties or properties held for sales

The Group develops properties held for sales and properties held to earn rentals and/or for capital appreciation. Judgement is made by the management in determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention of holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development for sales included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of construction of the properties, the properties under development for sales are transferred to completed properties held for sales and are stated at lower of cost and net realisable value, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

(c) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the Directors have rebutted the presumption that investment properties measured using the fair value model are recovered through sale.

5. Critical Judgements and Key Estimates (continued)

Key sources of estimation uncertainty

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

(a) Fair values of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(b) Allowance for properties under development for sales

The management estimates the net realisable value for properties under development for sales. Significant judgement is required by the management in determining the prices at which the properties will be sold as the property prices in the PRC may be, from time-to-time, affected by macroeconomic control measures executed by the PRC government.

(c) LAT

LAT in the PRC 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 land costs, borrowing costs and all other property development expenditures.

The Group's subsidiaries engaging in the properties development in the PRC are subject to LAT. However, the Group has not finalised its LAT calculation and tax payments with local tax bureau. Accordingly, significant judgements are 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 recognised these liabilities based on the management's best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated statement of profit or loss and the provision of LAT in the period in which such determination is made.

Notes to the Consolidated Financial Statements

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6. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2019, if the HK\$ had weakened 1 per cent against the Euro with all other variables held constant, consolidated profit after tax for the year would have been nil (2018: HK\$13,413,000) lower, arising mainly as a result of the foreign exchange loss on borrowings denominated in Euro. If the HK\$ had strengthened 1 per cent against the Euro with all other variables held constant, consolidated profit after tax for the year would have been nil (2018: HK\$13,413,000) higher, arising mainly as a result of the foreign exchange gain on borrowings denominated in Euro.

As at 31 December 2019, if the HK\$ had weakened 1 per cent against the United States dollars ("US\$") with all other variables held constant, consolidated profit after tax for the year would have been HK\$2,591,000 (2018: HK\$4,113,000) lower, arising mainly as a result of the foreign exchange loss on borrowings denominated in US\$. If the HK\$ had strengthened 1 per cent against the US\$ with all other variables held constant, consolidated profit after tax for the year would have been HK\$2,591,000 (2018: HK\$4,113,000) higher, arising mainly as a result of the foreign exchange gain on borrowings denominated in US\$.

(b) Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure the adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

6. Financial Risk Management (continued)

(b) Credit risk (continued)

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- internal credit rating;
- external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12-month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

All of these loans are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

The Group also had concentration risk on bank deposits. The Directors consider the credit risk for bank deposits is limited because the counterparties are financial institutions with high credit ratings.

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6. Financial Risk Management (continued)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2019				
Trade and other payables and accruals	3,089,458	–	–	–
Bank and other borrowings	5,597,574	566,564	5,520,134	546,955
Convertible bonds	395,526	–	–	–
Senior notes	109,327	–	–	–
Bonds	52,436	–	–	–
Lease liabilities	3,157	–	–	–
Convertible securities	–	–	–	182,069
Financial guarantee contracts issued – maximum amount guaranteed	1,556,667	–	–	–

At 31 December 2018

Trade and other payables and accruals	3,193,398	–	–	–
Bank and other borrowings	2,311,446	3,383,050	5,445,912	2,288,872
Convertible bonds	401,193	–	–	–
Senior notes	107,207	–	–	–
Bonds	52,436	–	–	–
Convertible securities	–	–	–	188,171
Financial guarantee contracts issued – maximum amount guaranteed	1,560,682	–	–	–

6. Financial Risk Management (continued)

(d) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-bearing borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

As at 31 December 2019, if floating interest rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been HK\$35,103,000 (2018: HK\$34,899,000) higher/lower, arising mainly as a result of lower/higher interest expense on bank and other borrowings and the interest capitalised to the Group's properties under development for sales or investment properties under construction would decrease/increase by HK\$6,406,000 (2018: HK\$6,860,000).

(e) Categories of financial instruments

	2019 HK\$'000	2018 HK\$'000
Financial assets:		
Investment at FVTPL:		
– Mandatorily measured	2,409	4,075
Financial assets at amortised cost (including cash and cash equivalents)	330,581	2,099,659
Financial liabilities:		
Financial liabilities at FVTPL:		
– Designated as such upon initial recognition	386,117	380,363
Financial liabilities at amortised cost	13,242,269	15,197,220

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

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7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy:

At 31 December 2019

Description	Fair value measurements using:			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:				
Assets				
Investment at FVTPL				
Listed equity securities in India	2,409	–	–	2,409
Investment properties				
Commercial – the PRC	–	–	19,977,883	19,977,883
Liabilities				
Convertible bonds	–	–	(386,117)	(386,117)
Total recurring fair value measurements	2,409	–	19,591,766	19,594,175

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For the year ended 31 December 2019

7. Fair Value Measurements (continued)

(a) Disclosures of level in fair value hierarchy: (continued)

At 31 December 2018

Description	Fair value measurements using:			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:				
Assets				
Investment at FVTPL				
Listed equity securities in India	4,075	–	–	4,075
Investment properties				
Commercial – the PRC	–	–	20,435,251	20,435,251
Commercial – the USA	–	–	223,269	223,269
	–	–	20,658,520	20,658,520
Liabilities				
Convertible bonds	–	–	(380,363)	(380,363)
Total recurring fair value measurements	4,075	–	20,278,157	20,282,232
Non-recurring fair value measurements:				
Non-current assets held for sale				
Investment properties				
Commercial – the PRC	–	–	373,461	373,461

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

7. Fair Value Measurements (continued)

(b) Reconciliation of assets and liabilities measured at fair value based on level 3:

Description	Investment properties HK\$'000	Convertible bonds HK\$'000	Total HK\$'000
At 1 January 2019	21,031,981	(380,363)	20,651,618
Total gains or losses recognised			
– in profit or loss [#]	227,593	(38,339)	189,254
– in other comprehensive income	–	26,918	26,918
Additions	100,364	–	100,364
Repayment	–	5,667	5,667
Disposal of non-current assets held for sale	(373,461)	–	(373,461)
Disposal of a subsidiary	(223,655)	–	(223,655)
Transfer to properties under development for sales	(407,776)	–	(407,776)
Effect of foreign exchange difference	(377,163)	–	(377,163)
At 31 December 2019	19,977,883	(386,117)	19,591,766
[#] Include gains or losses for assets/liabilities held at end of reporting period	227,593	(38,339)	189,254
At 1 January 2018	20,872,122	(451,873)	20,420,249
Total gains or losses recognised			
– in profit or loss [#]	1,387,700	(78,799)	1,308,901
– in other comprehensive income	–	29,236	29,236
Additions	115,933	–	115,933
Repayment	–	121,073	121,073
Disposals	(16,075)	–	(16,075)
Transfer to properties under development for sales	(237,681)	–	(237,681)
Effect of foreign exchange difference	(1,090,018)	–	(1,090,018)
At 31 December 2018	21,031,981	(380,363)	20,651,618
[#] Include gains or losses for assets/liabilities held at end of reporting period	1,377,363	(37,726)	1,339,637

7. Fair Value Measurements (continued)

(b) Reconciliation of assets and liabilities measured at fair value based on level 3: (continued)

The total gains or losses recognised in other comprehensive income are presented in investment valuation gain in the consolidated statement of comprehensive income.

The total gains or losses recognised in profit or loss including those for assets/liabilities held at end of reporting period are presented in other income and finance costs in the consolidated statement of profit or loss.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to the Board of Directors (the "Board") for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and the Board at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Notes to the Consolidated Financial Statements

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7. Fair Value Measurements (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (continued)

Level 3 fair value measurements

At 31 December 2019

Description	Valuation technique	Unobservable inputs	Range/weighted average price	Effect on fair value for increase of inputs
Investment properties located at Lerthai City in Tangshan of the PRC	Income capitalisation approach	Market yield	2.75% – 5.50%	Decrease
		Market rent per month	RMB41.4 – RMB145.2 per square metre	Increase
Investment properties under construction located in Handan of the PRC	Residual method	Market yield	6.00%	Decrease
		Market rent per month	RMB18.5 – RMB185.1 per square metre	Increase
		Expected developer's profit	5.00% – 15.00%	Decrease
		Construction costs to complete	RMB76,000,000	Decrease
Investment properties located in Shijiazhuang of the PRC	Income capitalization approach	Market yield	2.00% – 4.00%	Decrease
		Market rent per month	RMB44.9 – RMB660.0 per square metre	Increase
Commercial property units located at Oceancity in Tangshan of the PRC – completed properties	Income capitalization approach	Market yield	4.50%	Decrease
		Market rent per month	RMB55.5 – RMB810.0 per square metre	Increase
Commercial property units located in Tangshan of the PRC – for future development	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	RMB1,900 per square metre	Increase
Convertible bonds	Binomial Option Pricing Model	Discount rate	10.15%	Decrease

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7. Fair Value Measurements (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (continued)

Level 3 fair value measurements (continued)

At 31 December 2018

Description	Valuation technique	Unobservable inputs	Range/weighted average price	Effect on fair value for increase of inputs
Completed investment properties located in the USA – retail	Income capitalisation approach	Capitalisation rate	6.67%	Decrease
		Market rent	Market rent: US\$15.6 – US\$22.2 per square feet per year	Increase
Investment properties located at Lerthai City in Tangshan of the PRC	Income capitalisation approach	Market yield	2.75% – 5.50%	Decrease
		Market rent per month	RMB39.6 – RMB141.0 per square metre	Increase
Investment properties under construction located in Handan of the PRC	Residual method	Market yield	6.00%	Decrease
		Market rent per month	RMB18 – RMB192 per square metre	Increase
		Expected developer's profit	5.00% – 15.00%	Decrease
		Construction costs to complete	RMB229,000,000	Decrease
Investment properties located in Shijiazhuang of the PRC	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	Retail portion: RMB17,774 per square metre; Office and residential portion: RMB22,466 per square metre	Increase
Commercial property units located at Oceancity in Tangshan of the PRC – completed properties	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	RMB25,310 per square metre	Increase
Commercial property units located in Tangshan of the PRC – for future development	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	RMB1,870 per square metre	Increase
Convertible bonds	Binomial Option Pricing Model	Discount rate	11.09% – 11.27%	Decrease

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8. Revenue

Revenue represents the income from property development, property leasing and provision of comprehensive property management services, net of other sales related taxes and after deduction of any trade discounts.

Revenue represents the aggregate amounts received and receivable, analysed as follows:

	2019 HK\$'000	2018 HK\$'000
Sales of properties	438,380	174,131
Revenue from property management service	271,034	335,267
Revenue from contracts with customers	709,414	509,398
Rental income	396,874	400,521
Total revenue	1,106,288	909,919
Disaggregation of revenue from contracts with customers:		
Timing of revenue recognition		
At a point in time	438,380	174,131
Over time	271,034	335,267
Total	709,414	509,398

Sales of properties

The Group develops and sells residential and commercial properties to the customers. Sales of a property is recognised when control of the property has transferred, being when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

The Group did not grant any credit terms to its customers. For all customers, deposits are required. Deposits received are recognised as a contract liability.

Revenue from property management service

The Group provides property management service to the customers. Revenue from property management service is recognised when the property management service is rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the service.

The Group did not grant any credit terms to its customers.

Rental income

The Group leases out investment properties to the customers. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group did not grant any credit terms to its customers.

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9. Segment Information

Information reported to the Board, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance is based on real estate business in different geographical locations. This is also the basis upon which the Group is organised and managed. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segment based on information reported to the CODM are as follows: (i) Real estate business in Tangshan, the PRC; (ii) Real estate business in Shijiazhuang, the PRC; (iii) Real estate business in Handan, the PRC; (iv) Real estate business in West Covina, the USA; and (v) Real estate business in Anaheim, the USA.

Segment revenue and results

The following is an analysis of the Group’s revenue and results by reportable and operating segments:

	Segment revenue		Segment profit/(loss)	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Real estate business in				
Tangshan, the PRC	219,949	428,749	153,803	501,101
Shijiazhuang, the PRC	596,599	465,472	376,374	1,072,082
Handan, the PRC	287,988	–	251,698	366,678
West Covina, the USA	1,752	15,698	1,010	(15,994)
Anaheim, the USA	–	–	–	(1,648)
	1,106,288	909,919	782,885	1,922,219
Unallocated amounts:				
Gain on voluntary surrender of properties			189,711	–
Other income and gains, net			45,938	73,551
Gain on disposal of a subsidiary			8,460	–
Finance costs			(736,879)	(791,973)
Unallocated corporate expenses, net			(48,281)	(86,637)
Profit before tax			241,834	1,117,160

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9. Segment Information (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	2019 HK\$'000	2018 HK\$'000
Segment assets		
Real estate business in		
Tangshan, the PRC	8,254,510	7,676,839
Shijiazhuang, the PRC	11,559,469	11,795,556
Handan, the PRC	4,106,931	4,755,032
West Covina, the USA	–	221,742
Anaheim, the USA	–	243,707
Total segment assets	23,920,910	24,692,876
Unallocated amounts:		
Pledged bank deposits	28,483	1,743,335
Deferred tax asset	6,167	6,199
Restricted bank balances	4	11,135
Cash and bank balances	127,828	184,107
Unallocated corporate assets	11,364	37,693
Consolidated total assets	24,094,756	26,675,345
Segment liabilities		
Real estate business in		
Tangshan, the PRC	1,964,356	1,735,661
Shijiazhuang, the PRC	715,811	1,026,975
Handan, the PRC	2,220,357	2,349,794
West Covina, the USA	–	2,496
Anaheim, the USA	–	588
Total segment liabilities	4,900,524	5,115,514
Unallocated amounts:		
Tax payable	92,743	27,000
Bank and other borrowings	9,944,332	11,808,090
Convertible bonds	386,117	380,363
Senior notes	109,327	100,226
Bonds	42,485	39,062
Convertible securities	56,667	56,444
Deferred tax liabilities	2,986,009	2,994,089
Unallocated corporate liabilities	26,343	62,320
Consolidated total liabilities	18,544,547	20,583,108

9. Segment Information (continued)

Segment assets and liabilities (continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than pledged bank deposits, deferred tax asset, restricted bank balances, cash and bank balances; and
- all liabilities are allocated to operating segments other than tax payable, bank and other borrowings, convertible bonds, senior notes, bonds, convertible securities and deferred tax liabilities.

Other segment information

2019

	Real estate business in						Consolidated HK\$'000
	Tangshan, the PRC HK\$'000	Shijiazhuang, the PRC HK\$'000	Handan, the PRC HK\$'000	West Covina, the USA HK\$'000	Anaheim, the USA HK\$'000	Unallocated HK\$'000	
Amounts include in the measure of segment profit or loss or segment assets:							
Interest revenue	110	68,128	86	-	-	5,648	73,972
Depreciation	(2,266)	(880)	(260)	(426)	-	(3,165)	(6,997)
Increase/(decrease) in fair value of investment properties	115,587	(23,830)	135,836	-	-	-	227,593
Additions to property, plant and equipment	7,687	19	-	-	-	52	7,758
Additions to investment properties	11,592	80,520	8,252	-	-	-	100,364

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

9. Segment Information (continued)

Other segment information (continued)

2018

	Real estate business in						Consolidated HK\$'000
	Tangshan, the PRC HK\$'000	Shijiazhuang, the PRC HK\$'000	Handan, the PRC HK\$'000	West Covina, the USA HK\$'000	Anaheim, the USA HK\$'000	Unallocated HK\$'000	
Amounts include in the measure of segment profit or loss or segment assets:							
Interest revenue	1,273	21,232	3,814	–	–	7	26,326
Depreciation	(5,319)	(1,956)	(546)	–	–	(2,898)	(10,719)
Increase/(decrease) in fair value of investment properties	1,193,663	112,904	106,621	(25,488)	–	–	1,387,700
Additions to property, plant and equipment	201	–	7	–	–	149	357
Additions to investment properties	20,090	8,911	68,091	18,841	–	–	115,933

9. Segment Information (continued)

Geographical information

The Group's operations are located in Hong Kong, the PRC and the USA.

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Hong Kong	–	–	3,092	2,254
The PRC	1,104,536	894,221	20,199,799	20,620,074
The USA	1,752	15,698	–	223,269
	1,106,288	909,919	20,202,891	20,845,597

Non-current assets exclude pledged bank deposits, deferred tax asset and other non-current assets.

No revenue is derived from a single customer of the Group which amounted for over 10% of the Group's total revenue (2018: Nil).

10. Gain on Voluntary Surrender of Properties

	2019 HK\$'000	2018 HK\$'000
Income received from voluntary surrender of properties	580,875	–
Less: Cost of voluntary surrender of properties	(391,164)	–
	189,711	–

During the year, Shijiazhuang Lerthai Real Estate Development Company Limited ("SJZ Property Development"), a wholly-owned subsidiary of the Company, voluntarily surrendered certain investment properties held by it to creditors, to offset the construction fees and accumulated interests payable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

11. Other Income and Gains, Net

	2019 HK\$'000	2018 HK\$'000
Decrease in fair value of convertible bonds designated at FVTPL	(3,224)	(35,943)
(Decrease)/increase in fair value of investment at FVTPL	(1,543)	350
Exchange (loss)/gain, net	(3,661)	120,275
Loss on disposal of property, plant and equipment	(246)	(12,652)
Penalties for deferred settlement (Note)	–	(53,270)
Reversal of penalties for deferred settlement	4,105	–
Others	50,507	54,791
	45,938	73,551

Note: These represent the penalties required by certain suppliers as the Group failed to make payment according to the agreed settlement schedule for certain construction cost payables.

12. Finance Costs

	2019 HK\$'000	2018 HK\$'000
Interest on:		
– bank and other borrowings	702,453	694,438
– convertible bonds	35,113	42,856
– senior notes	13,564	13,929
– bonds	3,423	3,391
– lease liabilities	427	–
– convertible securities	6,461	6,148
– amount due to a former shareholder of a subsidiary	–	3,025
– loans from related companies	–	45,358
	761,441	809,145
Management fee to asset-backed security (“ABS”) scheme manager (Note)	49,480	49,522
	810,921	858,667
Less: Amount capitalised to investment properties under construction and properties under development for sales	(74,042)	(66,694)
	736,879	791,973

Note: Management fee to ABS scheme manager is charged at 1.3% (2018: 1.3%) of ABS in issue per annum.

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For the year ended 31 December 2019

13. Income Tax Expense

	2019 HK\$'000	2018 HK\$'000
Current tax – Hong Kong Profits Tax		
– Overprovision in prior years	(579)	–
Current tax – the PRC		
– PRC Enterprise Income Tax (“EIT”)	185	24,958
– LAT	50,572	2,746
Deferred tax (Note 34)	50,757	27,704
	54,950	379,779
	105,128	407,483

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profit of the companies incorporated in Hong Kong. No provision for income tax has been made as the Company and subsidiaries in Hong Kong incurred tax losses.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Group’s PRC subsidiaries is 25% (2018: 25%).

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from transfer of real estate property in the PRC effective 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 of sales of properties less deductible expenditures including land costs, borrowings costs and all property development expenditures.

The subsidiaries in the USA are subject to Federal Income Tax of 21% (2018: 21%) and State Tax of 8.8% (2018: 8.8%) on the taxable income. Certain subsidiaries are limited liability companies which are by default disregarded entities (i.e. viewed as divisions of the holding company) and taxed as part of their holding company for federal and state tax purposes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13. Income Tax Expense (continued)

The reconciliation between the income tax expense and the product of profit before tax multiplied by EIT rate is as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before tax	241,834	1,117,160
Tax at EIT rate of 25% (2018: 25%)	60,459	279,290
LAT	50,572	2,746
Income tax effect of LAT of 25% (2018: 25%)	(12,643)	(687)
Tax effect of income not taxable for tax purpose	(18,232)	(26,360)
Tax effect of expenses not deductible for tax purpose	43,602	68,395
Tax effect of tax losses not recognised	45,583	85,158
Tax effect of utilisation of tax losses not previously recognised	(88,427)	–
Overprovision in prior years	(579)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	24,793	(1,059)
Income tax expense	105,128	407,483

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

14. Profit for the Year

The Group's profit for the year is stated after charging/(crediting) the following:

	2019 HK\$'000	2018 HK\$'000
Employee benefits expenses including Directors' and chief executive's emoluments (Note 15):		
– Salaries, bonuses and allowances	63,238	67,606
– Retirement benefits cost	7,178	10,142
Total employee benefits expenses	70,416	77,748
Less: Amount capitalised to investment properties under construction and properties under development for sales	(7,360)	(12,077)
	63,056	65,671
Auditor's remuneration	2,250	1,600
Operating lease payments	–	9,193
Cost of properties held for sales recognised as an expense	289,925	77,004
Depreciation	6,997	10,719
Gross rental and management fee income from investment properties	(667,908)	(735,788)
Less: Direct operating expenses incurred for investment properties that generated rental and management fee income	138,403	163,426
	(529,505)	(572,362)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

Name of Directors	2019			Total HK\$'000
	Fees HK\$'000	Salaries, bonuses and allowances HK\$'000	Retirement benefits cost HK\$'000	
<i>Executive directors:</i>				
Mr. Yang (Note a)	180	6,729	18	6,927
Ms. Zhang Yan (Note b)	180	2,516	18	2,714
<i>Non-executive director:</i>				
Mr. Yang Shao Ming (Note c)	180	–	–	180
<i>Independent non-executive directors:</i>				
Mr. Wan Kah Ming (Note d)	178	–	–	178
Mr. Wong Hon Kit (Note e)	180	–	–	180
Mr. Wong Tat Keung (Note f)	180	–	–	180
	1,078	9,245	36	10,359

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For the year ended 31 December 2019

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

(a) Directors' and chief executive's emoluments (continued)

Name of Directors	2018			Total HK\$'000
	Fees HK\$'000	Salaries, bonuses and allowances HK\$'000	Retirement benefits cost HK\$'000	
<i>Executive directors:</i>				
Mr. Yang (Note a)	360	3,281	18	3,659
Ms. Zhang Yan (Note b)	270	1,316	18	1,604
Mr. Yang Shao Xing Max (Note g)	357	1,009	79	1,445
<i>Non-executive director:</i>				
Mr. Yang Shao Ming (Note c)	3	–	–	3
<i>Independent non-executive directors:</i>				
Mr. Wan Kah Ming (Note d)	3	–	–	3
Mr. Wong Hon Kit (Note e)	3	–	–	3
Mr. Wong Tat Keung (Note f)	15	–	–	15
Mr. Hung Ka Hai Clement (Note h)	270	–	–	270
Mr. Lo Wai Hung (Note i)	330	–	–	330
Ms. Shek Pui Michelle (Note j)	360	–	–	360
	1,971	5,606	115	7,692

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

(a) Directors' and chief executive's emoluments (continued)

Notes:

- (a) Mr. Yang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.
- (b) Ms. Zhang Yan was appointed as an executive director on 1 April 2018 and was appointed as the co-chief executive officer of the Company on 27 December 2018.
- (c) Mr. Yang Shao Ming was appointed as a non-executive director on 27 December 2018.
- (d) Mr. Wan Kah Ming was appointed as an independent non-executive director on 27 December 2018 and resigned as an independent non-executive director on 27 December 2019.
- (e) Mr. Wong Hon Kit was appointed as an independent non-executive director on 27 December 2018.
- (f) Mr. Wong Tat Keung was appointed as an independent non-executive director on 30 November 2018.
- (g) Mr. Yang Shao Xing Max resigned as an executive director on 27 December 2018.
- (h) Mr. Hung Ka Hai Clement was resigned as an independent non-executive director on 30 September 2018.
- (i) Mr. Lo Wai Hung was resigned as an independent non-executive director on 30 November 2018.
- (j) Ms. Shek Pui Michelle resigned as an independent non-executive director on 31 December 2018.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above were for his services as Directors.

The independent non-executive directors' emoluments shown above were for their services as Directors.

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

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

(b) Directors' material interests in transactions, arrangements or contracts

- (i) On 16 May 2013, Mr. Yang, China Lerthai and the Company entered into a deed of non-completion (the "Deed") pursuant to which subject to the exceptions set out in the Deed, (a) Mr. Yang, China Lerthai and their respective associates will not, directly or indirectly, carry on, engage, invest or hold any right or interest or be involved in the real estate development business; and (b) in the event any of Mr. Yang, China Lerthai or their associates becomes aware of any new business opportunity relating to the real estate development business, Mr. Yang and China Lerthai must first offer to make available to the Board for consideration, and will not invest in such new business opportunity unless it is declined by the Board in accordance with the terms of the Deed. The Deed will expire on the earlier of (a) the day on which the shares of the Company cease to be listed on the Stock Exchange; and (b) the day on which China Lerthai, Mr. Yang and any of its/his associates, taken as a whole, cease to own either directly or indirectly, in aggregate, 30% (or such other percentage as may from time to time be specified in the Listing Rules as a controlling shareholder of a listed issue) or more of the then issued share capital of the Company.

Details of the Deed are set out in the Company's announcement dated 16 May 2013.

- (ii) Pursuant to the loan agreements dated 12 June 2017 and 20 April 2018 and the supplement loan agreements dated 14 August 2015, 3 November 2017 and 30 June 2018, Global Elite Global Investments Limited, a related company controlled by Mr. Yang provides unsecured loan facility and made loans to the Group, details of which are set out in notes 38 and 43 to the consolidated financial statements.

Pursuant to the loan agreement dated 20 April 2018 and the supplement loan agreement dated 30 June 2018, Lerthai Investment Group Limited, a related company controlled by Mr. Yang provides unsecured loan facility and made loans to the Group, details of which are set out in notes 38 and 43 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

(c) Five highest paid employees

The five highest paid employees of the Group during the year included two directors (2018: two directors), details of whose remuneration are set out in note 15(a) above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, bonuses and allowances	5,936	5,180
Retirement benefits cost	54	142
	5,990	5,322

The number of the highest paid employees who are not the Directors and whose remuneration falls within the following bands:

	Number of individuals	
	2019	2018
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	1
	3	3

16. Dividend

The Directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

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17. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	2019 HK\$'000	2018 HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	136,706	709,677
Effect of diluted potential ordinary shares:		
Interest on convertible securities	6,461	6,148
Earnings for the purpose of diluted earnings per share	143,167	715,825
Number of shares ('000 shares)	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	742,519	455,942
Effect of share options	11,894	6,392
Effect of conversion of convertible securities	485,135	506,264
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,239,548	968,598

Notes to the Consolidated Financial Statements

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18. Investment Properties

	Completed investment properties in the USA HK\$'000	Completed investment properties in the PRC HK\$'000	Investment properties under construction in the PRC HK\$'000	Leasehold land for future development HK\$'000	Total HK\$'000
At fair value					
At 1 January 2018	229,340	18,232,871	2,258,849	151,062	20,872,122
Additions	18,841	8,911	88,181	–	115,933
Disposals	–	(16,075)	–	–	(16,075)
Transfer to properties under development for sales	–	16,375	(254,056)	–	(237,681)
Change in fair value included in profit or loss	(25,488)	1,156,305	250,824	6,059	1,387,700
Effect of foreign exchange difference	576	(965,592)	(117,152)	(7,850)	(1,090,018)
	223,269	18,432,795	2,226,646	149,271	21,031,981
Less: Non-current assets held for sale (Note 25)	–	(373,461)	–	–	(373,461)
At 31 December 2018 and 1 January 2019	223,269	18,059,334	2,226,646	149,271	20,658,520
Additions	–	92,112	8,252	–	100,364
Disposal of a subsidiary	(223,655)	–	–	–	(223,655)
Transfer to properties under development for sales	–	(56,203)	(351,573)	–	(407,776)
Change in fair value included in profit or loss	–	84,274	140,938	2,381	227,593
Effect of foreign exchange difference	386	(336,395)	(38,354)	(2,800)	(377,163)
At 31 December 2019	–	17,843,122	1,985,909	148,852	19,977,883

All of the Group's property interests held to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2019 have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited (2018: RHL Appraisal Limited and Continental Realty Advisors Valuation Services Group), independent qualified professional valuers not connected to the Group.

18. Investment Properties (continued)

The values of the completed investment properties are derived from the capitalisation of net income method with due allowance for the reversionary income.

For investment properties under construction located in the PRC that are measured at fair value, residual method of valuation is adopted. The value is based on the development potential of the properties as if they were completed in accordance with the existing development controls at the date of valuation. The value has also taken into consideration all costs of development and allowance of profit required for the development, which duly reflected the risks associated with the development.

The Group's investment properties with an aggregate carrying amount of HK\$11,190,412,000, HK\$353,672,000, HK\$7,701,025,000 and HK\$142,289,000 (2018: HK\$11,416,265,000, HK\$349,886,000, HK\$7,786,814,000 and HK\$765,356,000) as at 31 December 2019 were pledged to secure bank and other borrowings granted to the Group, pledged to secured borrowings obtained by related companies, pledged to secured borrowings obtained by unrelated companies and restricted in rights respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

19. Property, Plant and Equipment

	Buildings HK\$'000	Furniture and fixtures and computer equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 January 2018	25,644	27,004	43,916	11,525	162	269	108,520
Additions	-	357	-	-	-	-	357
Transfer	-	254	-	-	-	(254)	-
Disposals	-	(3,215)	(13,641)	(2,170)	-	-	(19,026)
Effect of foreign exchange difference	(1,383)	(3,779)	(2,176)	(360)	(7)	(15)	(7,720)
At 31 December 2018 and 1 January 2019	24,261	20,621	28,099	8,995	155	-	82,131
Additions	-	7,758	-	-	-	-	7,758
Disposal of a subsidiary	-	(2,280)	(832)	(3,045)	-	-	(6,157)
Disposals	-	(3,256)	(27,158)	(3,600)	-	-	(34,014)
Effect of foreign exchange difference	(1,682)	(1,293)	(109)	(50)	(10)	-	(3,144)
At 31 December 2019	22,579	21,550	-	2,300	145	-	46,574
Depreciation							
At 1 January 2018	6,098	18,310	28,621	8,830	105	-	61,964
Charge for the year	2,083	5,958	1,411	1,219	48	-	10,719
Disposals	-	(3,114)	(1,158)	(2,102)	-	-	(6,374)
Effect of foreign exchange difference	19	(2,757)	(1,390)	(311)	(9)	-	(4,448)
At 31 December 2018 and 1 January 2019	8,200	18,397	27,484	7,636	144	-	61,861
Charge for the year	952	2,862	307	162	2	-	4,285
Disposal of a subsidiary	-	(1,630)	(618)	(2,487)	-	-	(4,735)
Disposals	-	(3,121)	(27,122)	(3,220)	-	-	(33,463)
Effect of foreign exchange difference	(720)	(525)	(51)	(27)	(5)	-	(1,328)
At 31 December 2019	8,432	15,983	-	2,064	141	-	26,620
Carrying amount							
At 31 December 2019	14,147	5,567	-	236	4	-	19,954
At 31 December 2018	16,061	2,224	615	1,359	11	-	20,270

As at 31 December 2019, the carrying amount of property, plant and equipment pledged as security for the Group's bank and other borrowings and for the related parties' bank borrowings amounted to HK\$14,147,000 (2018: HK\$16,061,000).

Notes to the Consolidated Financial Statements

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20. Leases and Right-of-Use Assets

Disclosures of lease-related items:

At 31 December	2019 HK\$'000
Right-of-use assets – Building	2,712
Lease commitments of short-term leases	38

The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:

At 31 December	2019 HK\$'000
Less than 1 year	3,157

Year ended 31 December	2019 HK\$'000
Depreciation charge of right-of-use assets	2,712
Interest element of lease payments	427
Expenses related to short-term leases	292
Expenses related to leases of low-value assets that are not short-term leases	81
Total cash outflow for leases	3,458

Lease agreement is made for fixed period of three years. Lease term is negotiated on an individual basis, does not impose any covenant and the leased asset may not be used as security for borrowing purposes.

21. Deposit and Prepayment

	2019 HK\$'000	2018 HK\$'000
Prepayment under ABS scheme (Note a)	79,417	–
Deposit (Note b)	122,925	125,246
	202,342	125,246

Notes:

- (a) According to the relevant agreements under the ABS scheme, there are RMB71,067,000 (equivalent to HK\$79,417,000) retained by the ABS scheme manager for various operating expenses to be incurred.
- (b) According to the relevant agreements under the ABS scheme, a deposit of RMB110,000,000 (equivalent to HK\$122,925,000) (2018: RMB110,000,000 (equivalent to HK\$125,246,000)) shall be retained by the ABS scheme manager to secure the fixed return and principal amount payable to the class A securities holders at any time during the term of the ABS.

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22. Pledged Bank Deposits, Restricted Bank Balances and Cash and Bank Balances

Pledged bank deposits

	2019 HK\$'000	2018 HK\$'000
In relation to		
Bank and other borrowings of the Group (Note a)	–	1,709,399
Mortgage loans applied by customers (Note b)	28,483	33,936
	28,483	1,743,335
Less: Amount shown under non-current assets	(21,960)	(1,736,463)
Amount shown under current assets	6,523	6,872

Notes:

- (a) As at 31 December 2019, no deposits have been pledged for securing the bank borrowings obtained by a subsidiary of the Company and thus, no interest receivables was arisen. As at 31 December 2018, deposits amounting to HK\$1,709,339,000 have been pledged for security the bank borrowings obtained by a subsidiary of the Company and thus, are classified as non-current assets according to maturity dates of the borrowings. During the year ended 31 December 2018, interest receivables of HK\$41,561,000 arising from this deposit are classified as non-current assets.
- (b) The pledged bank deposits are pledged for the guarantees given to banks with respect to loans procured by the purchasers of the Group's properties, and secured for the mortgage loans applied by the customers and will be released upon the banks obtained the building ownership certificate from the customers as a pledge for the mortgage loans. Details of which are set out in note 41 to the consolidated financial statements.

Restricted bank balances

Restricted bank balances of HK\$4,000 (2018: HK\$11,135,000) carry interest at market rate of 0.35% (2018: 0.35%) per annum and can only be applied to settle compensation from litigation loss cases (2018: can be applied to settle the principal and interest of bank and other borrowings).

As at 31 December 2019, the cash and bank balances of the Group denominated in RMB amounted to HK\$106,898,000 (2018: HK\$166,337,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

Notes to the Consolidated Financial Statements

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23. Properties under Development for Sales and Properties Held for Sales

(a) Properties under development for sales

	2019 HK\$'000	2018 HK\$'000
Cost		
At 1 January	2,655,213	2,247,780
Additions	511,936	279,824
Transfer from investment properties	407,776	237,681
Transfer to properties held for sales	(251,365)	–
Disposal of a subsidiary	(244,128)	–
Effect of foreign exchange difference	(56,341)	(110,072)
At 31 December	3,023,091	2,655,213
Properties under development for sales of which:		
– Expected to be completed within 1 year	3,023,091	2,411,506
– Expected to be completed over 1 year	–	243,707
	3,023,091	2,655,213

As at 31 December 2019, the Group's properties under development for sales of HK\$655,931,000 (2018: HK\$841,513,000) were pledged to secure bank borrowings granted to the Group and were restricted in rights.

(b) Properties held for sales

The Group's properties held for sales are situated in the PRC. All the properties held for sales are stated at lower of cost and net realisable value. In the opinion of the Directors, properties held for sales would be realised within 12 months.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

24. Trade and Other Receivables, Deposits and Prepayments

	2019 HK\$'000	2018 HK\$'000
Trade receivables	106,397	71,296
Prepayment of other PRC taxes	145,802	145,329
Prepayment for purchase of construction materials	2,820	180
Prepayment for construction costs	45,324	30,277
Prepayment under ABS scheme	–	80,917
Other receivables, deposits and prepayments	86,041	113,956
	386,384	441,955

Trade receivables include consideration in respect of properties sold and properties lease. Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Properties lease receivables represent rental receivables due from the tenants and property manager appointed by the Group. Rental and management fee from tenants are payable in accordance with the terms of relevant agreements. Pursuant to the agreement between the property manager and the Group, the property manager shall pay the rental collected on behalf of the Group to the Group within 30 days (2018: within 30 days).

The aging analysis of trade receivables, based on the date of revenue recognition or invoice date of rental and service, is as follows:

	2019 HK\$'000	2018 HK\$'000
Within 30 days	18,313	63,761
Over 30 days but within 1 year	52,736	521
Over 1 year	35,348	7,014
	106,397	71,296

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

24. Trade and Other Receivables, Deposits and Prepayments (continued)

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Within 30 days past due	31-60 days past due	61-120 days past due	Over 120 days past due	Total
At 31 December 2019						
Weighted average expected loss rate	0%	0%	0%	0%	0%	0%
Receivable amount (HK\$'000)	6,355	11,958	17,262	25,047	45,775	106,397
Loss allowance (HK\$'000)	–	–	–	–	–	–
At 31 December 2018						
Weighted average expected loss rate	0%	0%	0%	0%	0%	0%
Receivable amount (HK\$'000)	52,933	10,828	105	416	7,014	71,296
Loss allowance (HK\$'000)	–	–	–	–	–	–

25. Non-Current Assets Held for Sale

Pursuant to the ruling made by Hebei Shijiazhuang Intermediate People's Court on 17 July 2018, SJZ Property Development would transfer certain investment properties held by it to a creditor, China Railway Construction Group Co., Limited, to offset the construction fees and accumulated interests payable of RMB418,000,000 due to the creditor. The fair value of the captioned investment properties as at 31 December 2018 was RMB328,000,000 (equivalent to HK\$373,461,000). As at 31 December 2018, the SJZ Property Development was in the process of transfer of these investment properties. The assets, which are expected to be sold within 12 months, had been classified as non-current assets held for sale and are presented separately in the consolidated statement of financial position.

During the year ended 31 December 2019, these investment properties have been completed the transfer and the gain have been included in the "Gain on voluntary surrender of properties" in note 10 to the consolidated financial statements.

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26. Trade and Other Payables and Accruals

	2019 HK\$'000	2018 HK\$'000
Construction cost payables	417,249	1,131,595
Accrued construction costs	2,107,601	1,303,791
Advanced receipts from tenants	113,435	38,386
Deposits received from suppliers/contractors on contracts tendering	104,919	11,174
Other tax payables	35,316	23,680
Penalties payable (Note)	45,599	50,251
Penalty interest payables	122,522	118,211
Rental deposits	50,440	86,034
Other payables and accruals	241,128	492,342
	3,238,209	3,255,464

Note: Tangshan Lerthai Properties Development Company Limited ("TS Lerthai Development"), Tangshan LT Shopping Mall Limited ("TS Lerthai Shopping") and SJZ Property Development was accused by certain suppliers due to overdue construction payment. The balances as at 31 December 2019 and 2018 were HK\$45,599,000 and HK\$50,251,000, respectively, which include overdue interest claimed by the suppliers. TS Lerthai Development, TS Lerthai Shopping and SJZ Property Development received court orders which restricted it from selling or pledging certain designated units for a period of three years from date of the court order. As at the date of this report, TS Lerthai Development and TS Lerthai Shopping are still in the course of negotiation with the suppliers for settlement.

The aging analysis of construction cost payables, based on the invoice date, is as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 year	90,054	635,482
Over 1 year but within 3 years	234,558	491,293
Over 3 years	92,637	4,820
	417,249	1,131,595

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

27. Contract Liabilities

Disclosures of revenue-related items:

	At 31 December 2019 HK\$'000	At 31 December 2018 HK\$'000	At 1 January 2018 HK\$'000
Contract liabilities	1,685,661	1,922,370	1,825,999
Contract receivables (included in trade receivables)	11,879	6,231	6,252
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:			
– 2019	N/A	1,922,370	
– 2020	1,685,661	–	
	1,685,661	1,922,370	

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	359,979	81,960
Significant changes in contract liabilities during the year:		
Increase due to operations in the year	146,119	212,472
Transfer of contract liabilities to revenue	(382,828)	(116,101)

A contract liability is deposits received from sales of properties. It represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Included in balance above is an amount of HK\$524,603,000 (2018: HK\$639,619,000) representing the deposit received from government on 11 April 2014. Handan LT Municipal Investment Real Estate Development Company Limited ("Handan LT Municipal"), a subsidiary of the Group entered into an agreement with local government, in which the local government committed to prepay Handan LT Municipal for construction cost of relocated residence, and in return, Handan LT Municipal will compensate certain residential properties to those residents who originally lived in the site which acquired by Handan LT Municipal for properties development.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

28. Bank and Other Borrowings

	2019 HK\$'000	2018 HK\$'000
Secured bank borrowings with carrying amount repayable:		
Within 1 year	1,697,824	1,815,517
Over 1 year but within 2 years	55,875	2,989,767
Over 2 years but within 5 years	435,825	789,278
Beyond 5 years	502,875	2,178,011
	2,692,399	7,772,573
Secured other borrowings with carrying amount repayable:		
Within 1 year	3,538,299	–
Over 1 year but within 5 years (Note)	3,576,000	3,529,660
	7,114,299	3,529,660
Total secured bank and other borrowings	9,806,698	11,302,233
Unsecured other borrowings with carrying amount repayable:		
Within 1 year	–	100,000
Over 1 year but within 5 years	137,634	405,857
	137,634	505,857
Total bank and other borrowings	9,944,332	11,808,090
Less: Amount shown under current liabilities	(5,236,123)	(1,915,517)
Amount shown under non-current liabilities	4,708,209	9,892,573

Note: On 3 August 2017, SJZ Property Development issued leased ABS of RMB3,500,000,000 in the Shenzhen Stock Exchange. The ABS scheme includes RMB3,100,000,000 class A securities and RMB400,000,000 class B securities. Class A securities are held by qualified investors who enjoy fixed return of income from the ABS (5.74% per annum for class A1 securities and 6.9% per annum for class A2 securities), the entire class B securities are held by SJZ Property Development which entitle to receive any residual income from the ABS. Income of the ABS are derived from the rental and operating incomes from the investment properties securitised by SJZ Property Development. In the event that the rental and operating incomes are not sufficient to cover the expected return payable to class A securities holders, SJZ Property Development is obliged to compensate the shortfall so that the class A securities holders will still enjoy the fixed expected return. The ABS has a term of three years with an option to extend further two years by the ABS scheme manager. Upon expiry of the term, the principal amount of RMB3,100,000,000 and the outstanding fixed return as of on that date shall be returned to the class A securities holders, and the residual amounts are to be retained by SJZ Property Development.

As the underlying investment properties did not meet the criteria of derecognition, a subsidiary of the Company did not derecognise such assets, and the proceeds received was treated as financial liabilities. As at 31 December 2019, the carrying amount of such transferred but not derecognised investment properties amounted to HK\$7,610,175,000 (2018: HK\$7,696,936,000) and the corresponding carrying amount of recognised financial liabilities was HK\$3,464,250,000 (2018: HK\$3,529,660,000).

28. Bank and Other Borrowings (continued)

The carrying amounts of the Group's bank and other borrowings and weighted average effective interest rates per annum are as follows:

	31 December 2019		31 December 2018	
	HK\$'000	Effective interest rate	HK\$'000	Effective interest rate
Fixed rate borrowing	202,030	13.00%	1,567,348	1.20%
Floating rate borrowings	9,742,302	4.90%–12.72%	10,240,742	4.25%–11.95%

The bank and other borrowings are:

- guaranteed by the related companies controlled by Mr. Yang and/or Mr. Yang and his spouse ("Ms. Yang");
- personal guarantee provided by Mr. Yang and/or Ms. Yang;
- pledged by equity and charged interest held by the Group;
- secured by the Group's certain investment properties under construction;
- secured by the Group's certain investment properties;
- secured by the Group's certain property, plant and equipment;
- secured by the Group's certain properties under development for sales;
- secured by the assignment of all rents of certain investment properties located in the PRC;
- secured by certain convertible securities held by Mr. Yang; and
- secured by certain properties owned by a related company controlled by Mr. Yang.

As at 31 December 2019, bank and other borrowings with a total principal and interest amounts of HK\$4,995,265,000 were overdue and became immediately repayable. As at the date of this report, the Group has not obtained renewal or extension of repayment of loans from the relevant lenders; nor have these lenders taken any legal action against the Group to demand immediate repayment save as disclosed in note 45 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

29. Convertible Bonds

	2019 HK\$'000	2018 HK\$'000
At 1 January	380,363	451,873
Repayment of convertible bonds	–	(80,000)
Interest charged during the year	35,113	42,856
Interest paid	(5,667)	(41,073)
Change in fair value	(23,692)	6,707
At 31 December	386,117	380,363

On 26 January 2017, the Company issued convertible bonds to an independent third party in the principal amount of HK\$450,000,000 ("Convertible Bonds") with a maturity period of three years to 25 January 2020 ("Maturity Date"). Net proceeds from the issue shall be solely used to finance the repayment of another convertible bonds to an independent third party in the principal amount of HK\$550,000,000 issued on 10 January 2014. The Convertible Bonds are denominated in HK\$ and bear interest at 8% per annum. The interests shall be payable semi-annually in arrears, commencing on 30 June 2017. In addition, on the dates when all or a portion of the outstanding Convertible Bonds were redeemed or if the Convertible Bonds have not been fully redeemed prior to Maturity Date, on such redemption date or on Maturity Date, as the case may be, the Company shall pay to the bondholders an additional interest in an amount equal to 1% per annum of the principal amount of the Convertible Bonds so redeemed or matured.

Pursuant to the terms and conditions of the Convertible Bonds, the Company is required to repay certain amounts of the principal on the first and second anniversaries of the date of issue of the Convertible Bonds. The Company may at any time on or after the date falling the eleventh calendar month after the date of issue and up to the Maturity Date by at least thirty days' notice in writing to the bondholders redeem the whole or part of the outstanding principal amount of the bonds, provided that the principal amount to be so redeemed on each occasion shall not be less than the lesser of (i) HK\$50,000,000; and (ii) 100% of the then outstanding principal amount of the Convertible Bonds. Details of the repayment terms and the conditions are set out in the Company's announcements dated 22 January 2017.

On 28 March 2019, the Company and the bondholder have entered into an amendment to the Convertible Bonds to which the second redemption date of the Convertible Bonds is extended to 26 September 2019.

The Convertible Bonds with principal amount of HK\$450,000,000 can be converted into shares at a conversion price of HK\$3.90 per share up to an aggregate of 30,000,000 shares or a number of shares that represents 8.14% of the then issued share capital of the Company as enlarged by and immediately following the issue of shares upon such conversion, whichever is higher. The details of the terms of conversion and redemption and other terms of the Convertible Bonds are set out in the Company's announcement dated on 22 January 2017. As at 31 December 2019, the principal amount of convertible bonds with conversion features ("CB with Conversion Feature") was HK\$117,000,000 and the principal amount of convertible bonds without conversion feature ("Straight Note") was HK\$253,000,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

29. Convertible Bonds (continued)

The Convertible Bonds are secured by the Company's shares held by China Lerthai and by Mr. Yang and convertible securities held by Mr. Yang.

The convertible bonds have been designated as financial liabilities at FVTPL as they contain more than one non-closely related embedded derivatives. The fair value of the convertible bonds are determined by aggregating the fair value of (i) the Straight Note and (ii) CB with Conversion Feature. The fair value of the Straight Note was calculated as the present value of the contractually determined stream of future cash flows discounted at an interest rate which are determined by referencing the HK\$ Fund Note plus a credit spread by reference to the credit analysis of the Company and the market rate of comparable companies with similar credit ratio. The fair value of CB with Conversion Feature is determined using Binomial Option Pricing Model with the following key inputs.

	At 31 December	
	2019	2018
Share price of the Company	HK\$4.58	HK\$6.13
Risk free rates	1.46%	1.55%–1.73%
Discount rate	10.15%	11.09%–11.27%
Dividend yield	0%	0%
Option life	0.07 year	1.07 years
Volatility	20.12%	27.67%
Exercise price	HK\$3.90	HK\$3.90

The above risk free rates were determined with reference to yields of 0.07 year (2018: 0.07 year and 1.07 years) HKMA Hong Kong Exchange Fund Bills available as at 31 December 2019. The expected volatility was determined based on the historical volatility of the Company's share price for the past 0.07 year (2018: 0.07 year and 1.07 years).

The key inputs of the fair value changes in the credit risk recognised in other comprehensive income are as follows:

	At 31 December	
	2019	2018
Internal rate of return ("IRR")	6.17%	6.17%
Benchmark interest rate	8.69%	9.54%
Instrument-specific component of IRR	3.37%	(2.51%)
Discount rate used for calculation of credit risk portion	12.06%	7.54%

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29. Convertible Bonds (continued)

The calculation of the changes in fair value recognised in profit or loss and attributable to changes in the credit risk recognised in other comprehensive income are at follows:

	2019 HK\$'000	2018 HK\$'000
Total changes in fair value	23,694	(6,707)
Less: Fair value gain attributable to changes in the credit risk recognised in other comprehensive income	(26,918)	(29,236)
Fair value change recognised in profit or loss	(3,224)	(35,943)

The fair values of convertible bonds as at 31 December 2019 and 2018 were arrived at on the basis of valuations carried out on those dates by Vincorn Consulting and Appraisal Limited (formerly known as Unicorn Consulting and Appraisal Limited), an independent qualified professional valuer not connected to the Group. They are categorised as level 3 under the fair value hierarchy set out in HKFRS 13 Fair Value Measurement. Level 3 fair value measurements are those derived from valuation techniques that include inputs for that asset or liability that are not based on observable market data (unobservable inputs).

Sensitivity analysis

As at 31 December 2019, an increase in discount rate would result in a decrease in the fair value of convertible bonds, and vice versa. If the discount rate is 10% higher and lower while all other variables are held constant, the carrying amount of the convertible bonds would decrease by HK\$168,000 (2018: HK\$2,292,000) and increase by HK\$168,000 (2018: HK\$2,336,000) respectively.

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30. Senior Notes

	2019 HK\$'000	2018 HK\$'000
At 1 January	100,226	93,297
Interest charged during the year	13,564	13,929
Interest paid	(4,463)	(7,000)
At 31 December	109,327	100,226

During the year ended 31 December 2016, the Company issued senior notes with aggregated principal amount of HK\$100,000,000 to independent third parties ("2018 Senior Notes"). The 2018 Senior Notes are denominated in HK\$, unsecured, transferrable, bear fixed interest at 7% per annum and will be redeemed at 100% of their principal amount on 29 November 2018. The Company may, on or at any time after the issue date and prior to 29 November 2018, upon giving not less than five business days' prior written notice to the noteholders, redeem the 2018 Senior Notes, in whole but not in part, at 101% of the principal amount, together with accrued interest.

On 22 November 2018, the Company and the trustee have entered into a supplemental trust deed pursuant to which the 2018 Senior Notes is extended to 29 November 2019 and the interest rate is adjusted to 9% per annum for such extended year.

On 19 December 2019, the holders of the notes served on the Company statutory demands (the "Statutory Demands") requesting the Company to repay the 2018 Senior Notes within three weeks after the service of the Statutory Demands. Details are set out in the Company's announcement dated 20 January 2020.

As at 31 December 2019 and 2018, the principal amount of the 2018 Senior Notes is HK\$100,000,000.

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31. Convertible Securities

On 20 April 2018, the Company issued convertible securities to Mr. Yang with the principal amount of HK\$4,000,000,000 ("Convertible Securities") as consideration for the acquisition of the entire issued share capital of Lerthai International Holdings Limited ("Lerthai International") and Greatpro. The Convertible Securities has no maturity date, bears a coupon rate of 2% per annum and will cease to bear any coupon after the fifth anniversary of the date of issue. During the first five years, the coupon shall be accrued on the outstanding principal amount of the Convertible Securities and payable annually subject to the Company's sole discretion to defer the coupon payment for a maximum period of ten years from the dates when the relevant coupon fall due by giving notice to the security holders. Details of the terms and the conditions of the Convertible Securities are set out in the Company's circular dated 28 March 2018.

The Convertible Securities with principal amount of HK\$4,000,000,000 can be converted into shares at a conversion price of HK\$4.50 per share (subject to anti-dilution clauses) up to an aggregate of 888,888,888 shares. As at 31 December 2019, the principal amount of the Convertible Securities was HK\$2,070,000,000 (2018: HK\$2,429,000,000).

The Convertible Securities are issued in HK\$. However, upon issuance of the Convertible Securities and throughout the period until maturity date, the Convertible Securities shall be translated at the exchange rate at the date of issuance of RMB1.00 = HK\$1.23965. Any payment in the event of redemption by the Company shall be made in RMB by reference to the exchange rate of RMB1.00 = HK\$1.23965. Any conversion shall be made by reference to the principal amounts stated in HK\$.

The Convertible Securities contain two components, liability (together with embedded derivative for early redemption rights by the Company which is closely related to the host debt) and equity elements. At the date of the issuance, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts and the fair value of the conversion option for the security holders to convert the notes into equity which is included in equity (equity component of Convertible Securities) is determined using the Binomial Model.

The fair values of the embedded derivative for conversion rights by the security holders at the date of the issuance are calculated using the Binomial Model. The inputs into the Binomial Model were as follows:

	At 20 April 2018
Share price of the Company	HK\$4.43
Risk free rate	2.1%
Dividend yield	0%
Volatility	48.66%
Exercise price	HK\$4.50

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31. Convertible Securities (continued)

The fair values of the liability component and equity component for Convertible Securities at the date of the issuance were as follows:

	HK\$'000
Liability component	87,951
Equity component	3,961,106

The effective interest rate of the liability component is 11.81% for Convertible Securities at the date of the issuance.

The movement of the liability component of the Convertible Securities for the year is set out below:

	2019 HK\$'000	2018 HK\$'000
At 1 January	56,444	–
Issue of convertible securities	–	87,951
Interest charged during the year	6,461	6,148
Conversion (Note 35)	(5,729)	(32,686)
Effect of foreign exchange difference	(509)	(4,969)
At 31 December	56,667	56,444

The fair value of the Convertible Securities at initial recognition was arrived at on the basis of a valuation carried out on that date by Colliers International (Hong Kong) Company Limited, an independent qualified professional valuer not connected to the Group. They are categorised as level 3 under the fair value hierarchy set out in HKFRS 13. Level 3 fair value measurements are those derived from valuation techniques that include inputs for that asset or liability that are not based on observable market data (unobservable inputs).

Subsequent to the reporting period, an aggregate principal amount of HK\$1,370,000,000 Convertible Securities had been converted. For details, please refer to note 46(b) to the consolidated financial statements.

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32. Bonds

	2019 HK\$'000	2018 HK\$'000
At 1 January	39,062	38,871
Interest charged during the year	3,423	3,391
Interest paid	–	(3,200)
At 31 December	42,485	39,062

The bonds are denominated in HK\$, transferrable, unsecured, matured on eight years after the date of issue and bear interest at 8% per annum. The Company may at any time prior to the maturity date redeem the bonds at 101% of the outstanding principal amount (in whole or in part) in cash by serving at least five business days' prior written notice to the bondholders. In the opinion of the Directors, the fair value of the option to early redeem the bonds is insignificant at initial recognition and at the end of the reporting period.

As at 31 December 2019, the Group did not meet certain covenants of the bonds which was therefore reclassified as current liabilities.

The bonds will mature on the date immediately following eight years after issuance which are 4 November 2022 and 6 January 2023. The effective interest rates of the bonds are 8.38% and 8.17% per annum respectively.

33. Lease Liabilities

As at 31 December 2019, the total future lease payments under lease liabilities and their present value were as follows:

	Lease payments HK\$'000	Present value of lease payments HK\$'000
Within 1 year	3,157	2,997
Less: Future finance charges	(160)	
Present value of lease liabilities	2,997	
Less: Amount shown under current liabilities		(2,997)
Amount shown under non-current liabilities		–

The average effective borrowing rate was 10%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

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34. Deferred Tax

The following are the major deferred tax asset and liabilities recognised and movements thereon during the current and prior years.

Deferred tax asset

	Tax losses HK\$'000
At 1 January 2018	(6,528)
Effect of foreign exchange difference	329
At 31 December 2018 and 1 January 2019	(6,199)
Effect of foreign exchange difference	32
At 31 December 2019	(6,167)

Deferred tax liabilities

	Revaluation of investment properties HK\$'000	Deductible depreciation of investment properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2018	2,594,173	147,716	1,776	2,743,665
Charge to profit or loss (Note 13)	325,225	40,323	14,231	379,779
Effect of foreign exchange difference	(122,499)	(6,738)	(118)	(129,355)
At 31 December 2018 and 1 January 2019	2,796,899	181,301	15,889	2,994,089
Charge/(credit) to profit or loss (Note 13)	7,903	51,302	(4,255)	54,950
Disposal of a subsidiary	(6,893)	–	–	(6,893)
Effect of foreign exchange difference	(51,805)	(4,097)	(235)	(56,137)
At 31 December 2019	2,746,104	228,506	11,399	2,986,009

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34. Deferred Tax (continued)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 HK\$'000	2018 HK\$'000
Deferred tax asset	6,167	6,199
Deferred tax liabilities	(2,986,009)	(2,994,089)
	(2,979,842)	(2,987,890)

At the end of the reporting period, the Group had estimated unused tax losses of HK\$607,450,000 (2018: HK\$776,759,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of HK\$24,668,000 (2018: HK\$24,798,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK\$582,782,000 (2018: HK\$751,961,000) due to the uncertainty of future profits streams. Included in unused tax losses are losses of HK\$562,512,000 (2018: HK\$733,514,000) that will expire in 2020 to 2024 (2018: 2019 to 2023).

35. Share Capital

	Number of shares	HK\$'000
Issued and fully paid ordinary shares:		
At 1 January 2018	338,765,987	498,548
Issue of shares upon conversion of convertible securities (Note a)	349,111,097	1,588,410
At 31 December 2018 and 1 January 2019	687,877,084	2,086,958
Issue of shares upon conversion of convertible securities (Note b)	79,777,777	361,234
Capital reduction (Note c)	–	(900,000)
At 31 December 2019	767,654,861	1,548,192

Notes:

(a) On 26 July 2018, the Company received the conversion notices from 2 securities holders to exercise the conversion rights attached to the Convertible Securities for the principal amounts of HK\$250,000,000 and HK\$730,000,000 respectively. An aggregate of 217,777,777 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued on 26 July 2018.

On 31 October 2018, the Company received the conversion notices from 25 securities holders to exercise the conversion rights attached to the Convertible Securities for the aggregate principal amount of HK\$591,000,000. An aggregate of 131,333,320 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued on 31 October 2018.

(b) On 26 April 2019, the Company received the conversion notices from 2 securities holders to exercise the conversion rights attached to the Convertible Securities for the aggregate principal amount of HK\$359,000,000. An aggregate of 79,777,777 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued on 26 April 2019.

(c) Pursuant to a resolution passed in the extraordinary general meeting held on 26 June 2019, regarding the reduction of the issued share capital of the Company by HK\$900,000,000 (the "Capital Reduction"), the credit arising from the Capital Reduction has been applied to a capital reduction reserve account of the Company and such reserve to be used to set off against the accumulated loss of HK\$766,560,000 of the Company as at the effective date (i.e. 12 August 2019).

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36. Statement of Financial Position of the Company

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Property, plant and equipment	20	27
Right-of-use assets	2,712	–
Investments in subsidiaries	914,053	914,053
Amounts due from subsidiaries	3,942,193	4,361,671
	4,858,978	5,275,751
Current assets		
Amounts due from subsidiaries	162,042	267,668
Amounts due from related parties	363,587	–
Trade and other receivables, deposits and prepayments	1,441	1,453
Cash and bank balances	448	2,462
	527,518	271,583
Current liabilities		
Trade and other payables and accruals	18,420	49,666
Amounts due to subsidiaries	747,176	575,016
Bank and other borrowings	323,664	111,234
Convertible bonds	386,117	380,363
Senior notes	109,327	100,226
Bonds	42,485	39,062
Lease liabilities	2,997	–
	1,630,186	1,255,567
Net current liabilities	(1,102,668)	(983,984)
Total assets less current liabilities	3,756,310	4,291,767
Non-current liabilities		
Bank borrowings	–	303,323
Convertible securities	56,667	56,444
	56,667	359,767
Net assets	3,699,643	3,932,000
Capital and reserves		
Share capital	1,548,192	2,086,958
Reserves	2,151,451	1,845,042
Total equity	3,699,643	3,932,000

Approved and authorised for issue by the Board of Directors on 19 June 2020 and signed on its behalf by:

Yang Longfei
Director

Zhang Yan
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

37. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Capital reduction reserve	Share option reserve	Convertible securities equity reserve	Exchange reserve	Revaluation reserve	Other reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	-	69,242	-	(12,374)	(14,996)	59,973	(432,543)	(330,698)
Loss for the year	-	-	-	-	-	-	(150,975)	(150,975)
Other comprehensive (expense)/income for the year	-	-	-	(107,903)	29,236	-	-	(78,667)
Issue of convertible securities upon combination of entities under common control (Note 31)	-	-	3,961,106	-	-	-	-	3,961,106
Issue of shares upon conversion of convertible securities (Note 35(a))	-	-	(1,555,724)	-	-	-	-	(1,555,724)
At 31 December 2018	-	69,242	2,405,382	(120,277)	14,240	59,973	(583,518)	1,845,042
At 1 January 2019, as previously reported	-	69,242	2,405,382	(120,277)	14,240	59,973	(583,518)	1,845,042
Effect of changes in accounting policies (Note 3.1)	-	-	-	-	-	-	(231)	(231)
At 1 January 2019, as restated	-	69,242	2,405,382	(120,277)	14,240	59,973	(583,749)	1,844,811
Loss for the year	-	-	-	-	-	-	(239,193)	(239,193)
Other comprehensive (expense)/income for the year	-	-	-	(25,580)	26,918	-	-	1,338
Issue of shares upon conversion of convertible securities (Note 35(b))	-	-	(355,505)	-	-	-	-	(355,505)
Capital reduction (Note 35(c))	133,440	-	-	-	-	-	766,560	900,000
At 31 December 2019	133,440	69,242	2,049,877	(145,857)	41,158	59,973	(56,382)	2,151,451

37. Reserves (continued)

(c) Nature and purpose of reserves of the Group and the Company

(i) *Capital reduction reserve*

The capital reduction reserve represents credit amount arising from reduction of the credit standing to the share capital account of the Company which may be used by the Directors to eliminate the accumulated losses and as a distributable reserve in accordance with the Articles of Association and the Companies Ordinance.

(ii) *Share option reserve*

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to certain director and employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4 to the consolidated financial statements.

(iii) *Statutory reserve*

The statutory reserve represents enterprise development and general reserve fund appropriated from the profit after tax of the subsidiaries established in the PRC in accordance with applicable laws and regulations in the PRC.

(iv) *Convertible securities equity reserve*

The convertible securities equity reserve represents the fair value of the conversion option for the holders of convertible securities to convert the convertible securities into equity.

(v) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

(vi) *Merger reserve*

The merger reserve represents the fair values of the liability component and equity component for Convertible Securities at the date of the issuance and the effect of business combination under common control.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

37. Reserves (continued)

(c) Nature and purpose of reserves of the Group and the Company (continued)

(vii) *Revaluation reserve*

The revaluation reserve represents fair value loss attributable to changes in the credit risk of convertible bonds issued by the Group designated at fair value through profit or loss, which were transferred from the retained profits.

(viii) *Other reserve*

The other reserve represents fair value adjustment on amount due to a subsidiary at initial recognition.

38. Perpetual Capital Instruments

Pursuant to the perpetual loan agreements entered on 30 June 2018 between certain wholly-owned subsidiaries of the Company and the related companies controlled by Mr. Yang (the "Perpetual Loan Agreements"), the loans bear interest at 8%-10% per annum. Interest payments on the loans are paid annually on or before 31 December and can be deferred at the discretion of the Group. The related companies could not request for repayment of the principal and accrued interest save and except when the Group elects to repay the principal and accrued interest at its sole discretion, or in the event of liquidation.

Under the Perpetual Loan Agreements, no guarantee of any kind is required to be given by any member of the Group to either the related companies for the loans.

As at 31 December 2019, the perpetual capital instruments holders were entitled to receive interest of HK\$86,340,000 but only payable when the Group elects to pay at its sole discretion or in the event of liquidation. In the opinion of the Directors, the perpetual capital instruments do not contain any contractual obligation to pay cash or other financial assets for the interest pursuant to the terms and conditions, accordingly, the recognition of the interest has been deferred until become payable in the future, if required.

39. Share-Based Payment Transactions

(a) Share award scheme

On 8 August 2014, the Board resolved to adopt a share award scheme (the "Award Scheme") to provide incentives to attract and retain selected employees for the benefits of the Group. The Award Scheme will remain in force for a period of ten years commencing from 8 August 2014. Pursuant to the Award Scheme, existing ordinary shares in the capital of the Company will be purchased in the market by the trustee at the cost of the Company and held on trust for all or one or more of the employees until such ordinary shares in the capital of the Company are vested with the relevant selected employees in accordance with the rules of the Award Scheme. The Award Scheme shall be subject to the administration of the Board and the trustee in accordance with the Award Scheme and the trust deed. The number of ordinary shares in the capital of the Company to be awarded under the Award Scheme throughout its duration shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of ordinary shares in the capital of the Company which may be awarded to a selected employee under the Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

No ordinary share of the Company has been purchased and awarded pursuant to the Award Scheme since its adoption.

(b) Share option scheme

On 22 August 2014, the Company adopted a share option scheme (the "Option Scheme"). The Option Scheme will remain in force for a period of ten years commencing from 22 August 2014. The purpose of the Option Scheme is to provide the participants with an opportunity to obtain an equity interest in the Company, thus linking their interests with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

The subscription price shall be determined by the Board and shall be at least the higher of (i) the closing price of a share as stated in the daily quotation sheet issued by the Stock Exchange on the date of offer of the grant; and (ii) the average closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the five business days immediately preceding the date of offer of the grant. Without prior approval from the Company's shareholders, (i) total number of shares in respect of which options may be granted under the Option Scheme shall not exceed 10% of the shares of the Company in issue at any point in time; (ii) the maximum aggregate number of shares in respect of which options may be granted under the Option Scheme and any other share option schemes adopted by the Company exceeding, in aggregate, shall not exceed 30% of the shares in issue from time to time; and (iii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period shall not exceed 1% of the shares of the Company in issue at any point in time. An option may be exercised at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

39. Share-Based Payment Transactions (continued)

(b) Share option scheme (continued)

On 16 May 2016, a total of 33,876,590 share options were granted to a director and employees of the Group under the Share Option Scheme. The terms and conditions of the options granted are as follows:

	Number of share options	Vesting conditions	Contractual life of options	Expiry date
Options granted to a director	3,387,659	(i)	10 years	15 May 2026
Options granted to employees	<u>30,488,931</u>	(i)	10 years	15 May 2026
	<u>33,876,590</u>			

(i) Become exercisable from the date of grant to the tenth anniversary of the date of grant.

As at 31 December 2019, the number of outstanding share options is 33,876,590 (2018: 33,876,590), weighted average exercise price is HK\$4.11 (2018: HK\$4.11) and weighted average remaining contractual life is 6.37 years (2018: 7.37 years).

The fair value of options granted by the Company was assessed using the binomial option pricing model. The following inputs were used:

Date of grant	16 May 2016
Share price on date of grant	HK\$4.11
Exercise price	HK\$4.11
Expected volatility (Note a)	57.76%
Expected life	10 years
Risk-free rate (Note b)	1.189%
Expected dividend yield	0%

Notes:

- (a) Expected volatility was determined based on the historic daily volatility of the Company's share prices (calculated based on the expected life of the share options).
- (b) Risk-free rate was determined based on the yields to maturity of respective Hong Kong Sovereign Curve.

The binomial option pricing model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the best assessment of the Directors on the valuer's estimation. Changes in variables and assumptions may result in changes in the fair value of the share options.

The estimated fair value of the options granted was HK\$69,242,000. In the year ended 31 December 2016, the Group recognised share-based payments of HK\$69,242,000 in profit or loss and the corresponding amount has been credited to share option reserve.

40. Notes to the Consolidated Statement of Cash Flows

(a) Disposal of a Subsidiary

On 4 February 2019, the Company completed the disposal of the entire issued share capital of LT International Investment Holdings Limited ("LT International Investment"), a wholly owned subsidiary of the Company, to Mr. Yang, the ultimate controlling party of the Company, at a total consideration of HK\$247,369,000. A net gain on disposal of a subsidiary of HK\$8,460,000 was recognised in the consolidated statement of profit or loss. The gain on disposal of a subsidiary is summarised as follows:

	HK\$'000
Net assets disposed of:	
Investment properties	223,655
Property, plant and equipment	1,422
Properties under development for sales	244,128
Trade and other receivables, deposits and prepayments	2,510
Cash and bank balances	5,892
Trade and other payables and accruals	(19,221)
Bank and other borrowings	(210,635)
Deferred tax liabilities	(6,893)
	240,858
Release of exchange reserve upon disposal of a subsidiary	(1,949)
Gain on disposal of a subsidiary	8,460
Total consideration	247,369
Satisfied by:	
Cash	7,800
Promissory note with 6% annual coupon interest	239,569
	247,369

An analysis of the net outflow of cash and bank balances in respect of the disposal of a subsidiary is as follows:

	HK\$'000
Net outflow of cash and cash equivalent in respect of disposal of a subsidiary	(5,892)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

40. Notes to the Consolidated Statement of Cash Flows (continued)

(b) Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Amounts due to related companies	Bank and other borrowings	Convertible bonds	Senior notes	Bonds	Convertible securities	Loan from a related company	Lease liabilities	Total liabilities from financing activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	507,579	11,703,056	451,873	93,297	38,871	-	263,884	-	13,058,560
Changes in cash flows	166,667	(256,301)	(121,073)	(7,000)	(3,200)	-	-	-	(220,907)
Non-cash changes:									
Fair value changes	-	-	6,707	-	-	-	-	-	6,707
Interest recognised	-	694,438	42,856	13,929	3,391	6,148	45,358	-	806,120
Issue of convertible securities upon combination of entities under common control	-	-	-	-	-	87,951	-	-	87,951
Conversion	-	-	-	-	-	(32,686)	-	-	(32,686)
Effect of foreign exchange difference	-	(333,103)	-	-	-	(4,969)	166,983	-	(171,089)
Transfer to perpetual capital instruments	(674,246)	-	-	-	-	-	(476,225)	-	(1,150,471)
At 31 December 2018	-	11,808,090	380,363	100,226	39,062	56,444	-	-	12,384,185
Effect of changes in accounting policies (Note 3.1)	-	-	-	-	-	-	-	5,655	5,655
At 1 January 2019, as restated	-	11,808,090	380,363	100,226	39,062	56,444	-	5,655	12,389,840
Changes in cash flows	-	(2,017,924)	(5,667)	(4,463)	-	-	-	(2,658)	(2,030,712)
Non-cash change:									
Fair value changes	-	-	(23,692)	-	-	-	-	-	(23,692)
Interest recognised	-	702,453	35,113	13,564	3,423	6,461	-	-	761,014
Disposal of a subsidiary	-	(210,635)	-	-	-	-	-	-	(210,635)
Reclassification	-	(119,480)	-	-	-	-	-	-	(119,480)
Conversion	-	-	-	-	-	(5,729)	-	-	(5,729)
Effect of foreign exchange difference	-	(218,172)	-	-	-	(509)	-	-	(218,681)
At 31 December 2019	-	9,944,332	386,117	109,327	42,485	56,667	-	2,997	10,541,925

(c) Significant non-cash transactions

As detailed in note 40(a) above, part of the Group's consideration received for disposal of a subsidiary in LT International Investment of HK\$189,569,000 and interest revenue on promissory note of HK\$5,640,000 were satisfied by offsetting the perpetual capital instruments with amount of HK\$195,209,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41. Contingent Liabilities

	2019 HK\$'000	2018 HK\$'000
Guarantees given to banks in favour of its customers in respect of mortgage loans provided by the banks	834,335	853,178
Financial guarantees given to banks in favour of its related parties	685,028	239,106
Financial guarantees given to banks in favour of its third parties	37,304	468,398
	1,556,667	1,560,682

The guarantees are given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the Directors, the fair values of the financial guarantee contracts are not significant as the possibility of default by the relevant purchasers is remote and, in case of default in payments, the net realisable value of the related properties can recover the repayment of the outstanding mortgage principals together with the accrued interest and penalty. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

The guarantees are secured by the Group's pledged bank deposits amounting to HK\$28,483,000 (2018: HK\$33,936,000).

The Group issued financial guarantees to banks in respect of banking facilities granted to related parties and third parties. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. In the opinion of the Directors, the fair values of the financial guarantee contracts are not significant as the possibility of default by the relevant related parties is remote. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

42. Commitments

At the end of the reporting period, the Group had the following commitments:

	2019 HK\$'000	2018 HK\$'000
(a) Capital commitment		
Development costs for investment properties under construction	367,223	589,937
(b) Other commitment		
Development costs for properties under development for sales	241,438	791,938

(c) Lease commitments

The Group as lessor

Property rental and management fee income in respect of the investment properties earned is HK\$667,908,000 (2018: HK\$735,788,000). The completed investment properties held have committed tenants for the next one to nineteen years (2018: one to nineteen years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments (i.e. fixed rental income) which fall due as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	307,183	356,753
In the second to fifth years inclusive	503,554	479,918
Over five years	144,316	338,605
	955,053	1,175,276

42. Commitments (continued)**(c) Lease commitments (continued)***The Group as lessee*

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK\$'000
Within one year	7,420
In the second to fifth years inclusive	3,562
	10,982

Operating lease payments represents rentals payable by the Group for its office premises. Leases are negotiated and fixed over one to three years and do not include contingent rentals.

43. Related Party Transactions

In addition to those disclosed in other sections of the consolidated financial statements, the Group had the following material transactions with related parties:

	2019 HK\$'000	2018 HK\$'000
Interest expense on loans from related companies	–	45,358
Interest revenue on promissory note from a Director	5,640	–
Property management fee expense paid to a related company	32,669	2,349

Remuneration paid and payable to the members of key management, who are the Directors during the year, are disclosed in note 15 to the consolidated financial statements.

Balances with related parties are set out in the consolidated statement of financial position and details of terms are set out in note 38 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

44. Other Matters

As at 31 December 2019, the Group had disputes with some of the suppliers, as a result the Group received court orders with either freezing the bank deposits or sealing up the properties with equivalent amount. As at the date of this report, the Group is still in the course of negotiation with the suppliers for settlement. The relevant disputes have been previously disclosed and such amount has been fully provided for in the consolidated financial statements of the Group.

45. Litigation

Reference is made to the Company's announcement dated 6 September 2019 in respect of the writ of summons under action number HCA 1660 of 2019 was issued in the Court of First Instance of the High Court of The Hong Kong Special Administrative Region by a bank ("Bank") against (i) LT Commercial Limited, a directly wholly-owned subsidiary of the Company as borrower of bank loans in the sum of HK\$1,500,000,000 (the "Loans"); and (ii) the Company and Mr. Yang (the chairman and an executive director of the Company), both as guarantors of the Loans. The writ claimed for, among other things, payment of the Loans and the interest in the aggregate amount of HK\$1,554,763,000 and all other costs and expenses in relation to the default of the Loans.

The Loans were secured by the Group's commercial properties located in the PRC as collateral. The above action was heard at the High Court in May 2020. The Company has received the judgment ordering issued by the Court on 19 May 2020 (the "Judgment"), adjudged that all three defendants do pay the Bank the outstanding principal sum of HK\$1,425,000,000; interest and default interest accrued in the total sum of HK\$129,763,000; and default interest from 3 October 2019 until payment in full and all other costs and expenses in relation to the default of the Loan.

46. Events after the Reporting Period

- (a) On 20 January 2020, the Company was informed of the appointment of receivers over 254,055,888 shares and 162,222,222 shares in the Company respectively held by China Lerthai (a substantial shareholder of the Company) and Mr. Yang, a director and controlling shareholder of the Company which were charged to Peace Winner Limited and Fantastic Stargaze Limited by way of share charges dated 26 January 2017 and 30 March 2019 (the "Charged Shares"). The Charged Shares represent approximately 38.8% of the issued share capital of the Company as at the date of this report.
- (b) On 20 January 2020 and 21 January 2020, the Company received the conversion notices from 4 securities holders to exercise the conversion rights attached to the Convertible Securities for the principal amount of HK\$788,000,000 and HK\$582,000,000 respectively. An aggregate of 304,444,443 conversion shares at the price of HK\$4.50 per conversion share were allotted and issued.
- (c) After the outbreak of the COVID-19 ("COVID-19 Outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. With the extension of Chinese New Year holiday nationwide and travel restriction, the Group's shopping malls have been temporarily closed after Chinese New Year. As at the date of this report, all shopping malls have resumed operations. The Group expects that the COVID-19 Outbreak may bring temporary interruption to the business but will not significantly alter the long term business growth. The Group will pay close attention to the development of the COVID-19 Outbreak and continue to evaluate its impact on the financial position and operating results of the Group.

Notes to the Consolidated Financial Statements

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47. Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Place/country of incorporation/operation	Paid up issued/registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	2019 %	2018 %	
Chi Cheung Management Services Limited	Hong Kong	HK\$2 ordinary shares	50	50	50	50	Provision of management services
LERTHAI Asset Management Limited	Hong Kong	HK\$11,867,047 ordinary shares	–	–	100	100	Provision of advisory and asset management services
勒泰股權投資基金管理(深圳)有限公司 Lerthai Equity Investment Fund Management (Shenzhen) Company Limited ("SZ Lerthai")	The PRC	Registered capital of RMB30,000,000	–	–	100	100	Advisory on securities investment
LERTHAI Securities (Hong Kong) Limited	Hong Kong	HK\$11,636,000 ordinary shares	–	–	100	100	Securities trading and investment
LERTHAI Futures (Hong Kong) Limited	Hong Kong	HK\$1 ordinary share	–	–	100	100	Futures and securities investment
北京勒泰商業管理有限公司 Beijing Lerthai Commercial Management Company Limited ("BJ Lerthai")	The PRC	Registered capital of RMB550,000,000	–	–	100	100	Provision of management services
唐山勒泰房地產開發有限公司 TS Lerthai Development	The PRC	Registered capital of RMB250,000,000	–	–	100	100	Property development and investment
唐山勒泰購物廣場有限公司 TS Lerthai Shopping	The PRC	Registered capital of RMB250,000,000	–	–	100	100	Property development and investment
河北勒泰商業管理有限公司 Hebei Lerthai Commercial Management Company Limited ("Hebei Lerthai")	The PRC	Registered capital of RMB3,000,000	–	–	100	100	Property investment

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47. Subsidiaries (continued)

Particulars of the principal subsidiaries of the Company as at 31 December 2019 and 2018 are as follows: (continued)

Name of subsidiary	Place/country of incorporation/ operation	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	2019 %	2018 %	
邯鄲勒泰城房地產開發有限公司 Handan LT Municipal	The PRC	Registered capital of RMB98,980,000	-	-	100	100	Property development and investment
LT Commercial Management (International) Holdings Limited	BVI	US\$1 ordinary share	100	100	-	-	Provision of property management services
唐山勒泰遠洋城企業管理有限公司 Tangshan Lerthai Oceancity Mall Corporate Management Company Limited ("TS Corporate Management")	The PRC	Registered capital of RMB260,000,000	-	-	100	100	Property development and investment
唐山遠洋城購物廣場物業服務有限公司 Tangshan Oceancity Mall Property Management Services Company Limited ("TS Property Management")	The PRC	Registered capital of RMB50,000,000	-	-	100	100	Operation of shopping mall
唐山遠洋城置業服務有限公司 Tangshan Oceancity Mall Properties Services Company Limited ("TS Properties Services")	The PRC	Registered capital of RMB1,000,000	-	-	100	100	Property investment
Skyjoy Assets Management Limited	BVI	US\$6,399 ordinary shares	-	-	100	100	Investment holding

Notes to the Consolidated Financial Statements

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47. Subsidiaries (continued)

Particulars of the principal subsidiaries of the Company as at 31 December 2019 and 2018 are as follows: (continued)

Name of subsidiary	Place/country of incorporation/ operation	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	2019 %	2018 %	
石家莊勒泰房地產開發有限公司 Shijiazhuang Lerthai Real Estate Development Company Limited ("SJZ Property Development")	The PRC	Registered capital of RMB420,000,000	–	–	100	100	Property development and investment
石家莊勒泰商業管理有限公司 Shijiazhuang Lerthai Commercial Management Company Limited ("SJZ Commercial Management")	The PRC	Registered capital of RMB1,000,000	–	–	100	100	Property investment

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

SZ Lerthai, BJ Lerthai, TS Corporate Management and SJZ Property Development are wholly foreign-owned enterprises.

TS Lerthai Development, Handan LT Real Estate Development Company Limited, TS Lerthai Shopping, Hebei Lerthai, Handan LT Municipal, TS Property Management, TS Properties Services and SJZ Commercial Management are wholly domestic owned enterprises.

None of the subsidiaries had any debt securities subsisting as at 31 December 2019 and 2018 or at any time during the years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47. Subsidiaries (continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2019	2018
Investment holding	Cayman Islands	2	2
	BVI	7	8
	Hong Kong	8	7
	Canada	2	2
		19	19
Inactive	BVI	4	4
	Hong Kong	5	5
		9	9

48. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 19 June 2020.

Five Year Financial Summary

	For the year ended 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000 (Restated)	2016 HK\$'000 (Note b)	2015 HK\$'000 (Note b)
RESULTS					
Revenue	1,106,288	909,919	2,043,221	112,560	12,898
Profit/(loss) before taxation	241,834	1,117,160	995,988	(217,546)	(39,255)
Income tax (expense)/credit	(105,128)	(407,483)	(410,891)	(22,700)	742
Profit/(loss) for the year	136,706	709,677	585,097	(240,246)	(38,513)
Profit/(loss) for the year attributable to owners of the Company					
– From continuing operation	136,706	709,677	585,097	(240,246)	(41,497)
– From discontinued operation	–	–	–	–	2,984
	136,706	709,677	585,097	(240,246)	(38,513)
Earnings/(loss) per share (HK dollars) (Note a)					
– Basic	0.18	1.56	1.73	(0.71)	(0.11)
– Diluted	0.12	0.74	1.62	–	–

	As at 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000 (Restated)	2016 HK\$'000 (Note b)	2015 HK\$'000 (Note b)
ASSETS AND LIABILITIES					
Total assets	24,094,756	26,675,345	27,737,106	7,181,727	3,208,426
Total liabilities	18,544,547	(20,583,108)	(21,554,218)	(6,960,771)	(2,770,017)
Net assets	5,550,209	6,092,237	6,182,888	220,956	438,409
Net asset value per share (HK dollars)	7.23	8.86	18.25	0.65	1.29
Number of shares issued	767,654,861	687,877,084	338,765,987	338,765,987	338,765,987

Notes:

- The calculation of basic and diluted earnings per share is based on the profit attributable to owners of the Company for the years and on the weighted average number of shares in issue during the relevant years.
- The comparative amounts for the two years ended 31 December 2016 and 2015 have not been restated for the effects of merger accounting, resulting from the completion of acquisition of Lerthai International and Greatpro on 20 April 2018. For detailed financial information for the years ended 31 December 2016 and 2015 of the Lerthai International group and Greatpro group, please refer to the circular of the Company dated 28 March 2018.

Investment Properties and Properties under Development for Sales

Particulars of investment properties and properties under development for sales at 31 December 2019

Location	Type	Lease term	Effective % held	Gross floor area	Participated completion
Completed properties held for investment					
Tangshan Lerthai City – Phase 1 298 Beixin West Road Lubei District Tangshan City Hebei Province The PRC	Commercial, office and hotel	Long-term	100%	3,160,000 sq. ft.	N/A
Retail Podium of Shijiazhuang Lerthai Centre No. 39 Zhongshan East Road Chang'an District Shijiazhuang City Hebei Province The PRC	Shopping mall, commercial and carpark	Medium	100%	4,093,000 sq. ft.	N/A
Shijiazhuang Lerthai Centre Towers 1 to 4 No. 39 Zhongshan East Road Chang'an District Shijiazhuang City Hebei Province The PRC	Office, apartment and hotel	Medium	100%	1,415,000 sq. ft.	N/A
Tangshan Pelagic Mall (excluding Level 7) and two land parcels No. 128 Jianshe North Road Lubei District Tangshan City Hebei Province The PRC	Shopping mall, office and carpark	Medium	100%	1,220,000 sq. ft.	N/A
Properties under construction for investment and sale					
Tangshan Lerthai City – Phase 2 298 Beixin West Road Lubei District Tangshan City Hebei Province The PRC	Residential, commercial, office and hotel	Long-term	100%	3,764,000 sq. ft.	2020
North of Renmin Road, east of Lingxide Street, south of Congtai Road and west of Congtai Road Handan City Hebei Province The PRC	Residential and commercial	Long-term	100%	3,335,000 sq. ft.	2020
North of Qin River, east of Chengtneishong Street and south of Qingnian Road Handan City Hebei Province The PRC	Residential and commercial	Long-term	100%	3,307,000 sq. ft.	2020



勒泰
LERTHAI

Room 3303, Tower Two, Lippo Centre, 89 Queensway,
Admiralty, Hong Kong

www.lerthai.com.hk