天誉
SKYFAME

天譽置業(控股)有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00059)

Annual Report 2019

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Mr. WANG Chenghua
Mr. JIN Zhifeng *(appointed on 1 October 2019)*

Non-executive Director:

Mr. WONG Lok

Independent Non-executive Directors:

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

COMPANY SECRETARY

Mr. HUANG Tianbo

AUDIT COMMITTEE

Mr. CHOY Shu Kwan *(Chairman)*
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

REMUNERATION COMMITTEE

Ms. CHUNG Lai Fong *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Mr. YU Pan

NOMINATION COMMITTEE

Mr. YU Pan *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

RISK MANAGEMENT COMMITTEE

Mr. WEN Xiaobing *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

SHARE LISTING

Main Board of The Stock Exchange
of Hong Kong Limited, Stock Code: 00059

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

32nd to 33rd Floors of HNA Tower
8 Linhe Zhong Road, Tianhe District,
Guangzhou, Guangdong Province, the PRC
Telephone: (86-20) 2208 2888
Facsimile: (86-20) 2208 2777

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1401, 14/F., Capital Centre
151 Gloucester Road, Wanchai, Hong Kong
Telephone: (852) 2111 2259
Facsimile: (852) 2890 4459

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China Limited
China Minsheng Banking Corp., Ltd.
Industrial and Commercial Bank of China Limited
The Bank of East Asia, Limited
Industrial Bank Co., Ltd., Hong Kong Branch

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

CORPORATE INFORMATION

BOND LISTING

The Stock Exchange of Hong Kong Limited

The Company's medium term bonds due 2024, Stock Code: 05821 (ISIN: XS1130150391)

The Company's medium term bonds due 2024, Stock Code: 05580 (ISIN: XS1323898707)

The Company's medium term bonds due 2025, Stock Code: 05626 (ISIN: XS1397876258)

The Company's medium term bonds due 2026, Stock Code: 05310 (ISIN: XS1525845985)

The Company's medium term bonds due 2026, Stock Code: 05367 (ISIN: XS1558627771)

The Company's medium term bonds due 2031, Stock Code: 05855 (ISIN: XS1142114278)

The Company's medium term bonds due 2031, Stock Code: 05567 (ISIN: XS1304503268)

The Company's medium term bonds due 2032, Stock Code: 05602 (ISIN: XS1341411822)

The Company's medium term bonds due 2033, Stock Code: 05311 (ISIN: XS1525848575)

The Company's medium term bonds due 2033, Stock Code: 05379 (ISIN: XS1558627342)

Singapore Exchange Securities Trading Limited

The Company's US$274,000,000 13% Senior Notes due 2022 (ISIN: XS2022224047)

LEGAL ADVISERS

Hong Kong Laws:

Sidley Austin

Bermuda Laws:

Conyers Dill & Pearman

PRC Laws:

廣東瀛杜律師事務所
(Guangdong Yingdu Law Firm)
廣東聯合發展律師事務所
(Guangdong Lianhefazhan Law Firm)

COMPANY'S WEBSITE

http://www.skyfame.com.cn

CHAIRMAN'S STATEMENT

I am pleased with the record-high contracted sales, recognized revenue and earnings of the Group for 2019. Contracted sales reached RMB12.1 billion as targeted. Recognized property sales reached RMB6.50 billion for the year, an increase of 6.2% from last year. Due to the lower margin of properties delivered in the year, operating profits from ordinary businesses slowed down by 7.4% to RMB1,631.7 million. After-tax profits of the Group were maintained at RMB832.0 million, a 1.4% rise from last year whilst profit attributable to shareholders rose by 5.5% to RMB792.3 million.

Despite the setback on operating profits, with suitable land bank and project portfolio on hand, our management team is leaping to progressive business growth in the coming years. Based on our current assessment, we will have steady growth in sale revenue in the next three years. In view of the contracted sales of RMB12.1 billion achieved by the Company in 2019, I believe the vision of growth in medium-term is achievable given our expanded land bank.

As an expanding company, it is of primary importance to sustain growth and earnings for the best interests of our debt investors and shareholders. The current business environment is full of challenges as impacted by the epidemic and the general economic downturns. Property sales turn slow and market is depressed. Nonetheless, our management team will try our every effort to deliver our promise to our investors to sustain our business growth and earnings by executing plans to overcome the confronting obstacles.

Our management is closely monitoring the liquidity position of the Group from time to time to ensure the recent slowdowns in sales and delays in operations do not pose adverse material impacts on the ability to meet the commitments on debts and other contractual obligations of the Group. In this year, we have reduced the debts with short tenor. At the same time, we have been widening the financing channels and putting new financing or funding plans in place to repay debts when they fall due.

Moreover, our land acquisitions are conservatively set to an optimal scale that is suitable, but not excessive, to accommodate our needs for steady growth after taking into account the availability of funding. We emphasise on maintaining a reasonable and affordable leverage level to avoid placing too much reliance on borrowing. The scale of our land replenishment depends on the availability of resources from our organic growth and external financing obtainable by collateralisation of the acquisition targets or basing on the credit worthiness of the listed Group. Our management always drives on achieving an optimal balance between liquidity and expansion, to ensure there are rooms to absorb any unforeseeable obstacles.

CHAIRMAN'S STATEMENT

In selection of new lands and projects, we target on regions with business potential. Besides, preference is given on land lots that are suitable for the development of youth community projects, a hot seller to first home-buyers. According to such selection criteria, we are inclined to concentrate on and drill into regions in the Greater Bay Area in Guangdong province those regions where we have past experience and have project teams established. Currently, our land bank in the Greater Bay Area, counted in potential developable areas relating old district remodeling, reaches aggregate GFA of 7 million sq.m.. We trust that these regions and youth community developments are resilient to market turbulences. In addition, through the exercise of our expertise in acquisitions, we have been keeping a relatively low land cost in our existing project portfolio, only at an average land cost below RMB2,300 per saleable GFA. This will surely render our Group strong competitiveness in pricing and profitability amongst our peers.

We have good track record in old district remodeling in Guangzhou. Currently, our renewal project in Guangming, Shenzhen is on the pipeline for commencement of construction and ongoing renewal programs are being undergone at different stages in old districts in Huangpu (黃浦) and Baiyun (白雲), Guangzhou. Riding on our successful track record in the past in remodeling projects in Guangzhou, we believe we can obtain the redevelopment rights of the two sites on foreseeable timelines. Once the official legal rights in the old district renewals are obtained, estimated aggregate GFA of 4.34 million sq.m. of the two projects will turn from our potential land reserves to become a valuable and sizable component in our land bank. Our management team is now working closely with governmental authorities and representatives of villagers on the remodeling plans. In the midst of the newly imposed policies that have speeded up old district renewals in Guangdong province, our two remodeling projects receive responsive supports from district governments. We anticipate that we will obtain the redevelopment right of one of the two projects in 2020. This breakthrough will add some estimated GFA of 1.32 million sq.m into our present property portfolio in the current year.

I am endeavoring to collaborate with the management team and business affiliates to leap over the challenges towards a more stable business environment in the coming year after the epidemic., Being the chairman of the board of directors and also the chief executive officer of the Company, I would also like to express my sincere gratitude to all our staff, customers, suppliers and business associates, creditors and shareholders for their unwavering assistance and support to the Group in the past years.

YU Pan
Chairman

Hong Kong, 20 March 2020

CORPORATE PROFILE

Skyfame Realty (Holdings) Limited ("**Skyfame**") is a company listed on the main board of The Stock Exchange of Hong Kong Limited under stock code 00059. Skyfame is an investment holding company which subsidiaries are principally engaged in the property development, property investment, property management and commercial operations.

The Group focuses on the development of a wide range of property types including residential and commercial properties, offices, serviced apartments and hotels in China as well as property investment and property management. Rooted in Guangzhou, the Group explores into cities in the mainland with high potentials with particular focus on the development of community projects tailored-made for young home buyers. Currently, the Group holds a portfolio of development projects and land reserves covering Guangzhou, Zhongshan, Zhuhai, Shenzhen and Huizhou in the Greater Bay Area, Nanning, Guilin, Xuzhou and Nanchang in the southeast region, and Chongqing, Kunming and Cuiyang in the southwest region.

The Group holds project portfolio with an aggregated GFA of approximately 28.06 million sq.m. which consists of GFA of 8.8 million sq.m. existing projects completed, under development or for imminent development, and GFA of 19.26 million sq.m. of potential land reserves in Greater Bay Area, Nanning, Guilin, Xuzhou and Kunming for which co-operation agreements have been contracted with local governments or a third party pending land auctions, or framework agreements signed with parties involved in the redevelopment of old districts in Guangzhou and Shenzhen.

Leveraging on our management expertise in the property development business with specialty on the refurbishment of old urban areas and the development of youth community projects, the Group has established itself as a reputable and trustworthy property developer on mainland China.

2019 Event Highlights

March

- Our project company engaged in the re-development of an old factory premise in Guangming New District, Shenzhen received the official right to develop the area into renovative industrial with a total GFA of approximately 170,000 sq.m. The project is located about 1 km from line 6 of Guangming Central Station of the Shenzhen Metro and is next to the Shenzhen campus of Sun Yat-sen University.

July

- The Group acquired 51% equity interest in Guiyang Royal Spring Project. The project provides a total GFA of approximately 336,000 sq.m. for a residential development.
- Skyfame first issued 13% senior notes due 2022 in the aggregate principal amount of US$105 million. The notes were issued at par bearing interest at a rate of 13% per annum and payable semi-annually. The notes are listed on the Singapore Exchange Securities Trading Limited.

CORPORATE PROFILE

August	•	The Group acquired land for its third project, namely "Xuzhou Sino-Skyfame Smart City" in Xuzhou, Jiangsu province, at a consideration of RMB525 million for an integrated development consisting of residential, serviced apartments, commercial properties and a hotel of a total GFA of approximately 524,000 square meters.
September	•	The Group acquired 4 parcels of land in Lipu, Guilin at a consideration of RMB230 million for the development of the Skyfame Wellnes Valley Project. The project is expected to have a total GFA of approximately 233,000 sq.m. and will be a cultural and tourism spot on completion.
	•	The Group acquired the entire interest in Nanchang Skyfame Phoenix's Shade Project at a consideration of RMB160 million, which is expected to have a total GFA of approximately 110,000 sq.m.
	•	Skyfame first tapped its existing U$$105 million 13% senior notes due 2022 for an additional U$$100 million, bringing the total issuance to U$$205 million. The notes were issued at par and are listed on the Singapore Exchange Securities Trading Limited.
October	•	The Group acquired a piece of land for its second project in Kunming, namely Kunming Skyfame Smart City Project, at a consideration of RMB392 million, which is expected to have a total GFA of approximately 517,000 sq.m.
November	•	The Group acquired the entire equity interest in the Chongqing Skyfame Linxi Residence, a residential project, at a consideration of RMB650 million, which is expected to have a total GFA of approximately 460,000 sq.m..
	•	Skyfame completed the second tap issues of US$69 million 13% senior notes due 2022, bringing the total issuance of notes to US$274 million. The notes were issued at par and are listed on the Singapore Exchange Securities Trading Limited. After then and together with other private bonds issuance, Skyfame had substantially completed its US$300 million bond issue plan in 2019.
December	•	The Group entered into an agreement to acquire the entire interest in Zhuhai Golden Bay Project at a consideration of RMB880 million, which is to be built up into a residential development of a total GFA of approximately 295,000 sq.m. The transaction is expected to be completed in April 2020.

CORPORATE PROFILE

Major Honours and Awards in 2019

(A) The Group

- On 7 May 2019, Skyfame Realty was ranked 92th among the "Top 100 Hong Kong Listed Companies in terms of Comprehensive Strength" by Top 100 Hong Kong Listed Companies Research Center;
- On 28 May 2019, Skyfame Realty was awarded the "2019 Quality China Real Estate Developer" by the Organizing Committee of China Real Estate Enterprise Awards;
- On 25 July 2019, Skyfame Realty was awarded the "ListCo Excellence Awards" by the Hong Kong Institute of Financial Analysts and Professional Commentators Limited;
- On 7 August 2019, Skyfame Realty was awarded three honor titles, namely, the "2019 Top 10 Capital Investment Value of Guangdong-Hong Kong-Macau Greater Bay Area", "2019 Top 10 China Real Estate Enterprises Employer Brands", "Top 10 Investment Value in the Guangdong-Hong Kong-Macao Greater Bay Area in 2019" by EH Consulting;
- On 29 November 2019, Skyfame Realty was awarded the "China (South China) Real Estate Brand Value Enterprise Award" by the Guangzhou Housing Society;
- On 29 November 2019, Skyfame Realty was awarded the 11th China Land Oscar, "Brand Enterprise Award 2019", by Nanfang Metropolis Daily;
- On 5 December 2019, Skyfame Realty was awarded the "Times Printing — Integrated Value Operator Award" by ifeng.com;
- On 5 December 2019, Skyfame Realty was awarded the "2019 China Listed Real Estate Enterprises Business Innovation Award" by Gelonghui;
- On 19 December 2019, Skyfame Realty was awarded the "Most Influential Brand of Craftsmanship in 2019" by Guangdong Chamber of Commerce and NetEase Real Estate;
- On 26 December 2019, Skyfame Realty was awarded the "2019 Social Influence Representative Enterprise Award" by Guangzhou Daily
- On 27 December 2019, Skyfame Realty was awarded the "2019 Property Conference Urban Development Contribution Brand Property Award" by New Express

CORPORATE PROFILE

Major Honours and Awards in 2019 (continued)

(B) Our Projects

Nanning Skyfame City

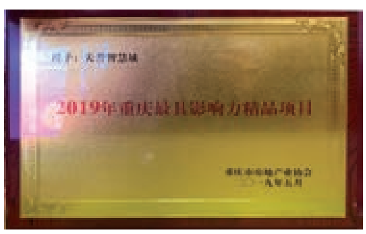
Nanning Skyfame Garden project and Nanning Skyfame ASEAN Maker Town project are collectively known as Nanning Skyfame City project. The project was granted various premium awards, namely the "Star of Apartment Net" by ifeng.com and Guangxi Radio and Television, the "Grand City of Binjiang Metropolis" by Nanning Evening News, Guangxi Radio and Television, FM95.0, the "2019 Quality Residential Contribution Award" by Nanning Morning Post and House Weekly, and the "2019 Guangxi Top Brand Real Estate Enterprise Award" by FM93.0, Star Media, Perfect Real Estate and Tencent Real Estate (Guangxi), as well as "2019 Influential Property Market Complex in Guangxi" jointly organized by the Yi Fan Real Estate Service Center, the Real Estate Net and the Guangxi Real Estate Business School.

Chongqing Skyfame Smart City

Chongqing Skyfame Smart City fetched the "Home Innovation LIVE + China Western Driving Award of the Year" jointly awarded by Tencent News, Interface News, House Observer, and awarded the "Top Ten Property Community in Chongqing" by Chongqing Daily, the "Most Influential Boutique Project of Chongqing in 2019" by Chongqing Real Estate Association, the "2019 China Complex New Landmark" by China Index Academy, and the "Commercial Complex with Best Investment Value" by Chongqing Radio and Television, the "Outstanding Contribution Award for Urban Construction in Chongqing", "Outstanding Model Award for Living in Chongqing" by Sohu Focus Chongqing Station, and the "2019 Property Project with Customer Attention" by Anjuke Chongqing Branch.

Kunming Anning Linxi Valley (Phase 1 of youth community) Project

Our youth community project in Kunming was jointly awarded the "Influential Star Property in 2019" by Nanfang.com and Cloud Watch New Media, and was awarded the "2019 Real Estate Annual User Attractive Project in Kunming" by Anjuke, as well as the "2019 Quality Property Project" by Sohu Focus.



CORPORATE PROFILE

Major Honours and Awards in 2019 (continued)

(B) Our Projects (continued)

Guangzhou Skyfame Byland

Guangzhou Skyfame Byland was awarded the "Guangzhou-Foshan Trendy Awards of the Year" in the 3rd Property Market Leader List, which was published in the property markets in Guangzhou, Foshan and Greater Bay Area organized by Excellent House and supported by a number of media such as Toutiao, Sina Weibo, Yidian Information, NetEase News, Phoenix News, Sohu News, etc. Furthermore, Guangzhou Skyfame Byland was awarded the "2019 Brand Enterprise" Award for playing a role model in the new era which was organized by Yangcheng Evening News, and the "Guangzhou Riverview Habitat Landmark Award" at the 2019 Property Awards by Guangdong Radio and Television Real Estate Channel. The project was also awarded the "Quality Property with Craftsmanship of the Year" organized by Sohu Focus (Guangzhou) and Focus Finance, the "Top 10 Luxury Residence of Guangzhou in 2019" by CRIC Home Enterprise (China) Group, the "Top 10 Luxury Residence of Guangzhou in 2019" by Guangzhou PLUS, Zhaiwen, the "Ultimate and City Centre Benchmark Property" in the 2019 China Real Estate Champion List published by Guangdong Real Estate Chamber of Commerce and NetEase News and Real Estate Channel, and the "Contribution Award for Urban Development" of the 2019 Property Conference by New Express

Projects in Xuzhou

Our two youth community projects in Xuzhou were awarded three honors by Xuzhou Newspaper and Media Group, namely "2019 Xuzhou Guaranty Building", "2019 Xuzhou Credible Real Estate Enterprise" and "2019 Xuzhou Ecological Habitat Model Project". Furthermore, Xuzhou Skyfame Time City was awarded the "Most Anticipated Property Project in 2020" by Xuzhou Sina Leju, the "2019 Xuzhou Most Influential Property Project" and the "2020 Xuzhou Broadcasting and Television Commentator of Property Industry" by Xuzhou Radio and Television Media Group. The project was also assessed by the Xuzhou Network Culture Association as the "2019 Xuzhou City Best Public Welfare Partner" and the "2019 Xuzhou City Excellent Network Culture Project", and Jointly elected the "Xuzhou Large and Grand Model House • 2020 Recommended Property Project" by Jiangsu Real Estate of China News Network and Xuzhou Youtao Real Estate Studio

MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

The year 2019 was a volatile year in global capital markets. Trade war between the US and China triggered a general slow-down in economic growth in the PRC. Nonetheless, in these backdrops, we have achieved contracted sales of RMB12.1 billion, a 29.1% growth from RMB9.37 billion for 2018. These contracted sales will be recognized as property sales in 2020 and 2021 upon deliveries of the contracted properties to buyers.

During the year, we had five projects with properties delivered, namely Guangzhou Skyfame Byland, Nanning Skyfame Garden, Skyfame Nanning ASEAN Maker Town, Chongqing Skyfame • Smart City and Xuzhou Skyfame Time City. The Group delivered aggregate GFA of 898,000 sq.m. and recorded property sale revenue before direct taxes of RMB6,937 million. Comparing with 2018, revenue for the year rose 6.2% due to bigger GFA delivered but carried lower average selling prices due to different mixtures in products and markets in the two years. In 2018, a higher proportion of revenue came from high-end residential properties sold in Zhoutouzui, Guangzhou whilst the products sold in 2019 are mostly properties in mass markets in second-tier cities in Nanning and Xuzhou.

We have been persistently acquiring new lands and projects to replenish our land bank for future development. As of 31 December 2019, the Group's portfolio of 19 projects on hand offers a total uncontracted saleable GFA of 3,326,000 sq.m. (2018: 2,144,000 sq.m.). The gradually expanded land reserves will secure a persistent business growth in contracted sales for the years 2020 and 2021.

The Group's recognized sales of properties in sale value before direct taxes and saleable GFA by projects for the year are as follows:

	Recognized Sales	
Project	**Gross Amount** *RMB'million*	**GFA Delivered** *sq.m.*
Guangzhou Skyfame Byland	461	7,000
Nanning Skyfame Garden	2,042	408,000
Nanning Skyfame ASEAN Maker Town	2,958	259,000
Xuzhou Skyfame Time City	1,368	215,000
Chongqing Skyfame • Smart City	108	9,000
Total in year 2019	6,937	898,000
Total in year 2018	6,530	583,000

In 2019, we recorded contracted sales totaling RMB12.1 billion (2019: RMB9.37 billion) in GFA of 1,217,000 sq.m. (2018: 724,000 sq.m.) at overall before-tax average selling price of RMB10,000 per sq.m. (2018: RMB12,900 per sq.m.). The increase in the GFA contracted, covering 8 projects under development and completed projects, contributed record-breaking contracted sales to the Group. The drop in average selling prices for the contracted sales in 2019 was caused by the differences in market and product mixtures with 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO

As at 31 December 2019, we have project portfolio and potential land reserves in aggregate GFA of 28.0 million sq.m. located in Guangzhou, Shenzhen, Zhongshan, Zhuhai, Huizhou in the Guangdong-Hong Kong-Macao Greater Bay Area, Nanning, Guilin, Xuzhou and Nanchang in the southeast region, and Chongqing, Kunming and Guizhou in the southwest region. The land reserves provide us a solid capacity for a sustainable growth in the approaching timelines. Depending on the status of development of each project, the profiles about our land bank are categorized into group 1 as "properties completed, under or held for development", and group 2 as "potential land reserves" as below:

1. *Properties completed, under or held for development*

In the beginning of the year, we held ten real estate development projects in mainland China of which two have been completed and the others under construction or for imminent development. In addition, we have acquired six new projects through acquisition deals or land auctions during the year, together with two joint venture projects we participated in and one project held by a third party that we acting as project manager, all in all, we are holding interests in nineteen projects, either completed, under construction or for future development. As at 31 December 2019, all these nineteen projects renders a total GFA of approximately 8.80 million sq.m. (2018: 5.87 million sq.m.), of which GFA of 6.90 million sq.m (2018: 4.54 million sq.m.) are saleable. Excluding GFA of 1.83 million sq.m. that have been delivered in prior years, aggregate GFA of 5.07 million sq.m. will be ready for deliveries to buyers or to be held by the Company for investment properties throughout the periods from 2020 and up till 2023.

The table below sets out details of the project portfolio:

Project	Location	Property type	Estimated total GFA *(sq.m.)*	Estimated total saleable GFA *(Note a)* *(sq.m.)*	Accumulated saleable GFA delivered *(sq.m.)*	Actual/ Estimated completion year	The Group's interest
Guangzhou Skyfame Byland	Guangzhou	Residential & commercial	320,000	160,000	118,000	2017 – 19	100%
Shenzhen Dachitdat Project	Shenzhen	Residential & commercial	168,000	120,000	-	2022	100%
Zhongshan Skyfame Rainbow	Zhongshan	Residential & ancillary commercial	105,000	89,000	-	2020	51%
Huiyang Poly Champagne Chorus	Huizhou	Residential & ancillary commercial	161,000	131,000	-	2021 – 22	*(note d)*
Zhuhai Golden Bay Project (acquired in 2019)	Zhuhai	Residential & ancillary commercial	295,000	211,000	-	2022	100%
Guangzhou Luogang Project	Guangzhou	Residential & ancillary commercial	122,000	101,000	-	2023	100%
Nanning Skyfame Garden	Nanning	Residential & ancillary commercial	1,211,000	951,000	912,000	2016 – 18	80%

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. Properties completed, under or held for development (Continued)

Project	Location	Property type	Estimated total GFA *(sq.m.)*	Estimated total saleable GFA *(Note a)* *(sq.m.)*	Accumulated saleable GFA delivered *(sq.m.)*	Actual/ Estimated completion year	The Group's interest
Nanning Skyfame ASEAN Maker Town	Nanning	Composite development	1,316,000	1,050,000	407,000	2018 – 23	100%
Guilin Skyfame Wellnes Valley (acquired in 2019)	Guilin	Villas, residential & serviced apartments	233,000	230,000	–	2021 – 23	100%
Xuzhou Skyfame Time City	Xuzhou	Composite development	473,000	383,000	215,000	2019 – 20	70%
Xuzhou Skyfame Elegance Garden	Xuzhou	Residential & ancillary commercial	207,000	158,000	–	2021	78%
Xuzhou Sino-Skyfame Smart City (acquired in 2019)	Xuzhou	Residential & ancillary commercial	524,000	409,000	–	2022 – 23	100%
Nanchang Skyfame Phoenix's Shade (acquired in 2019)	Nanchang	Villas, residential & ancillary commercial	119,000	110,000	10,000	2013	66%
Chongqing Skyfame • Smart City	Chongqing	Composite development	1,190,000	968,000	172,000	2017 – 22	100%
Chongqing Skyfame Linxi Residence (acquired in 2019)	Chongqing	Residential & ancillary commercial	458,000	369,000	–	2021 – 22	100%
Kunming Anning Linxi Valley	Kunming	Residential & ancillary commercial	295,000	256,000	–	2021	*(note c)*
Kunming Skyfame Smart City (acquired in 2019)	Kunming	Residential & ancillary commercial	517,000	398,000	–	2021 – 22	90%
Sub-total – developed by the Group			**7,714,000**	**6,094,000**	**1,834,000**		
Nanning Spiritual Mansions *(note b)*	Nanning	Residential and ancillary commercial	749,000	582,000	–	2020 – 22	40%
Guiyang Royal Spring *(note b)* (acquired in 2019)	Guizhou	Residential & commercial	336,000	222,000	–	2020	51%
Sub-total – developed by joint ventures			**1,085,000**	**804,000**	**–**		
Total			**8,799,000**	**6,898,000**	**1,834,000**		

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. Properties completed, under or held for development (Continued)

Note:

(a) Total saleable GFA excludes un-saleable areas for municipal facilities, area allocated to cooperative partner and resettlement housing to be provided without sale considerations in certain projects.

(b) Nanning Spiritual Mansions (formerly known as "Nanning Impression of Sandalwood") and Guiyang Royal Spring are projects developed by joint venture entities. The above project profile refers to the GFAs under development by the two entities.

(c) Kunming Anning Linxi Valley is a project which the Group owns the rights and obligation on the properties under development, and the Group controls the project development. The above project profile refers to GFAs under development by the project company.

(d) Huiyang Poly Champagne Chorus is a project managed by the Group as project manager pursuant to an agreement. The above project profile refers to the GFAs under development by the project company.

In Guangdong-Hong Kong-Macao Greater Bay Area:

(1) Guangzhou Skyfame Byland

The project, named as "Guangzhou Skyfame Byland" ("廣州天譽半島"), is a subsidiary of the Company whereas a third party, Guangzhou Port Group Co., Limited (廣州港集團有限公司), is entitled to share 28% in developable GFA of the completed properties. The legal title over the remaining 72% of the completed properties rests with the Group.

The plot is located at Zhoutouzui, Haizhu district, Guangzhou, at the riverside of Bai e lake, one of the top 8 attractions in Guangzhou. The project represents the only sizable luxury living community with the widest river view in downtown of Guangzhou. The project is a mixed-use development with a total GFA of approximately 320,000 sq.m., consisting of 7 towers comprising residential apartments, offices, serviced apartments, municipal and other facilities, underground car parking facilities and supporting commercial facilities.

The entire project had been completed. Up to 31 December 2019, other than GFA53,000 sq.m. allocated to Guangzhou Port Group Co., Limited and aggregate saleable GFA of 118,000 sq.m. have been delivered to buyers, and remaining GFA of 11,000 sq.m. for sale. Another 800 car parking spaces and the entire block of tower A1 in aggregate GFA of 20,000 sq.m. are retained by the Group for long-term leasing purpose.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. Properties completed, under or held for development (Continued)

(2) Shenzhen Dachitdat Project

During the year, we completed the demolition works on the land, an old district remodelling project located at the southeast of Guangming New Zone, Shenzhen. The project company holds a right to redevelop on the land for a total GFA of 168,000 sq.m. (total saleable GFA of 120,000 sq.m.) for innovative industrial premises, serviced apartments and offices.

Construction will commence in 2020 right after obtaining the necessary certificates.

(3) Zhongshan Skyfame Rainbow

The project, named as Zhongshan Skyfame Rainbow ("中山天譽虹悦") and located on Cui Sha Road (翠沙路), Rainbow Planning Zone at the north of West Zone, Zhongshan, Guangdong province, is a residential development with ancillary commercial properties. Total GFA is about 105,000 sq.m. (saleable GFA of 89,000 sq.m.).

Construction is scheduled to be completed in 2020.

(4) Huiyang Poly Champagne Chorus

In 2019, a subsidiary of the Group was authorized pursuant to an agreement entered with the project company to perform project management service on a project in Huiyang, Guangdong province. The project covers a total GFA of 161,000 sq.m. residential and ancillary commercial properties (saleable GFA of 131,000 sq.m.. Construction will be completed by phases in 2021 and 2022. The Group will receive an annual service fee of approximately RMB50 million for service provided for the first year and fee scaled to the amount of property sales thereafter.

(5) Zhuhai Golden Bay Project

In late December 2019, the Group entered into an agreement with two third parties to acquire the entire equity interest in a company engaged in a development project in Economic Zone of Gaolan Harbour, Pingshan New Town, Zhuhai, Guangdong province. The project will be built up to feature a residential development with total GFA of 211,000 sq.m. for sale and GFA 22,000 sq.m. to be surrendered to the local government as social subsided housing for talents and public rental housing. Total acquisition consideration is RMB880 million. The purchase agreement will be completed on or before 30 April 2020 upon the payment of the outstanding acquisition cost of RMB480 million. Construction is in progress and the management expects to complete the project in 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. Properties completed, under or held for development (Continued)

(6) Guangzhou Luogang Project

The project is located at the north of Yin Tong Road (賢堂路) of Yonghe District in Huangpu, Guangzhou. The project occupies a site of 50,263 sq.m. with planned GFA of 122,000 sq.m. (total saleable GFA of 101,000 sq.m). The land is originally granted for industrial purpose and our management plans to develop the project into serviced apartments and commercial properties. The management is currently negotiating with the district government about the redevelopment of the zone into a commercial project.

In Southeast Region:

(7) Nanning Skyfame Garden

Nanning Skyfame Garden and Skyfame Nanning ASEAN Maker Town, are collectively branded as "Nanning Skyfame City" ("南寧天譽城").

The project is located in the business hub of Wuxiang New District (五象新區) at the southeast of the downtown of Nanning, the capital of Guangxi province. The project has been developed into a residential community, namely "Nanning Skyfame Garden" ("南寧天譽花園"), with a total GFA of 1,211,000 sq.m. (saleable GFA of approximately 951,000 sq.m.), covering 65 towers and consisting of GFA of 964,000 sq.m. for residential and retail properties, car parking facilities and public and municipal facilities, and GFA of approximately 247,000 sq.m. for residential and commercial units for the resettlement of original occupants.

The entire project was completed in 2018. Up to 31 December 2019, sales of GFA of 912,000 sq.m. have been delivered and the remaining GFA are on sale or held for the operation of our second "Yuwu Startup" co-work place opened in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. Properties completed, under or held for development (Continued)

(8) Nanning Skyfame ASEAN Maker Town

The development covers three land plots of 194,221 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi. The project is within walking distance from Nanning Skyfame Garden.

The project is a development complex divided into east and west zone and is developed in phases. Planned total GFA is 1,316,000 sq.m. (saleable GFA of approximately 1,050,000 sq.m.). The east zone features A-class offices, retail properties and an international 5-star hotel branded as Westin Nanning in a skyscraper in a height of 346 meters named as the Skyfame ASEAN Tower ("天譽東盟塔"), together with a community development consisting of serviced apartments, retail properties, and ancillary facilities specifically developed for young occupants named as "the World of Mr. Fish" ("魚先生的世界"). The west zone features residential and retail properties named as "Nanning Skyfame Byland" ("南寧天譽半島"). Construction works of the two zones is scheduled to complete by phases in the years between 2018 and 2023. The development, when completed, will then be a landmark in Wuxiang New District.

Up to 31 December 2019, residential and commercial units of saleable GFA of 407,000 sq.m. have been delivered. For the undelivered saleable GFA of 643,000 sq.m., the management plans to retain GFA of 50,000 sq.m. to be held for long-term purpose for leasing to tenants engaged in retailing and distribution businesses, and the remaining GFA of 593,000 sq.m are scheduled to be delivered in 2020 onwards until 2023, the expected year of delivery of Skyfame ASEAN Tower.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. Properties completed, under or held for development (Continued)

(9) Nanning Spiritual Mansions

The Group participates in a joint venture arrangement with 40% equity interest in a project company formed with two other local developers. The project is located in the core area of Wuxiang New Zone, between Skyfame Garden and Vanke Park, at the north of Yudong Avenue (玉洞大道) in Liangqing District, Nanning. The project, named as "Nanning Spiritual Mansions" ("檀府 • 印象"), is situated on a land plot of approximately 138,000 sq.m. and to be developed in GFA of 749,000 sq.m. (saleable GFA of 582,000 sq.m.), covering residential and commercial properties, school and municipal facilities. Construction works commenced in 2018 and will be completed in phases starting from 2020. The project is currently 94% contracted for sale.

(10) Guilin Skyfame Wellnes Valley

The land of the project was acquired through a public auction in the third quarter of 2019. The project, named as ("天譽養生谷"), is located in Lipu city (荔浦市) at the south of Guilin city. Lipu is the transportation hub to Guilin (桂林), Liaozhou (柳州), Wuzhou (梧州) and Hezhou (賀州) cities in Guangxi. The plot is rich of natural scenery resources making the project an attractive culture and tourism development. We plan to develop the project into villas, residences and serviced apartments, a hotel and tourist scenic spot. Total GFA to be developed is 233,000 sq.m. of which 230,000 sq.m is saleable.

Construction commenced in late 2019. Pre-sale will start in 2020 and delivery is expected in 2021 to 2023.

(11) Xuzhou Skyfame Time City

Xuzhou Skyfame Time City ("徐州天譽時代城") is located at Xuzhou Quanshan Jiangsu Economic Development Zone (江蘇徐州泉山經濟開發區) in Xuzhou, Jiangsu province. It is situated in Times Avenue South and Xufeng Highway West in Xuzhou. It is an eco-residential and commercial development. Total GFA is 473,000 sq.m. (saleable GFA of 383,000 sq.m.). Construction works commenced in 2017. The project will be completed in phases.

Up to 31 December 2019, residential and ancillary commercial units of saleable GFA of 215,000 sq.m. have been delivered with the remaining saleable GFA of 19,000 sq.m. on sale.

(12) Xuzhou Skyfame Elegance Garden

The project, named as Xuzhou Skyfame Elegance Garden ("徐州天譽雅園"), is located at 1 km apart from Xuzhou Skyfame Time City.

The land plot was acquired through a land auction in 2017. The project will be developed into a residential and ancillary commercial development. Total GFA is about 207,000 sq.m. (saleable GFA of 158,000 sq.m.). The initial pre-sale took place in late 2019. Construction works are expected to be completed in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. *Properties completed, under or held for development (Continued)*

(13) *Xuzhou Sino-Skyfame Smart City*

The land of the project was acquired through a land auction in the third quarter of 2019. The site is located in the north of the downtown of Xuzhou in Jiulihu district (九里湖)，next to the Zhangxiaolou (張小樓) river and a wetland park under plan. The project, namely Xuzhou Sino-Skyfame Smart City ("徐州中譽智慧城")， is a mixed development in a total GFA of 524,000 sq.m. (saleable GFA of 409,000 sq.m.), consisting of residential, serviced apartments, commercial properties and a hotel. Construction will commence in 2020. Completion is expected to take place in 2022 to 2023.

(14) *Nanchang Skyfame Phoenix's Shade*

The equity interest of the project was acquired in late 2019. The site, located in An Yi Xian (安義縣), a national graded eco-friendly living showcase at the northwest from the city of Nanchang, Jiangxi province. The project, named as Skyfame Phoenix's Shade ("天譽鳳凰樾")， with a total saleable GFA of 110,000 sq.m. to be developed into GFA of 78,000 sq.m. for villas and residential properties, GFA of 6,000 sq.m. for street-level shops and a hotel of 26,000 sq.m. The entire project has been completed on acquisition but subject to certain minor rectification and upgrading works. As of 31 December 2019, GFA of 21,000 sq.m were contracted for sales, and the remaining GFA of 89,000 sq.m. on sale.

In Southwest Region:

(15) *Chongqing Skyfame • Smart City*

The project is located in Nanan District of Chongqing, one of the city's three major CBDs embracing the central government district, at the river shore of the Yangsze river. The location is one of the top ten key development zones in Chongqing. Total GFA of approximately 1.2 million sq.m. are being developed in two phases into residential, LOFT apartments and commercial properties.

The equity interests in the project company were acquired in phases starting in 2018 and completed in 2019. Phase 1 of the project, named as "Gold Purple" ("紫金一品"), was completed upon our acquisition of the project. Phase 1 consists of GFA 313,000 sq.m. (saleable GFA 254,000 sq.m.). Aggregate saleable GFA of 188,000 sq.m. have been contracted and of 172,000 sq.m. have been delivered up to 31 December 2019 whilst saleable GFA of 82,000 sq.m., mainly retail properties, remain on sale.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. Properties completed, under or held for development (Continued)

(15) Chongqing Skyfame • Smart City (Continued)

Phase 2, named as "Chongqing Skyfame • Smart City" ("重慶天譽 • 智慧城"), is a mixed development consisting of residences, serviced apartments, offices, shopping mall and carparking spaces, in total GFA of 877,000 sq.m. (saleable GFA of 714,000), of which GFA of 249,000 sq.m. are developed for commercial properties to be held on long term and remaining 465,000 sq.m. for sale. Construction commenced in mid-2018 and pre-sale in late 2018. Up to 31 December 2019, sales of GFA of 213,000 sq.m. have been contracted. Delivery is scheduled to take place by phases starting from 2020 and until 2022.

(16) Chongqing Skyfame Linxi Residence

The entire equity interest in the project company was acquired in late 2019. The main asset of the project company is a bare land, located at the gateway of Chongqing in the west. The land will be developed into residential and ancillary commercial properties of GFA of 458,000 sq.m. (saleable GFA of 369,000 sq.m.). Construction will commence in 2020. The project is named as "Chongqing Skyfame Linxi Residence" ("重慶天譽林溪府").

(17) Kunming Anning Linxi Valley

In 2018, the Group acquired profit-sharing interests in a project company in Anning city of Kunming, Yunnan province. The project, named as "Kunming Anning Linxi Valley, Phase 1" ("昆明安寧林溪谷一期"), is erected on a plot of approximately 190,800 sq.m. with a planned GFA of approximately 295,000 sq.m. (saleable GFA of 256,000 sq.m.), which will be developed into villas, residential and ancillary commercial properties. Construction commenced in late 2018 and will be completed in 2021. First phase of pre-sale was launched in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

1. *Properties completed, under or held for development (Continued)*

(18) *Kunming Skyfame Smart City*

The land of this project was acquired through a land auction in late 2019. The plot is situated in the northeast of Anning city of Kunming. The project, named as Kunming Skyfame Smart City ("昆明天譽智慧城"), is the first phase of a youth community project and is a residential development with total GFA of 517,000 sq.m. (saleable GFA of 398,000 sq.m.). Construction will commence in early 2020. Pre-sale is scheduled to take place in 2020 and completion in the years 2021 and 2022.

(19) *Guiyang Royal Spring*

In 2019, we acquired a 51% equity interest in a project company engaged in a residential project in Guiyang, Guizhou province in which the Group participates in the operation but does not play a controlling role. The project, named as "Guiyang Royal Spring" ("温泉御景"), is situated on two plots, provides a total developable GFA of approximately 336,000 sq.m. and saleable GFA of 222,000 sq.m. As of 31 December 2019, the project company contracted saleable GFA totalling 175,000 sq.m. The project will start to hand-over in 2020. Remaining GFA of 47,000 sq.m. are on sale.

Included in the development projects listed above, as of 31 December 2019, the Group had two projects (Zhuhai Golden Bay Project and Guangzhou Luogang Project) with development rights enabling the Group to commence development subject to fulfilment of certain conditions under the acquisition agreement or obtaining government approval on conversion of land uses. Investment costs paid on these projects are presented as prepayments for proposed projects grouped into "Other receivables and prepayments" of the consolidated balance sheet of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (Continued)

2. *Potential Land Reserves*

2.1 *Intended bids for lands*

To prepare for future land replenishments, we have signed co-operation agreements with local governments or a third party in Nanning, Xuzhou and Kunming for obtaining lands through future public auctions with an aggregate GFA of 13.26 million sq.m. The lands will be launched for auctions when the conditions set out in the agreements have been fulfilled.

2.2 *Refurbishment of old urban areas*

The Group also holds potential land reserves through its participation in the redevelopment of some old districts that are subject to urban redevelopment programs being implemented by local governments in Guangzhou. These remodelling projects will provide estimated GFA of 6.0 million sq.m.. Investments made on these projects are included as prepayments for proposed projects grouped into "Other receivables and prepayments" on the consolidated balance sheet.

Upon obtaining the governmental approval of urban area refurbishment and completion of pending land auctions, the Group has a capacity of additional land bank in estimated GFA totaling 19.26 million sq.m..

C. INVESTMENT PROPERTIES

Alongside with the development of properties for sale, the management selects suitable properties from the Group's projects portfolio that renders satisfactory rental yields and has capital appreciation potential. The rental income contributes stable income to the Group. As at 31 December 2019, the Group holds seven investment properties in an aggregate GFA of 338,000 sq.m. at aggregated fair values of RMB3,512 million in Chongqing, Nanning, Guangzhou and Hong Kong for current and future leasing income with details as follows:

1. *Commercial properties in Chongqing Skyfame Smart City*

As a condition of the land transfer contract in respect of the properties under development in Chongqing Skyfame Smart City, aggregate GFA of 248,800 sq.m. is to be built into commercial properties for long-term investment purpose. These properties, when completed in 2022, will become part of an integrated complex development in a central business district at the Southern Shore District of Chongqing. The property, carries an open market value of RMB1,297 million as at 31 December 2019 (31 December 2018: RMB1,215 million) as valued by an independent valuer.

2. *Commercial properties in Skyfame Nanning ASEAN Maker Town*

Total GFA of 50,000 sq.m. is being built by the project company for leasing to tenants engaged in retail and distribution businesses. This investment property is situated in the east zone of the land plot where grade-A offices, an international hotel and a skyscraper are being built. The property, carries an open market value of RMB527 million as valued by an independent valuer.

MANAGEMENT DISCUSSION AND ANALYSIS

C. INVESTMENT PROPERTIES (Continued)

3. *Guangzhou Skyfame Byland*

a. A tower, consisting of GFA of 9,900 sq.m., is contracted with a renowned hotel operator of serviced apartments under a tenancy agreement for a term of 20 years commencing 31 December 2019 at fixed monthly rentals. The construction was completed in 2019. The fair value of the property is RMB528.0 million as at 31 December 2019 (31 December 2018: RMB520.0 million) as valued by an independent valuer.

b. *Car parking spaces in Guangzhou Skyfame Byland*

800 car parking spaces in the completed premises were leased to a management company for fixed monthly rentals. These car parking spaces carry a fair value of RMB536.0 million as of 31 December 2019 (31 December 2018: RMB520.0 million) as valued by an independent valuer.

4. *Commercial podium at Tianyu Garden Phase II*

Commercial podium in GFA of 17,300 sq.m. at Tianyu Garden Phase II in Tianhe District, Guangzhou are leased to tenants. The open market value of the property is RMB444.0 million as of 31 December 2019 (31 December 2018: RMB469.0 million) as valued by an independent valuer.

5. *Office premises at Huancheng HNA Plaza*

Office premises in GFA of 1,500 sq.m. in Huancheng HNA Plaza, Tianhe District, Guangzhou were mostly tenanted as at 31 December 2019. The open market values of the premises are RMB55.1 million (31 December 2018: RMB51.7 million) as assessed by an independent valuer.

6. *Office premises at Capital Centre*

Office premises in GFA 6,200 sq.ft. at Capital Centre in Wanchai, Hong Kong is fully leased. The open market value of the property is RMB125.2 million (HK$139.8 million) (31 December 2018: HK$150.0 million) as assessed by an independent valuer.

MANAGEMENT DISCUSSION AND ANALYSIS

D. COMMERCIAL OPERATIONS IN YOUTH COMMUNITY PROJECTS

The operations of entrepreneurs' incubators in our three "Yuwo Startup" co-work spaces and operations in education, physical fitness and daily living provided by capable service providers in the community projects developed by the Group bring stable income to the Group, though this business line is only in start-off stage. The three "Yuwo Startup" co-work places, occupying total GFA of 5,000 sq.m. in the commercial podiums at Guangzhou Tianyu Garden II, Nanning Skyfame Garden and Chongqing Smart City, generated service income of RMB8.9 million for the current year.

E. BUSINESS OUTLOOK

In 2019, we reckoned general economic slowdowns in mainland China. In the coming 2020, situations are becoming even more challenging led by the outbreak of coronavirus epidemic in late December last year that has inevitably dampened many economic activities in both the mainland and Hong Kong. The easing policies recently launched by central government injecting liquidity to the financial market have helped relieving to a certain extent the depressions in many industries across the nation, in particular on travelling, retailing and tourism.

In recent months, sale activities namely came to halt caused by the temporary shutdowns in our sale offices and weak consumption confidence in home buying. Notwithstanding the downturns, the government has considerable rooms and scopes to launch further adjusting policies to support the stability in the operating environments of all walks of life in the country. We do not expect there will be relaxation of stringent controlling policies on the property development sector. It is therefore important for market players to self-assess their own strength and possible threats in the current difficulties and perceived risks going forward.

We foresee sales will be flat in volume and prices in the first and strong second tier cities where most of our projects are located, but the impacts of the slowdown in our projects will not be as severe as in the lower-tier regions which are more vulnerable to economic downturns.

In the midst of the current environment, we continue our key strategy to maintain steady growth in sales and earnings in the coming years by using financial resources generated from operations or obtained from affordable external financing to replenish our land bank for the continuing business growth. In seeking external financing, in 2019, the Group opened a new financing channel by issuing high yield bonds in aggregated principal of US$274 million to financial institutions through public issues. This channel is an essence to a growing real estate developer. The Group's strengthened equity base and cash flows will pave a solid foundation in fund raising activities that will help our strategic planning on land and project acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

E. BUSINESS OUTLOOK (Continued)

The Group is now better equipped than in the past by holding a comprehensive project portfolio in regions in the Greater Bay Area and big second-tier cities that are more resilient to turbulences. Our strategies in land replenishment are to concentrate on the existing regions in which our management team has experience and is familiar with. Our projects are mostly situated in cities in the Guangdong-Hong Kong-Macao Great Bay Area and strong second-tier cities. In the second half of the year 2019, the management acquired six new projects adding in new land bank of GFA totalling 2.2 million sq.m. As at 31 December 2019, our projects on hand, which are either completed, under or held for development, offer a total saleable GFA of 8.80 million sq.m. at estimated realizable values totalling RMB43.3 billion. Currently, the Group holds thirteen projects under development that can be launched for presales in 2020, and three completed projects offer inventories for sale. We are confident that the enlarged land bank can meet our target of growing contracted sales in 2020.

In these difficult and uncertain times, the management is closely monitoring the liquidity of the Group and preserve sufficient financial resources by countering any emerging or foreseeable risks of delayed sales and construction. We are conservative enough to maintain a lower level of short-term indebtedness. We are keen, but nonetheless, have been very selective in land bank building and hence do not have heavy commitments on acquisition costs. In the coming months, we have sufficient liquid resources to finance the repayment of short-tenor debts on maturities or have refinancing plans scheduled with suitable financing parties. We are confident that the financial strength of the Group can counter the setbacks impacted by the coronavirus.

F. FINANCIAL REVIEW

Sales Turnover and Margins

Property sales, net of direct taxes, recorded RMB6,502.6 million for the year, a 6.2% rise from last year. During the year, the Group delivered GFA totaling approximately 898,000 sq.m. of properties in five projects, which are, in priority of revenue, Nanning Skyfame ASEAN Maker Town, Nanning Skyfame Garden, Xuzhou Skyfame Time City, Guangzhou Skyfame Byland and Chongqing Skyfame • Smart City, at an overall average selling price of RMB7,727 per sq.m. (2018: 11,200 per sq.m.). Amongst, sales in Nanning Skyfame Garden, constituting 31% of total sales for the year, are mostly resettlement and compensated housing contracted with local government at lower-than-market prices, dragged down the margin for the year. Excluding the effect of these low-priced sales, average selling price for the year is RMB10,100 per sq.m.. In 2018, the larger portion of sales of high-end apartments in Guangzhou Skyfame Byland commanded higher margins.

Gross margin on property sales for the year is 28.4% (2018: 30.0%). The lower margins for the year is due to the differences in the mixtures in products in the year than last year.

The leasing of properties mainly at the commercial podium at Tianyu Garden Phase II and in Guangzhou, 800 car parks at Zhoutouzui and offices at Capital Centre in Hong Kong, contributed to a stable revenue of RMB28.5 million (2018: RMB19.6 million) for the year. Due to the improvement in occupancy rates and higher rental yields, revenue from this income stream for the year grew by 45.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

F. FINANCIAL REVIEW (Continued)

Sales Turnover and Margins (Continued)

The property management provides income of RMB51.0 million for the year (2018: RMB41.4 million), representing a 23.2% growth in income caused by the growing area, currently standing at GFA of 1,724,000 sq.m., managed by our property management team and chargeable with management fee. If counted in the management fees of RMB49.0 million charged on project sites that are under development by the Group, the fee income for the year amounted to RMB100.0 million. The operation enjoys a margin of 31.7% (2018: 50.3%). Keeping abreast with the expanding area under development, the total GFA under our management will be over 4.15 million sq.m. in the coming 2020.

The Group's commercial operations in three Yuwo Startup co-work spaces started to contribute revenue since 2018. These operations generated income amounting to RMB8.9 million for the year (2018: RMB8.4 million).

Overall gross margin for the year is maintained at 28.8% (2018: 30.5%).

Operating Expenses

Given the higher volume of sale transactions and heavier promotional activities during the year, sales and marketing expenses surged to RMB249.8 million, an increase of 59.2% (2018: RMB156.9 million).

Administrative and other operating expenses amounted to RMB367.9 million (2018: RMB319.2 million), a mild increase of 15.3%. Being a major item, staff costs of RMB236.4 million were incurred (2018: RMB240.1 million), of which RMB40.4 million (2018: RMB36.9 million) were capitalized as development costs of properties. Included in staff costs are costs of RMB29.5 million accrued for shares to be awarded for the first time in April 2020 to management team members upon meeting certain pre-determined performance benchmarks for the year 2019.

Fair Value Changes in Investment Properties

The gains totaling of RMB334.3 million, comprising gain of RMB276.0 million arising from the valuation on GFA of 50,000 sq.m. in the commercial zone under construction in Nanning Skyfame ASEAN Maker Tower that will be used for leasing to tenants in retail and distribution businesses on long-term basis, and an increase of RMB58.2 million (2018: RMB66.4 million) in the fair values of the existing investment properties. In 2018, a gain of RMB203.3 million arose from the valuation of Tower A1 in Guangzhou Skyfame Byland that was contracted for leasing to a serviced apartment management company for long-term rental income.

Finance Costs – Net

Finance costs, representing arrangement fees and interests incurred on indebtedness, amounted to RMB643.4 million for the year (2018: RMB559.1 million). Higher finance costs were incurred on new indebtedness created in the year. Finance costs were mostly incurred for the development of projects and hence were capitalized as costs of projects under development, remaining RMB10.2 million (2018: RMB53.9 million) charged against the operating results for the year. The overall annualized borrowing cost, representing finance costs divided by total indebtedness, is 10.8% (2018: 9.1%). Also included are foreign exchange losses of RMB38.9 million (2018: RMB74.2 million) recorded on conversion of offshore loans denominated in HK$ and US$ booked at closing rates as a result of depreciation of RMB against the US$ and HK$ in both years. Finance costs are netted off by finance income of RMB17.9 million (2018: RMB17.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

F. FINANCIAL REVIEW (Continued)

Non-operating Items

The Group shared operating losses of RMB20.6 million (2018: RMB8.1 million) incurred by joint ventures engaged in the development of Nanning Spiritual Mansions and Guiyang Royal Spring Project.

Taxation

Provision in taxation totaling RMB792.8 million are respectively for land appreciation taxes on properties sold of RMB365.1 million (2018: RMB373.1 million) and RMB427.7 million (2018: RMB453.9 million) for corporate income taxes on assessable earnings for the year. In addition, deferred tax credit totaling RMB45.0 million (2018: RMB3.6 million) are mainly provided or credited due to RMB80.4 million gains on property revaluations and increases in fair values of investment properties for the year, after having reversed that previously made upon sales of the relevant properties and tax assets of RMB125.4 million arising on the timing differences on unrealised profit of intercompany transactions, tax losses and non-deductible land appreciation tax.

Profits Attributable to Shareholders

The Company's pre-tax operating profit from core operations amounted to RMB1,631.7 million (2018: RMB1,762.6 million). The reason for the drop in profits from core activities is due to the decrease in profitability in property sales and rise in operating expenses.

All in all, the Company had a consolidated after-tax profit of RMB832.0 million for the year of which profit of RMB792.3 million was attributable to the shareholders of the Company.

Liquidity and Financial Resources

1. *Asset Base*

	Change in %	**2019** ***RMB'000***	2018 *RMB'000*
Total assets	7.6%	**22,851,765**	21,236,989
Net assets	13.5%	**3,750,046**	3,303,559

As of 31 December 2019, net assets amounted to RMB3,750.0 million (2018: RMB3,303.6 million). Total assets of the Group amounted to RMB22,851.8 million, a 7.6% increase from last year-end. As a reflection of the expansion in property development business, properties under development and held for sale carry an aggregate value of RMB12,993.6 million, constituting 56.9% of the total assets and rose by 11.1%. Other assets include investment properties of RMB3,512.3 million, land use rights on properties held for self-use of RMB243.6 million, plant and equipment totaling RMB454.1 million, financial assets at fair value through profit or loss of RMB329.8 million, deferred tax assets of RMB84.3 million, trade receivables of RMB440.2 million, other receivables and prepayments totaling RMB2,686.1 million, which are in the pipelines for development, contract costs paid for commissions of RMB152.9 million paid on sale proceeds received, restricted cash and pledged deposits of RMB336.0 million, and cash and cash equivalents of RMB1,572.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

F. FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

2. *Capital structure and liquidity*

Indebtedness of the Group, aggregated to RMB6,261.0 million at the year-end date, was flat from last year-end. Indebtedness comprises secured and unsecured borrowings from banks and financial institutions, and corporate bonds issued to financial institutions and professional investors through public issues and private placements.

The Group endeavours to match the tenors of its indebtedness with the normal operating cycle of the projects. Besides, our management is more than cautious to ensure due debts are served and repaid on schedule. In fact, the Group had redeemed some bonds totaling RMB221.6 million in principal before their maturities during the year. The short-tenor borrowings are mainly due to banks and financial institutions for which repayments have been scheduled to be financed by sale proceeds generated from the projects securing the borrowings. The management expects the sale proceeds are sufficient enough to serve the repayments.

Owing to the payments for new project and land acquisitions late in 2019, cash level in the last quarter and at the year-end date dropped to RMB1,908.7 million (2018: RMB3,086.7 million). Notwithstanding, Net debt, calculated as total borrowings net of cash and cash equivalents and less guarantee deposits for bank borrowings included in restricted cash (the "**Net Debt**"), amounted to RMB4,675.7 million (2018: RMB3,896.2 million). Despite the drop in cash and the relatively stable indebtedness, thanks to the current stronger equity base of the Company, net gearing ratio (calculated as Net Debt divided by the total equity plus Net Debt) is steadily maintained at 55.5% as at 31 December 2019 (31 December 2018: 54.1%).

As a result of the expanded portfolio of property under development, current assets aggregated to RMB18,181.3 million as at the year-end, an increase of 3.8% from last year-end. Current liabilities at the year-end amounted to RMB14,186.0 million (2018: RMB13,795.3 million).

The current ratio is slightly improved to 1.28 times as at 31 December 2019 (2018: 1.27 times). The management continues to put high attention to the liquidity position and ensure that assets, mostly inventories for sale and properties under development, can be readily turned into cash to meet the financial needs of the Group.

3. *Borrowings and pledge of assets*

As at 31 December 2019, certain investment properties, self-use properties, properties for sale and properties under development are mortgaged in favour of commercial banks and financial institutions to secure for financing facilities granted to the Group for general working capital and acquisition needs. In addition, equity interests in certain subsidiaries are charged as security for certain borrowings. As at 31 December 2019, aggregate outstanding balances of these secured indebtedness amounted to RMB4,775.0 million. The pledged assets or the underlying assets represented by these securities carry an aggregate estimated realizable value of approximately RMB10,597.9 million as at 31 December 2019. Management considers these securities provide sufficient coverage to serve the interests of our creditors.

MANAGEMENT DISCUSSION AND ANALYSIS

G. CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

H. TREASURY MANAGEMENT

The Group is engaged in property development and other activities which are mainly conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries. Nonetheless, certain corporate financing, property leasing, investment holding and administrative activities are carried out in Hong Kong and denominated in HK or US dollars. As at 31 December 2019, the Group has Hong Kong and US dollar denominated borrowings equivalent to RMB4,226.7 million, representing 67.5% of total indebtedness, financial assets at fair value of RMB329.8 million and overseas properties for self-use and leasing in Hong Kong with carrying value of HK$230.0 million (equivalent to RMB205.7 million). All other assets and liabilities in material values are denominated in RMB. These assets and liabilities denominated in non-RMB are converted to RMB at the closing exchange rates of RMB against these US and HK dollars on consolidation into the financial accounts of the Group.

Starting from 2018, RMB generally depreciated against HK and US dollars. Throughout the year 2019, RMB has depreciated 2.2% and 1.7% against HK and US dollars respectively. The depreciation of RMB has led to foreign exchange losses of RMB38.9 million. Exchange differences arising from consolidation of assets and liabilities of a subsidiary operating in Hong Kong results to exchange a net gain of RMB2.2 million and were recorded in exchange reserve forming part of the equity of the Company.

In the backdrop of the slowing economy, RMB have pressure of further depreciation, which is yet skeptical, ie. RMB may move in both directions. The fluctuations in RMB against the US and HK dollars will bring volatility to the bottom line of the Group against which unrealized losses or profits are booked. The Group's operations are mostly conducted in the PRC, and therefore there is no natural hedge against possible depreciation of RMB. The management will from time to time weigh the benefits of the hedge and costs to be incurred, the extent of fluctuations in RMB perceived by the management. We are also exploring other natural hedges, such as investments in different territories where US and HK dollars are the functional currencies to reduce the exposures of the depreciation of RMB on the financial results and position of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

I. RISK MANAGEMENT

As a capital intensive mainland developer that typically relies on quick turnover of sales to maintain liquidity for its ongoing business, the risks faced by the Group are becoming specifically acute during economic downturns. Amongst the key risk factors, the major one is the adverse impact on liquidity caused by the recent stoppages in sales and slowing economic activities adversely affected by the coronavirus epidemic. Whilst we foresee there will be some loosening in regulatory austerity measures to relieve the pressure of all market players, the management is very cautious in the Group's control of financial resources in order to keep business stability and, on the other hand, the needs for expansion in land reserve. In the meantime, management team has made up action plans to counter the current and foreseeable problems caused by the stoppages.

Management team constantly takes close look into the prevailing circumstances in both external and internal economies affecting the Group, and discusses at board level about those key strategies to overcome the difficulties. The standing risk management committee set up by the board of directors customarily acts between the management team and directors to guide the management team in building up controls in daily operational process and alert the board on critical risks, and to decide on control strategies to relieve or avoid the risks. In addition, our internal audit department conducts regular reviews to checks about the implementation of the controls.

J. EMPLOYEES

The Group recruits suitable staff in capable caliber to fill vacancies created as a result of the growing business. As at 31 December 2019, including three executive directors of the Company, the Group employed a total of 1,115 full-time staff, of which 228 work in site offices, 222 in the head office in Guangzhou and Hong Kong for central management and supporting work for the property development business, 651 full-time staff in the property management offices in Chongqing, Guangzhou, Shenzhen, Xuzhou, Nanning, Yongzhou and Kunming and 14 full-time staff in commercial operations offices in Guangzhou, Nanning and Chongqing. Employees are remunerated according to qualifications and experience, job nature and performance. They are incentivized by cash bonuses and shares awards benchmarked on performance targets, and options to acquire shares of the Company. Besides, training programs are offered to management trainees and staff at all levels. Remuneration packages are aligned with job markets in the business territories where the staff are located.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Aged 55, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. He has been the controlling shareholder of the Company ever since then. Mr. YU has over 30 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, 廣州天譽控股集團有限公司 (Guangzhou Tianyu Holdings Group Company Limited* ("**GZ Tianyu**")), which was set up in July 1997 and from which the Company acquired some real estate projects in Guangzhou in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Aged 51, was appointed as executive director in November 2013. He is also the Deputy Chief Executive Officer of the Group and President of the Guangzhou head office overall in charge of all the operations of the property development business in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University (北京大學) and is a professionally qualified economist specialized in labor economics in the PRC. He has over 29 years of working experience in managerial positions in corporations in the PRC. Before transferred to the Group, Mr. WEN joined GZ Tianyu in March 1999.

Mr. WANG Chenghua
Aged 42, joined the Group in March 2018 and was appointed as executive director in October 2018. Mr. WANG is also the President of the Group in charge of the Company's merger and acquisition, corporate finance, overseas investment and business explorations. Mr. WANG holds a Master Degree in economic and obtained a Level C Certificate from International Project Management Association (IPMA) in 2003. Mr. Wang is also a member of CPA Australia. He had over 12 years of working experience in merger and acquisition, corporate finance and finance management. Prior to joining the Company, Mr. WANG worked for a Global 500 Company for over 10 years.

Mr. JIN Zhifeng
Aged 56, joined the Group in April 2019 and has been appointed as executive director in October 2019. Mr. JIN holds a doctor's degree in Business Administration. He is a public valuer certified by the Ministry of Finance of the People's Republic of China, a member of the China Appraisal Society and a certified senior economist. Since April 2019, he also acts as the Executive Director and Chairman of Lvjing Holding Co., Ltd. (a PRC company listed in Shenzhen Stock Exchange, Stock code: 000502.SZ). Mr. JIN had held various senior executive positions at a nationwide asset management company in China with extensive experience in investment banking and asset management. Prior to joining the Company, he had held a role of executive director and CEO in Tianli Holdings Group Limited (Stock code: 00117.HK).

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. WONG Lok

Aged 62, joined the Company in August 2005 as an executive director and was re-designated as non-executive director in January 2019. Mr. WONG has over 34 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Shu Kwan

Aged 65, joined the Company in December 2004. Mr. CHOY holds a Master Degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his retirement in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock code: 119).

Mr. CHENG Wing Keung, Raymond

Aged 60, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, the PRC. He has been appointed by the Hon Chief Justice Ma of the Court of Final Appeal as a Practising Solicitor Member of the Solicitors Disciplinary Tribunal Panel with effect from 4 October 2017. Besides, Mr. CHENG has also been appointed by The Government of the Hong Kong Special Administrative Region as a member of the Panel of the Board of Review (Inland Revenue Ordinance) with effect from 1 January 2018. Mr. CHENG has over 32 years of experience in legal, corporate finance, company secretarial and listing affairs. He is an independent non-executive director in a listed company in Hong Kong, namely Elife Holdings Limited (Stock code: 223).

Ms. CHUNG Lai Fong

Aged 52, joined the Company in December 2004. Ms. CHUNG is a barrister-at-law in Hong Kong. She holds a Bachelor of Laws (Honours) Degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 24 years of professional experience in accounting, taxation, company secretarial, legal, regulatory, corporate governance and civil and criminal litigation.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. HUANG Tianbo

Aged 34, joined the Company in May 2019 and has been appointed as the Company Secretary of the Company in August 2019. Mr. HUANG holds a Master's degree in Corporate Governance. He is an associate member of the Hong Kong Institute of Chartered Secretaries and is a qualified board secretary accredited by Shanghai Stock Exchange. Mr. HUANG has extensive experience in the matters relating to the merger & acquisition and restructuring, corporate governance, investor relationship management and compliance issues of the public listed companies in the PRC and Hong Kong.

SENIOR MANAGEMENT

Mr. LIN Shengjie

Aged 54, is the Vice President of the Guangzhou head office in charge of all onshore financing in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) （Formerly known as Guangdong University of Business Studies (廣東商學院)） and has over 29 years of working experience in the finance and accounting in property development, direct investments in the PRC, Thailand and Hong Kong. Before transferred to the Group, Mr. LIN joined GZ Tianyu in January 2002.

Mr. ZENG Fanyou

Aged 44, joined the Group in June 2016 and is the Vice President of Guangzhou head office in charge of sales and marketing management of property development and oversees the commercial operations in youth community project. Mr. ZENG graduated from Henan University School of Economics (河南財經學院) with a Bachelor's Degree in Economics and holds a Project Management Professional certificate. He has 19 years of working experience in property sales and marketing in the PRC, working for Zhu Jiang Real Estate Development Co., Ltd. and New World China Land Limited in the past.

Mr. TAN Yongqiang

Aged 56, joined the Group in October 2016 and is the Vice President of Guangzhou head office in charge of city development business that focuses on the urban renewal projects in Guangzhou. Mr. TAN graduated from South China University of Technology (華南理工大學) with a Bachelor's Degree in Industrial and Civil Construction. He is also a postgraduate in Business Administration from Western Sydney University. Mr. TAN has over 23 years of working experience in the area of project management and has worked in large-scale group in the PRC such as Yuexiu Group (越秀集團).

Mr. CHEN Jianwen

Aged 40, joined the Group in August 2018 and is the Vice President of Guangzhou head office in charge of financial accounting, treasury and tax affairs of PRC operations. Mr. CHEN graduated from Sun Yat-sen University (中山大學) with a Bachelor's Degree in management. He also holds the certificates of the Chinese Certified Public Accountant (CPA), Certified Tax Agents (CTA) and the Certified Internal Auditor (CIA). Mr. CHEN has worked in one of the big four international accounting firms as well as many well-known and listed real estate groups in China as a senior financial management. He has over 17 years of solid experiences in financial management.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (Continued)

Mr. SONG Tianyu
Aged 37, joined the Group in December 2017 and is the Vice President of Guangzhou head office in charge of human resources and administrative management. Mr. SONG graduated from Xiamen University (廈門大學) with major in business administration. He has over 13 years of experience in administrative management. Prior to jointly the Group, Mr. SONG worked in a Global 500 company in charge of administrative management for years.

Ms. LIU Yun
Aged 43, joined the Group in February 2019 and is the Vice President of Guangzhou head office, responsible for contract tendering and cost management. Ms. LIU graduated from Jiangxi University of Science and Technology (江西理工大學), major in engineering cost management, and holds a qualification certificate of intermediate engineer in construction cost. She was a senior management member of a well-known listed mainland real estate development group and has over 22 years of extensive experience in bidding and procurement, budgeting and final costs assessment, contract management and legal affairs.

Mr. XU Jiancheng
Aged 47, joined the Group in March 2019 and is the Vice President of Guangzhou head office in charge of design management. Mr. XU graduated from South China University of Technology (華南理工大學) with a bachelor's degree in architecture, and holds the certificates of National Grade-1 Architect and Senior Engineer. He had worked for a well-known listed mainland real estate development group for 20 years and had held various positions including vice president of design, chief architect and general manager of design centre, with over 22 years of extensive working experience in this field.

Mr. XU Jihong
Aged 46, joined the Group in May 2019 and is the Vice President of Guangzhou head office. Mr. XU graduated from the Construction Engineering Department of South China University of Technology (華南理工大學) with a bachelor's degree in industrial and civil construction engineering. He has served as a key engineering manager in a number of well-known listed mainland real estate development group and has over 21 years extensive experience in regional engineering operation management and establishing regional engineering operation management.

Mr. YAN Lixiang
Aged 34, joined the Group in May 2019 and is the Vice President of Guangzhou head office. Mr. YAN holds a bachelor's degree and the certificates of National Constructor and Senior Engineer. He has long been engaged as a senior management member in a well-known listed mainland real estate development group. He has over 12 years of extensive experience in real estate development and operation management. He is mainly responsible for the establishment and improvement of the Group's overall operation and production management.

Ms. CHAN Hiu Mei
Aged 41, joined the Company in October 2019 as Vice President – Finance in charge of all finance affairs at the corporate level of the Group. Ms. CHAN graduated from The Hong Kong University of Science and Technology with a bachelor's degree in Business Administration major in Economic. She is a member of the Hong Kong Institute of Certified Public Accountants and Chinese Institute of Certified Public Accountants. Prior to joining the Company, Ms. CHAN worked in KPMG Huazhen LLP and acted as head of finance department in other companies. She also worked in a company listed on the Main Board of The Stock Exchange of Hong Kong Limited as Chief Financial Officer and Company Secretary. Ms. CHAN has over 18 years of experience in auditing, accounting, financial management and corporate governance matters and has been involved in a number of initial public offering transactions and capital market transactions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Environmental, Social and Governance Report (“**the Report**”) summarizes the proposals, plans and performance of Skyfame Realty (Holdings) Limited (“**the Company**”) and its subsidiaries (collectively “**the Group**” or “**we**”) in environmental, social and governance (“**ESG**”), and their commitments to sustainable development.

As a mainland real estate enterprise listed in Hong Kong, the Group adheres to the policy on a sustainable ESG approach, promises to deal with the matters relating to environment, society and governance of the Group effectively and responsibly, and regards the aforesaid missions as part of our business strategy to enable the Group to grow and make contribution not only in economic development, but also in the environment and society.

The ESG Governance Structure

During the year ended on 31 December 2019 (“**the reporting period**”), the Group established a ESG working team (“**the working team**”). The working team, consisting of the core members from various departments of the Group, is responsible for collecting relevant materials and data on ESG aspects to prepare the ESG Report. The working team reports to the Board of Directors regularly to assist the Group in identifying and assessing the risk in ESG, as well as assessing the effectiveness of the Group’s internal control mechanism for ESG. The working team will also check and assess our different performance in environment, occupational safety and health, labour standards, product responsibilities, and other aspects within the scope of ESG. The Board of Directors decides the orientation for the Group’s ESG strategy and guarantees the effectiveness of the mechanism for ESG risk control and internal control.

SCOPE OF REPORTING

The Report mainly focuses on the Group’s core locations in the mainland China, including but not limited to dormitories, offices, show flats, exhibition halls, and property management companies. Data was collected from the Group’s core operating sites, including but not limited to Guangzhou, Nanning, Xuzhou, Zhongshan, Shenzhen, Guilin, Chongqing, Kunming and Hong Kong. As the two co-work places, in Guangzhou and Nanning are new projects and only have minimal environmental impacts, therefore relating to the co-work places data are only restricted to the social data of Subject Area B. Unless specified otherwise, we obtained the ESG key performance indicators (“**KPI**”) through the Group’s operation control mechanism. When the Group has a more mature data collection system and has deepened the work in sustainable development, we will continue expanding the scope of disclosure in the future.

REPORTING FRAMEWORK

The Report was prepared in accordance with Environmental, Social and Governance Reporting Guide (“**ESG Reporting Guide**” or “**Reporting Guide**”) as set out in Appendix 27 to the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited.

REPORTING PERIOD

The Report elaborates on the Group’s ESG events, challenges and measures for the year ended 31 December 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Skyfame Realty (Holdings) Limited's Achievements in Corporate Sustainability

Attain
5,548+
employee training hours

Actively develop youth community projects and co-work places, providing services to **over 14,000** households

Increase in employee number by
18%

>78%
are young and energetic employees
(Note: Employees below 40 years old are defined as young and energetic employees)

– 2019 Top 10 Capital Investment Value of Guangdong-Hong Kong-Macau Greater Bay Area
– 2019 Top 10 China Real Estate Enterprise Employer Brands

TOP 10

TOP 10

– Ranked **163th** in the list of "2019 China Real Estate Development Enterprises Top 500"

– Ranked **386th** in the list of "2019 China Real Estate Internet Brand Top 500"

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

The stakeholders' participation is an indispensable process for the Group to continue improving its sustainable development performance. Therefore, we value all stakeholders and their opinions on our matters related to ESG. Through the participation of stakeholders and communication channels, the expectations of stakeholders are integrated into our operation and ESG strategies. In order to comprehensively understand, respond to and deal with the major concerns of different stakeholders, we communicate closely with them - including but not limited to shareholders and investors, customers, suppliers, contractors, consultants, employees, government and regulators, peers and peer chambers as well as social groups, non-government institutions and media, committed to improving the Group's ESG performance and creating more values for our country and society in sustainable development.

The stakeholders' participation and communication channels are as follows:

Major Stakeholder	Communication Channel
Shareholders and investors	Shareholders' annual general meetings
	Annual reports and interim reports
	Announcements and circulars
Customers	Customer satisfaction surveys and feedback forms
	Customer service hotline
	Customer service centre
	Relationship managers
Suppliers	Supplier management meetings and events
	Supplier on-site audit management policy
Contractors	Contractor management meetings and events
	Contractor on-site audit management policy
Consultants	Regular consulting meetings
	Field visits
Employees	Employee opinion survey
	Channels for employees to express their opinions (such as forms and suggestion boxes)
	Regular management communication and performance assessment
	Intranet
Government and regulators	Regular reports of performance
	Field visits
Peers and peer chambers	Industrial meetings and lectures
Social groups, non-government institutions and media	Public and community events and partnership plans for different topics
	Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT (continued)

When developing operation strategies and proposing measures for ESG, the Group will consider the expectations of stakeholders, improve its performance continuously through cooperation, and create more values for society.

MATERIALITY ASSESSMENT

The management and employees that perform major functions in the Group have participated in preparing the Report to assist the Group in reflecting on its operation, identifying matters related to environment, society and governance, and assessing the importance of relevant matters to the Group's business and stakeholders. We prepared a questionnaire based on the key matters related to environment, society and governance that had been assessed and collected data from relevant departments and business institutions of the Group.

The following table is a summary of the Group's material ESG matters in the Report:

Reporting Guide	Material ESG Aspects of the Group
A. Environmental	
A1. Emissions	Exhaust gas emissions
	Greenhouse gas emissions
	Waste treatment
A2. Use of resources	Energy consumption
A3. The environment and natural resources	Green construction
B.Social	
B1. Employment	Salary and benefits
	Recruitment, promotion and dismissal
B2. Health and safety	Occupational safety and health
	Occupational safety training and employee health management
B3. Development and training	Training management
B4. Labour standards	Preventing engagement of child labour or force labour
B5. Supply chain management	Fair and open procurement
	Commercial ethics

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT (continued)

Reporting Guide	Material ESG Aspects of the Group
B6. Product responsibility	Quality control
	Customer service and privacy
	Intellectual property
	Advertisements and labels
B7. Anti-corruption	Anti-corruption
B8. Community investment	Corporate social responsibility

For the year ended on 31 December 2019, the Group confirmed that it had established appropriate and effective management policies and monitoring systems for ESG matters and confirmed that all the contents disclosed complied with the requirements in the Report Guidelines.

CONTACT US

Any opinions and suggestions from stakeholders are appreciated by the Group. You are welcome to provide your valuable opinions on the ESG Report or the performance in sustainable development and send them to cs@sfr59.com.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and KPI

The Group attaches great attention to good environmental management and strives to protect the environment in order to fulfil its social responsibility. The Group has established an environmental protection organization and management system. When implementing the ISO14001 environmental management system, it has established a sound construction environment management system to achieve the systematization and standardization of construction environment management. In its operations, the Group also pays special attention to the emission of exhaust gas and greenhouse gases, noise management, drainage and sewage produced during the construction process in order to reduce emissions and minimize negative impacts on the environment. We have also established a relevant environmental management system and actively take environmental protection measures for environmental pollution generated in the course of operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

During the reporting period, the Group did not violate relevant local environmental laws and regulations, including, but not limited to, the *Environmental Protection Law of the People's Republic of China* (《中華人民共和國環境保護法》), the *Law of the People's Republic of China on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》), the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution* (《中華人民共和國大氣污染防治法》), the *Law of the People's Republic of China on the Prevention and Control of Pollution by Environmental Noise* (《中華人民共和國環境噪聲污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and the *Waste Disposal Ordinance* (《廢物處置條例》) concerning emissions of exhaust gases and greenhouse gases, and the discharges to water and land, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

The Group has formulated an environmental protection management system to determine the environmental protection objectives and the breakdown, quantified and implementable sub-objectives or phased objectives. The project manager will verify and determine the environmental sensitive points, environmental protection objectives and corresponding environmental regulations and other requirements according to the actual situation on site. In addition, the project manager will identify environmental factors, determine, change and update the major environmental factors, in each construction stage and construction activities, including the renewal of the process and the use of raw materials, so as to identify the major factors affecting the environment and formulate a targeted and feasible environmental protection work plans. During the construction process, if the project content and environmental requirements change, specific measures of environmental protection will be adjusted accordingly, including but not limited to technical management and specific environmental protection, such as noise control, drainage, sewage management, garbage management, resource management, dust control and bulk material transportation, in order to work out feasible and effective environmental protection plans to reduce the impacts on the community and hence the natural ecology.

The Group has set up *Guidelines for Construction Control of Water Supply and Drainage Engineering* (《給排水工程施工管控工作指引》), to let project site engineers be familiar with the construction technology of water supply and drainage engineering, and to master the prevention and treatment methods of common quality problems, so as to improve the quality of water supply and drainage construction. In the guidelines, the construction requirements on relevant materials, preparation before outdoor drainage works, outdoor water supply, outdoor water drainage, indoor water supply, etc. are specified.

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

In addition, the Group has included environmental protection as a consideration in the Risk Management System (《風險管理制度》). The Risk Management Committee holds meetings at least once a year to consider the most significant risks faced by the Company, the corresponding measures and updates of risk management. The Group has made effective controls on pollutants such as waste water, exhaust gas, noise and waste generated in the production and office processes, managed waste in an orderly manner, supervised the implementation of environmental protection measures by various departments, and implemented an effective environmental management system to achieve the environmental objectives and guidelines of the Group.

Exhaust gas emissions

In the course of the Group's business operations, exhaust gas emissions mainly come from automobile exhaust emissions. Although all construction projects are developed by contractors and there are no emissions from construction projects in our business operations, as a responsible real estate developer, we are aware of the potential environmental impact of construction projects. Therefore, we have also set up measures related to construction project emissions in order to achieve win-win cooperation and harmonious coexistence with the community.

During the reporting period, the performance of exhaust emissions is summarized as follows:

Exhaust Gas Type	2019 Total Emissions (kg)	2018 Total Emissions (kg)
NO_x	172.76	129.17
SO_x	3.03	2.71
PM	16.11	12.32

Due to business growth, the Group's emissions increased as compared the year of 2018 year. In response to the above emission sources, we take the following emission reduction measures:

(a) Automobile exhaust

Vehicles owned by the Group mainly serve business needs to provide shuttle services to employees and customers, and assist project managers in construction site inspection. We have formulated the Guidelines for *Vehicle Management Operations* (《車輛管理作業指引》) to strengthen the Company's vehicle management and improve vehicle efficiency. The scope of management includes:

- Full-time drivers check the mileage of the vehicle and registers the detailed information immediately after completing the driving tasks.

- The President's Office, the Administration and Personnel Department or the General Department shall designate special personnel to make statistics and check the petroleum consumption of vehicles together with drivers on a regular basis; and

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

Exhaust gas emissions (continued)

(a) Automobile exhaust (continued)

- Overhauling the vehicles regularly to effectively reduce fuel consumption, thus reducing carbon emissions and exhaust emissions.

(b) Architectural engineering

The exhaust gases from construction projects are mainly dust generated during civil construction, exhaust gases emitted from various construction machinery and transport vehicles, and organic exhaust gases generated during renovation. The control measures we have taken include, but are not limited to, the following:

- For all dust-prone processes, dust-control, dust-isolation and ventilation measures shall be taken to ensure that the dust content discharged into the atmosphere meets the national industrial hygiene standards, so that residents can have a beautiful, fresh and comfortable environment;
- Construction site hardening and greening and frequent sprinkling and watering to reduce dust pollution;
- It is strictly prohibited to throw garbage out of buildings, all garbage shall be bagged and transported away; and
- There is a car wash platform at the main entrance and exit of the site, transport vehicles must be washed before leaving the site.

Greenhouse gas emissions

The Group's major greenhouse gas emissions come from direct greenhouse gas emissions from gasoline consumed in transportation and diesel consumed in backup generators (Scope I) and indirect greenhouse gas emissions from energy sources purchased from electricity (Scope II). The following table provides an overview of the performance of greenhouse gas emissions:

Indicator[1]	2019		2018	
	Total Emissions (tonnes CO_2 equivalent)	Intensity[2] (tonnes CO_2 equivalent/ RMB1 million) of revenue	Total Emissions (tonnes CO_2 equivalent)	Intensity[2] (tonnes CO_2 equivalent/ RMB1 million) of revenue
Direct greenhouse gas emissions (Scope I)	462.51	0.07	503.44	0.08
Indirect greenhouse gas emissions (Scope II)	9,799.47	1.49	7,176.43	1.16
Total greenhouse gas emissions (Scope I and II)	10,261.98	1.56	7,679.87	1.24

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

Greenhouse gas emissions (continued)

Notes:

1. Greenhouse gas emission data are presented in terms of carbon dioxide equivalence with the reference to, including but not limited to, the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (《溫室氣體盤查議定書：企業會計與報告標準》) published by the World Resources Institute and the World Business Council for Sustainable Development, and *How to Prepare Environmental, Social and Governance Reports? – Appendix II: Guidelines for Reporting Key Environmental Performance Indicators* (《如何準備環境、社會及管治報告？－ 附錄二：環境關鍵績效指標彙報指引》) released by The Stock Exchange of Hong Kong Limited, the newly released baseline emission factors of China's regional power grid and the global warming potential of the *Fifth Assessment Report* (《第五次評估報告》) issued by the Intergovernmental Panel on Climate Change.

2. As of 31 December 2019, the Group's revenue was approximately RMB6,591 million (2018: RMB6,192 million).

Due to business growth, the Group's carbon emissions in electricity consumption have increased considerably. We have actively adopted electricity-saving and energy-saving measures to reduce greenhouse gas emissions, including:

- Reducing carbon emissions from automobile exhaust, of which the detailed measures have been described in the section "Exhaust gas emissions - Automobile exhaust" above; and

- At the operational level, actively adopting environmental protection and energy saving measures, of which relevant measures will be explained in the section "Energy consumption" in Aspect A2.

Through the above measures, employees' awareness of emission reduction and carbon reduction has been enhanced.

Sewage discharge

Domestic waste water is the Group's main source of sewage. The management of production and sewage discharge on construction sites are taken charge of by the main contractors' contracting coordination management departments which are under the supervision of the management offices of the main contractors. The treatment methods related to sewage discharge on construction sites are as follows:

- Discharge ditches shall be set up in accordance with the standards on construction sites, and sedimentation tanks are set up at the entrance of construction sites, and sewage is discharged into the municipal sewage pipeline system after sedimentation;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

Sewage discharge (continued)

- During foundation construction, the project teams select qualified sludge discharging operating units to remove the sludge;
- Sewage from flushing mixers and transport vehicles on project sites are discharged into municipal pipelines after sedimentation; and
- On-site cleaners are responsible for checking and cleaning the sediments in the sedimentation tank on a regular basis.

Domestic sewage

Waste water generated in our daily life is mainly toilet flushing waste water. The Group has set up drainage pipes for domestic washing waste water. Domestic waste water is generally discharged into municipal pipelines and treated centrally by local sewage treatment plants. The sewage treatment methods are as follows:

- Washing tanks are built in the canteens of the project teams, as well as vegetable washing tanks, sedimentation tanks and canteen oil separating tanks according to relevant regulations. Oily sewage shall be separated by oil separating tanks and then discharged into municipal sewage pipelines. Oil separating tanks are cleaned regularly;
- For toilet flushing waste water, we have set up septic tanks. Waste water is fermented and isolated before being discharged to local sewage pipelines. At the same time, septic tanks are regularly cleaned up by the local environmental sanitation department;
- When sewage discharge facilities are damaged, timely remedial measures are taken to replace the damaged drainage facilities to control and reduce the impact on the surrounding and social environment; and
- When receiving relevant complaints, we will immediately identify the reasons, formulate corrective measures, and make corrections as required, and at the same time transmit the information to relevant parties for follow up actions.

Performance of waste water discharge during the reporting period is shown as follows:

	2019		2018	
Types of Waste Water	Total Discharge (cubic metres)	Intensity[1] (cubic metres/ RMB1 million) of revenue	Total Discharge (cubic metres)	Intensity[1] (cubic metres/ RMB1 million) of revenue
Domestic sewage	1,071,716.00	162.60	448,777.00	72.48

Note:

1. As of 31 December 2019, the Group's revenue was approximately RMB6,591 million (2018: RMB6,192 million).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

Waste treatment

The Group identifies and classifies wastes, designates persons responsible for the management to waste disposal in a timely manner, and maintains environmental sanitation around the collection box. We have relevant measures to regulate wastes generated in the operation process, especially in the construction process. The specific measures are as follows:

- Establish construction waste disposal archives and file the implementation situation of construction waste disposal on construction sites; and

- Set up a safety and civilization inspection team to inspect the waste disposal on the construction project site at the same time of safety and civilization inspection, rectify the non-conformity within a time limit and issue rectification notices.

All kinds of waste disposal are strictly conducted in accordance with the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* (《中華人民共和國固體廢物污染環境防治法》) and the *Administrative Measures for Urban Living Garbage* (《城市生活垃圾管理辦法》).

Non-hazardous waste

For non-hazardous wastes generated in the operation process, the Group adopts the method of waste classification and recycling, classifies and stacks the recyclable wastes, such as steel, timber and so on, in order to facilitate recycling. Construction wastes, domestic wastes and office wastes generated on the construction sites are classified, stacked and disposed according to the regulations, and designated personnels are assigned to clean up. Workers do not directly throw rubbish downstairs when removing construction wastes; but place wastes in corresponding places. For domestic and office wastes, officers of the authority responsible for environmental sanitation will collect and discharge the wastes by vehicles every day, and not stack the wastes everywhere or put the wastes on hold for a long time. Leftovers in canteens are poured into special recycling bins, and not be dumped everywhere, and are handled by designated persons. We educate all personnel to abide by the hygiene system, and impose fines on those after repeated counselling.

In order to further promote waste reduction, we have set up *Regulations on the Management of Office Order* (《辦公秩序管理規定》), in which management departments actively promote paperless office management, and earnestly do a good job in fine management of printing paper, ink cartridges and toner cartridges consumables. To reduce unnecessary waste of resources, double-sided printing or photocopying are encouraged.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

Non-hazardous waste (continued)

Types of Non-hazardous Waste	2019		2018	
	Total Discharge[1] (tonnes)	Intensity[2] (tonnes/ RMB1 million) of revenue	Total Discharge[1] (tonnes)	Intensity[2] (tonnes/ RMB1 million) of revenue
General domestic waste	2,662.70	0.40	2,223.50	0.36

Notes:

1. Volume of waste recycled has been deducted.

2. As of 31 December 2019, the Group's revenue was approximately RMB6,591 million (2018: RMB6,192 million).

Through the above measures and policies, employees' awareness of waste reduction has been improved.

Hazardous waste

In the operation process, we try our best to reduce or avoid the use of hazardous substances or construction methods that may produce hazardous wastes. Effective isolation measures shall be taken for corrosive and poisonous wastes produced on construction sites, and the wastes are discharged before being disposed of in order to avoid significant environmental pollution. Under normal operating conditions, our offices will not produce any hazardous wastes, but the Group still has relevant guidelines, such as the storage of hazardous chemicals implemented in accordance with the requirements of the *Hazardous Chemicals Management System* (《化學危險物品管理制度》), and other toxic and hazardous office wastes in the operation process shall also be handled by specialised personnel in case of emergencies.

A2. Use of resources

General Disclosure and KPI

The Group aims to actively promote the effective use of resources, to monitor the potential impact of business operations on the environment, promote green business environment, and minimize the negative impact of the Group's and its subsidiaries' operations on the environment. The Group adheres to the rational and efficient use of resources, and has formulated *Instructions for Public Energy Consumption Management* (《公共能耗管理作業指導書》) to standardize the energy consumption statistics, ensures the accuracy of energy consumption statistics and rapid information feedbacks, and maintains the monitoring of energy consumption. Through the analysis of the data, relevant effective measures are taken to reduce energy consumption, reduce costs and improve management quality, as well as ensuring the safety, comfortability and convenience in the living environment of project operators.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A2. Use of resources (continued)

General Disclosure and KPI (continued)

The Group manages the use of water, electricity, oil, gas and other energy resources, and conducts statistical and comparative analysis. As the Group maintains monthly analysis of energy statistics, when data anomalies occur, the reasons for data anomalies will be found out in time and analysed and corrected. When the abnormal fluctuation of energy consumption data is found to be large, personnel will be immediately organized to investigate the causes, focusing on the inspection of transmission lines, water pipelines, energy-using equipment, in order to find out problems in time, take appropriate measures to deal with the abnormal situation, and report to the project manager and the competent department of the Company.

In addition, the Group has *Regulations on the Management of Office Order* (《辦公秩序管理規定》), requiring employees to shut down their own office equipment in time off work and to check whether there is any abnormal office equipment in their department. When working overtime, the last personnel leave the office area shall be responsible for turning off the Company's public equipment power supply, public lighting, etc., and checking whether the office door is locked before leaving. In order to achieve sustainable environmental development, the Group will also regularly disseminate environmental protection messages and practical suggestions on environmental lifestyle to its employees, so that they can enhance their awareness of environmental protection and practice environmental protection during working hours.

Energy consumption

In daily production and operation, the Group's main energy consumption is production power consumption and domestic power consumption. The Group implements relevant energy use efficiency plans to achieve the goals of saving electricity and effectively using electricity. The specific measures are as follows:

- Lighting, computers, air conditioners, fans and other energy-consuming equipment in office places, dormitories and equipment rooms shall be turned off if not in use to save electricity;

- Energy-saving light sources are generally used in public areas, such as lighting in gardens, fire escape ladders, elevator halls and garages;

- Energy-saving lightings and sound-control switches are used for tower lighting, and the switching time is controlled by timing switches. The switching time is adjusted according to different seasons, and the shortest opening time is set to satisfy the lighting requirements in the public area of the tower;

- The switching time of street lamps and basement lighting in the park is controlled by timing switches. The time-controlled switching time is adjusted according to different seasons, and the shortest switching time is set to satisfy the lighting of the park and basements;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A2. Use of resources (continued)

General Disclosure and KPI (continued)

Energy consumption (continued)

- Fins and filters of coil fans of air conditioners are cleaned regularly, the insulation effect of the refrigeration pipeline is checked regularly, and the cooling tower is cleaned regularly to ensure the cooling effect of the cooling tower is maximised and to keep the energy consumption of the central air conditioner to a minimum; and

- The ventilation system of the basement adopts timing switches to control its opening time. Without approval, the fan of the basement is not allowed to be opened at will, but it is necessary to ensure that the extinguishers can be functioned in the first place under any conditions.

In addition, the Group has also posted energy-saving slogans in prominent positions to permeate the awareness of energy-saving and environmental protection into every employee's work and life, so that employees can always maintain their environmental protection awareness.

During the reporting period, the Group's consumption of electricity and other energies are:

	2019		2018	
Type of Energy	Consumption (kWh)	Intensity[3] (kWh/ RMB1 million) of revenue	Consumption (kWh)	Intensity[3] (kWh/ RMB1 million) of revenue
Diesel[1]	64,882.81	9.84	52,676.33	8.51
Gasoline[2]	1,564,300.80	237.34	1,720,519.07	277.87
Electricity	17,709,294.71	2,686.87	13,134,987.20	2,121.28

Notes:

1. The actual consumption of diesel is 6,100 litres (2018: 4,952.40 litres).

2. The actual consumption of gasoline is 167,904 litres (2018: 184,489.15 litres).

3. As of 31 December 2019, the Group's revenue was approximately RMB6,591 million (2018: RMB6,192 million).

Water management

The water used by the Group is mainly domestic water consumed in production and living areas. In order to improve the Company's water use efficiency, we have taken the following measures:

- Save water and check the leakage of pipelines and valves in the community regularly;

- Regularly check the faucets, toilets and other water appliances in public places in the community for leakage and conduct timely maintenance and replacement;

- Use water-saving appliances;

- Check faucets and fountains for park greening regularly to eliminate leakage; and

- If any abnormal condition is found, relevant departments are informed for actions taken to prevent waste of water resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A2. Use of resources (continued)

General Disclosure and KPI (continued)

Water management (continued)

The Group has also been strengthening water-saving publicity and posting water-saving slogans to guide employees to use water rationally. Based on our operation mode and the geographical location of the operational points and offices, the Group has no problem in finding suitable water sources.

Use of packaging materials

Due to the nature of business, the Group does not use packaging materials in the operation process, so it does not use a large number of packaging materials in the daily operation process.

A3. The environment and natural resources

General Disclosure and KPI

The Group focuses on the impact of its business on the environment and natural resources. In addition to conforming to relevant environmental laws and regulations and international standards to properly protect the natural environment, the Group also incorporates the concept of environmental protection into its internal management and daily operation activities to achieve the goal of environmental sustainability.

The Group has formulated the *Operation Guideline on Engineering Quality Control* (《工程質量控制作業指引》) to implement the "Model First" method in projects. Before large-scale construction, the contractor shall, according to the requirements of the Design and Project Management Department or the Engineering Department, first construct small-scale construction models in the existing building and then carry out large-scale construction after confirmation, so as to ensure that the quality meets the design effect and avoid waste of rework.

In addition, the Group has also noted the potential environmental impacts during construction and operation, and has designated relevant guidelines, such as *Special Construction Plan for Noise Pollution Prevention and Control Safety* (《噪聲污染防治安全專項施工方案》), *Operation Guidelines on Indoor Environmental Pollutions Control* (《室內環境污染控制作業指引》), *Environmental Protection Measures for Construction Projects* (《施工項目環保措施》) and so on to reduce the impact on the community, environment and natural resources during operation.

Noise management

The *Special Construction Plan for Noise Pollution Prevention and Control Safety* (《噪聲污染防治－安全專項施工方案》) formulated by the Group includes various project requirements such as noise control objectives and indicators, precautions for noise monitoring, control measures and requirements, humanistic care measures, etc. In addition, a construction noise pollution prevention and control team will be set up during construction of the project to reduce noise pollution in the community and environment in the construction process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A3. The environment and natural resources (continued)

General Disclosure and KPI (continued)

Noise management (continued)

In addition, we will set up relevant environmental protection measures for the project, including noise control measures, which includes but is not limited to the following measures:

- Project managers organize operations department personnel to implement noise control management, implement relevant management systems and procedures, provide conditions for ensuring the prevention of noise pollution, and regularly monitor noise;

- Processes that generate noise in construction are included in the *Environmental Management Plan* (《環境管理方案》), and corresponding control methods are formulated;

- Establish noise control files and file the implementation of noise control on construction sites; and

- Take effective enclosure measures to reduce the impact on the surrounding environment for some equipment and processes that produce great noise pollution.

Indoor environmental pollution control

The Group has also formulated the *Operation Guidelines on Indoor Environmental Pollutions Control* (《室內環境污染控制作業指引》) to ensure that the construction materials used comply with the government's regulations and meet environmental indicators. The responsibilities of the responsible department for bidding and purchasing, the Project Management Department or the Engineering Department are specified in the guidelines. The requirements of working procedures such as testing construction and decoration materials, process control (geological survey stage, construction stage, completion and acceptance), sales demonstration units, indoor environmental testing institutions, and testing reports are also listed to reduce indoor environmental pollution.

Green construction

Although the construction of the Group will be entrusted to the contractor, it will also pay attention to the potential environmental impact in the construction process, so it has formulated relevant green construction policies, such as *Environmental Protection Measures for Construction Projects* (《施工項目環保措施》), *Special Plan for Green Construction* (《綠色施工專項方案》), *Operation Guidelines for Abnormal Events Management* (《異常事件管理作業指引》), etc.

Environmental Protection Measures for Construction Projects (《施工項目環保措施》) contains relevant regulations on the construction process of projects, such as adopting site hardening, dust noise detection equipment and other measures to practically measure and control dust, adopting LED lighting to reduce electricity consumption and light pollution and discharging construction sewage and domestic sewage after sewage treatment.

A. ENVIRONMENTAL (continued)

A3. The environment and natural resources (continued)

General Disclosure and KPI (continued)

Green construction (continued)

The establishment of green construction management in construction enterprises is of great significance in the field of environmental protection. Therefore, each of our projects will have a corresponding *Special Plan for Green Construction* (《綠色施工專項方案》), clearly listing the green construction objectives, organizations and responsibilities of the project's green construction management, construction deployment and specific measures for green construction. The Group regards the realization of harmonious development of nature and society as its responsibility to implement. The Group saves resources and energy, reduces pollution and ensures construction safety to the maximum extent.

The Group has formulated *Operation Guidelines for Abnormal Event Management* (《異常事件管理作業指引》) to identify potential environmental accidents or emergencies of the Group, and to make emergency preparedness measures and responses to prevent or reduce possible accompanying environmental impacts. The working procedures include the formulation of emergency plans, the implementation of preventive measures, the handling of emergencies, corrections, prevention and continuous improvement. Emergency plans will include emergency prevention, response and handling documents related to production accidents, mass incidents, thefts, fires, floods, accidental leakage of hazardous chemicals and other emergencies. When an emergency occurs, the discoverer will report orally to the Human Resources Department, the office of the project company, the responsible department and the supervisor as soon as possible. Within 24 hours after the incident, the *report of Abnormal Event* (《異常事件報告》) will be submitted to the Human Resources Department of the Group or the office of the project company.

B. SOCIAL

B1. Employment

General Disclosure

Employees are an important cornerstone of the success and prosperity of the Group, and at the same time provide the Group with a steady stream of innovative impetus. We uphold the "people-oriented" enterprise operation strategy, respect and protect the legitimate rights and interests of every employee, standardize labour employment management, protect employees' occupational health and safety, strengthen democratic management, safeguard employees' vital interests, fully respect and attach importance to stimulating employees' enthusiasm, initiative and creativity, and are committed to building a harmonious labour relationship.

In order to tie in with the expansion of the Group's business and meet our demand for talents, we recruit all kinds of suitable talents from time to time to reserve solid talents for our development. We have set up the *Human Resources Management Manual* (《人力資源管理程序》) to standardize the Company's management procedures for human resources, define responsibilities and rights, and realize scientific human resources management. The procedures set out the responsibilities of the heads of departments, the Human Resources Department of the President's Office, the personnel department of the project company, the head of the project company, the direct management of projects, the co-management leadership of the President's Office and the Chief Executive Officer of the Group. The Human Resources Department of the President's Office will develop an annual work plan for human resources, including developing the plan for salary survey analysis and adjustment; determining the annual staffing, and developing the recruitment plan; developing a training plan; developing the annual work plan for enterprise culture construction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B1. Employment (continued)

General Disclosure (continued)

The Company has formulated relevant personnel management policies such as the *Salary Management Policy* (《薪酬管理制度》), the *Personnel Recruitment Procedure* (《人事招聘流程》), the *Regulations on Employee Entry and Exit Procedures and Transfers* (《關於員工入和離職流程及調動的規定》) and the *Staff Manual* (《員工手冊》) to create a healthy, optimistic and positive working atmosphere for employees and guide employees to actively integrate their personal pursuit into the long-term career development with the Group.

During the reporting period, the Group actively abided the laws and regulations such as the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the *Labour Contract Law of the People's Republic of China* (《中華人民共和國勞動合同法》), as well as the *Employment Ordinance* (《僱傭條例》) of Hong Kong, and found no major violation of laws and regulations on human resources.

There are many young and energetic employees in the Group, and employees under 40 account for more than approximately 78% of the total employees. The overall number of employees rose approximately 18% from 2018. The number of employees by age group is as follows:

	Under 30	31 to 40 years old	41 to 50 years old	Above 50 years old	Total number of 2019	Total number of 2018
Headquarters/ administrative offices	64	106	41	**11**	**222**	164
Project operation	42	156	23	7	**228**	214
Property management	258	234	104	55	**651**	546
Commercial operations	3	11	0	0	**14**	16
Total number of 2019	**367**	**507**	**168**	**73**	**1,115**	
Total number of 2018	315	399	173	53		940

The ratio of male to female in the Group is close to 1.7: 1. The number of employees by gender group is as follows:

	2019			2018		
	Male	Female	Total	Male	Female	Total
Headquarters/administrative offices	141	81	**222**	95	69	164
Project operation	157	71	**228**	134	80	214
Property management	393	258	**651**	383	163	546
Commercial operations	7	7	**14**	6	10	16
Total	**698**	**417**	**1,115**	**618**	**322**	**940**

For industry reasons, there are more male employees than female employees, but the Company is committed to balancing and diversifying the gender of its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B1. Employment (continued)

General Disclosure (continued)

Salary and benefits

The Group has established a relatively fair, reasonable and competitive salary policy, which is based on the principles of fairness, competition, incentives, reasonableness and legality to pay employees. The salary of the Group's employees consists of basic salary, overtime salary, performance related bonus and related subsidies. In addition, the Group will make appropriate salary adjustments every year according to inflation, living standards and market conditions.

The Group signs and performs labour contracts with employees in accordance with the *Labour Contract Law of the People's Republic of China* (《中華人民共和國勞動合同法》), with a signing rate of 100% of labour contracts. In accordance with the law, we pay "five social insurance and one housing fund" for employees, i.e. pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing accumulation fund, to ensure employees enjoy social insurance benefits.

In accordance with national and local laws and regulations such as the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the Group effectively protects the legitimate rights and interests of employees, respects their right to rest and vacation, and regulates their working hours and the various rest and vacation rights they enjoy. All employees of the Group are entitled to holiday benefits such as the annual leave, sick leave, personal leave, marriage leave, maternity leave and nursing leave, condolence leave, work injury leave, study or examination leave, and judicial leave (jury service).

The Group has also set up the *Share Options Scheme* (《購股權計劃》) and the *Share Award Scheme* (《股份獎勵計劃》) to grant or award employees share options or shares which benchmark with employees' performance, promote our long-term goals, and offer rewards or remunerations to employees who have continuing contributions to the Group, so as to attract and retain outstanding talents.

In addition, the Group has been committed to providing thoughtful and comprehensive employee benefits and actively organizing rich and colourful activities. For this reason, we have formulated the *Plan for Implementation of Corporate Cultural Activities in Operation Headquarter in 2019* (《2019年營運總部企業文化活動開展方案》), aiming to enhance the cohesion of employees through cultural activities and hence the ability of employees to execute their work. The annual activities include, but are not limited to, employee birthday parties, daily physical exercises, office environment renovation, annual employee outdoor visits, March 8 activities, outreach activities, mid-autumn festival activities, preparations for the annual meeting of 2020 spring festival, and other small events.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B1. Employment (continued)

General Disclosure (continued)

Recruitment, promotion and dismissal

The Group actively implements the strategy of strengthening enterprises with talents and continuously establishes and improves the talent recruitment and selection policy. In order to meet the requirements of operation management and business development of the Company, rationally allocate human resources and standardize recruitment, the Group has formulated the *Operation Guidelines on Recruitment Management* (《招聘管理作業指引》). Relevant procedures are listed in the Guidelines, including but not limited to recruitment channels such as recruitment application and approval, internal recruitment and external recruitment, selection of job-application materials, interview, employment confirmation, background investigation, employment approval procedures, procedures of new employee joined, and establishment of employee files.

The Group has a clear basis and procedure for the promotion, transfer and demotion management of employees, standardizes the resignation procedure and protects the interests of both employees and the Company. Relevant procedures and detailed rules are listed in documents such as the *Staff Manual* (《員工手冊》), the *Operation Guidelines on Promotion Management* (《晉升管理作業指引》), the *Management Procedures for Employee Comprehensive Evaluation* (《員工綜合評估管理程序》) and the *Operation Guidelines on Appointments and confirmations of Employment* (《入職與轉正管理作業指引》). In principle, the Company carries out promotion evaluation and approval twice a year. We have implemented a fair and open assessment policy. We will fully consider the past performance of employees and their comprehensive qualities, including moral character, work capability and obedience awareness, to provide opportunities for employees to promote and develop so as to explore their potential.

Meanwhile, in order to provide outstanding employees a fair and impartial promotion channel and opportunities to retain talents, the Group will select outstanding young management cadres through internal competition to take up major positions in new development projects. In order to solve the problems of talent gap of the Group's core positions, brain drain in key positions, and difficulties in self-cultivation of talents, we have drawn up and implemented the *Proposal for Formation of Corporate Echelon Talent Pool* (《企業梯隊人才庫建設方案》) to optimize our human resources allocation, improve the talent reserve mechanism, and implement the successor plan for core positions and the talent reserve plan for key positions.

In addition, in order to further strengthen and perfect our resignation management of employees, we not only set out the relevant procedures for resignation in the *Staff Manual* (《員工手冊》), but also formulated the *Operation Guidelines on Termination Management* (《離職管理作業指引》) to maintain a normal order of staff turnover and to combine the actual operation.

Equal opportunities

The Group strictly abides by various laws and regulations of national and local governments, adopts a fair, just and open recruitment procedure, and formulates relevant policy documents to eliminate discrimination in the recruitment process. It does not discriminate against any employee due to factors such as race, sex, skin colour, age, family background, national tradition, religion, physical quality and nationality, and allows employees to enjoy fair treatment at all stages of recruitment, salary, training and promotion, so as to try its best to recruit professional talents from different backgrounds to join the Group.

B. SOCIAL (continued)

B2. Health and safety

General Disclosure (continued)

The Group attaches great importance to the health and safety of its employees and is committed to creating a good working environment and safe production conditions. We strictly implement the relevant laws and regulations such as the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the *Production Safety Law of the People's Republic of China* (《中華人民共和國安全生產法》), the *Prevention and Control of Occupational Diseases Law of the People's Republic of China* (《中華人民共和國職業病防治法》), the *Fire Protection Law of the People's Republic of China* (《中華人民共和國消防法》), as well as the *Occupational Safety and Health Regulations* (《職業安全及健康條例》). During the reporting period, the Group did not record any serious accidents that resulted in death or serious bodily injury, did not pay reimbursement or compensation to the employees of the Group due to such accidents, and did not find any material matters that violated laws and regulations related to employees' health and safety.

Occupational safety and health

The Group has established occupational health guidelines for enterprises in accordance with the OHSMS standard system of the *Occupational Health and Safety Management System* (《職業健康安全管理體系》). The Group is committed to preventing, controlling and eliminating occupational hazard factors in the working environment, protecting the health of workers, enhancing employees' awareness of safe production, ensuring building safety and meeting the needs of enterprises and employees.

The Group stipulates that the principal personnel in charge of the department shall be fully responsible for the occupational health management of the Company. The Project Management Centre of the Group regularly organizes the Company's safety management team to inspect the security situation of projects under construction, and the inspection results are reported to leaders of the Group. The Group has formulated the *Administrative measures for the reporting, investigating and handling of safety production incidents* (《安全生產事故報告與調查處理管理辦法》), to stipulate the procedures of reporting, investigating and handling of safety incidents, to implement an accountability system on safety production incidents and to prevent and reduce the occurrence of safety production incidents.

The Group has compiled the *Operation Guidelines on the Management of Construction Safety and Legitimacy* (《安全文明施工管理作業指引》), and through preventive and monitoring measures, reducing the rate of accident occurrence at project construction process, improving the image and environment of construction sites, monitoring the construction safety process and knowledge in managing safety accidents. Project companies assess the management measures prepared by the contractors in regard to construction safety and legitimacy, and conduct independent patrolling, sample checking and monitoring on every aspects of the construction sites, report to the relevant person-in-charge and the contractors when problems are identified and monitor the relevant rectifications. The Group's Project Management Centre monitors the project companies' execution of safety management policies. We require the contractors to establish trainings on safety education and techniques, which are held regularly and seasonally.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B2. Health and safety (continued)

General Disclosure (continued)

Occupational safety training and employee health management

In order to take preventive measures, the safety officer of the project company is responsible for carrying out safety training and to supervise relevant personnel at occupational-disease-prone positions from time to time, including checking the use of labour protection equipment by employees, and inspecting and handling health risks at workplaces, so as to reduce the spread of common diseases and ensure construction safety. We will also arrange relevant employees who are relatively prone to occupational diseases to undergo occupational disease examination and establish health monitoring files. In addition, we have arranged for all employees to have a comprehensive physical examination every year to monitor their physical condition and detect potential crisis. During the reporting period, the expenditure on physical examination of employees was approximately RMB330,167 (2018: approximately RMB161,226), an increase of approximately 105% from 2018 due to the upgrade of the examination plan for senior management and the increase of the number of headcounts.

Prevention and control measures of new coronavirus pneumonia

In order to effectively prevent and control the infection of the novel coronavirus pneumonia by Skyfame Group and ensure the health and life safety of all employees of the Company, the Company has formulated prevention and control measures in accordance with the specific requirements of the epidemic prevention and control department of the government. Each management center monitors the physical health of the Company's employees. For employees with abnormal physical conditions such as fever, cough, chest tightness, etc., they must be physically isolated at home for at least seven days, and will not be released from the observation until there isn't any abnormalities after the end of the observation period. For employees who have stayed in the place where the epidemic occurs and those who have close contact with personnel at the place where the epidemic occurs are required to be isolated and observed for 14 days before they resume working.

The entrance and exit of our China office are centralised. Employees are required to wear staff cards, register upon entry and exit, measure body temperature, wear masks, reduce going-out and visit friends or families. During the epidemic period, visitors are prohibited from visiting our offices. Business operation is mainly conducted through electronic equipment. In case of special circumstances where visiting is necessary, visitors are required to register their information, measure their body temperature and conduct hand disinfection. Air-conditioning is strictly prohibited in the office. The ventilation of the office is maintained every day and is disinfected at least once a day. Employees will neither have meals together nor chatting, reduce the time and frequency of lunch meeting, reduce the probability of face-to-face contact, and often use tele-conferences or electronic devices for communication. Our Hong Kong office conducted surveys on the travelling plans of the staff before the Chinese New Year. Assessment on the risks of onsite working for the Company was conducted and back-up masks for the staff were purchased. It is required to measure body temperature for staff in the morning every day. Cleaning and disinfection of the office was strengthened. Furthermore, preparation work in relation to the setting up of remote office system at home for the staff was in place. The Company actively cooperated with the Hong Kong government and the property management office of the office building in relation to the epidemic control measures.

B. SOCIAL (continued)

B2. Health and safety (continued)

General Disclosure (continued)

Prevention and control measures of new coronavirus pneumonia (continued)

The Company carried out the environmental governance work for the property projects at the construction site and strengthened the disinfection of public premises, especially for the key areas such as the centralized canteen and dormitories. We regularly disinfected and changed the ventilation at designated locations, maintained sanitation and clean, and cut off the spread of infectious diseases. The Company has strengthened the management of shift duty and emergency duty for projects, and paid close attention to if there was any epidemic in the construction site. The epidemic would be dealt with in strict compliance with the established measures upon the occurrence of the epidemic.

The property management company has strengthened the publicity effort towards the landlord of the community under its management, and enhanced the popularization of epidemic knowledge by means of bulletin board and WeChat group of property owners. The Company organized personnel to clean up the hygienic blind spot and increased the intensity and frequency of disinfection in key areas such as toilets, elevator boxes, building passages, refuse transfer stations, underground parking lots and underground water pipes. Management of people moving in and out in the community was strengthened. Body temperature checkpoint were set up, if necessary, at the entrance and exit of the community to strictly prevent the infection or spread of epidemics.

B3. Development and training

General Disclosure

The Group recognises the importance to the establishment of an internal management training and development system of the enterprise. It provides diversified training modes such as induction training for new employees, management trainee training, employee policy training, professional skills training, personnel echelon training, and management personnel training to meet the different requirements of employees of all levels and types, enhance the skills of employees, and help the sustainable development and personal growth and development of employees.

Training management

To enhance the Group's operation management as well as to meet the demand of business development, the Group has established the *Operation Guidelines on Staff Training Management* (《培訓管理作業指引》) and *Operation Guidelines on Staff Internal Transfer* (《員工異動管理作業指引》) to standardize the Group's staff training management. At every year end, the Group devises an annual training program for the coming year, which encompasses both internal and external trainings and is tailor-made to suit the operating environment of every department. All training programs aim to elevate the employees' efficiency in order to cope with changes in their working environments.

We regularly arrange training and study for on-the-job managers on internal policies and procedures and professional skills improvement; meanwhile, on-the-job managers are arranged to attend professional training courses organized by external training institutions from time to time. In addition, an all-staff policy assessment is organized for all staff every six months. The assessment content includes policy examination results and policy training attendance, and the assessment results are incorporated into the annual comprehensive appraisal of employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B3. Development and training (continued)

General Disclosure (continued)

Training management (continued)

In addition, in order to standardize the selection, assessment, training and enhancement in motivation of internal trainers, and to establish an internal trainer team to promote the business and culture development of the Company, we have formulated the *Management Measures for Internal Trainers* (《內部培訓師管理辦法》). In the management measures, detailed procedures of internal trainers and internal trainer assessment teams, such as the responsibilities, selection procedures, assessment management and training incentives, are listed in details.

Training course

The training categories of the Group are classified into induction training of new employees, management trainee training, employee policy training, professional skills training, echelon personnel training, management personnel training and other professional training. We will regularly conduct induction training for new employees and introduce the Group's development history, corporate culture, organization structure, company rules and regulations, office operation platform, work flow and company projects to help employees adapt to the working environment as soon as possible, better perform their duties and improve their work efficiency. The training of management trainees is continuously carried out every year, and the training of management trainees has been strengthened through the combination of closed centralized training and rotation training.

We have the *Echelon Talent Learning Report* (《梯隊人才學習報告》), which allows employees to evaluate management or professional skills improvement, personal comprehensive quality improvement, organizational management and business improvement suggestions on a quarterly, semi-annual and annual basis. The evaluation scope includes, but is not limited to, management planning, plan control, talent training and supply, team leadership, communication and coordination, execution and self-improvement. In addition, the talent advisor and the Human Resources Department will also complete the part of talent evaluation and give suggestions and opinions to the Human Resources Department.

During the reporting period, the Group organized a total of 1,272 sessions (2018: 709 sessions) of staff training with 12,215 staff (2018: 3,965 staff) attended. Internal and external training involved 5,548 hours (2018: 3,502 hours) and 584 hours (2018: 138 hours) respectively. Total training expenses amounted to RMB224,793 (2018: RMB276,910).

The Group also attaches great importance to safety production training to protect employees' personal safety. Relevant policies are described in detail in the "Occupational Safety and Health" section of Aspect B2.

B4. Labour standards

General Disclosure

Preventing engagement of child labour or force labour

The Group has complied with the *Convention concerning the Abolition of Forced Labour* (《廢止强迫勞動公約》), the *Employment Ordinance*(《僱傭條例》), the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》) on the employment of young people under the age of 16 and their legal rights and interests, and the *Provisions on the Prohibition of Using Child Labour* (《禁止使用童工規定》), which have been implemented. During the reporting period, the Group did not find any major violations of laws and regulations related to the prevention of child labour or forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B4. Labour standards (continued)

General Disclosure (continued)

Preventing engagement of child labour or force labour (continued)

The Group strictly prohibits the employment of any child labour and forced labour in its mainland business. It will review our employment practices from time to time and inspect the employment status of contractors to prevent potential violations. In addition, the recruitment prospectus makes clearly that only employees over the age of 16 are to be recruited, and requires employees to truthfully complete the entry report form and personal data (including personal resume, education-related certificates, career background investigation files, etc.). The Human Resources Department and the Project Office will review the recruitment before employment to ensure that the entire recruitment process is legal. The Group has established a complete recruitment procedure requiring examination of candidates' backgrounds and a formal reporting procedure for handling any exceptions. In addition, regular reviews and inspections are conducted to prevent any child labour or forced labour in all operations.

In addition, the Group's employees work overtime on a voluntary basis. Employees must apply for overtime in advance and submit it to the personnel supervisor for registration and filing after being approved by the person in charge of the subordinate unit or department. They will be given compensatory leave or overtime allowance during the corresponding holidays. No department member of the Group may detain the employee's identity card, deposit or salary for any reason.

Meanwhile, the Group will not appoint these sellers and contractors who are aware of employing child labour or forced labour in their operations to provide administrative supplies and services.

B5. Supply chain management

General Disclosure

Most of the Group's project engineering and professional technology provision are mostly built by contractors in the form of bidding, so the selection of suppliers and technology providers is very strict. As the Group attaches great importance to the management of potential environmental and social risks in the supply chain, we have established a strict and standardized bidding system and supplier selection procedure, and have put forward requirements for suppliers in terms of environmental and social risk control.

Environmental and social risk management of the supply chain

In order to maintain a long-term and stable cooperative relationship with suppliers, the Group is extremely strict in selecting suppliers and has a well-managed procurement system and a strict supplier selection procedure. We have formulated the *Supplier Management Program* (《供貨商管理程序》) to standardize supplier selection and cooperative management, improve the integration and effect of the Group's external resources, and promote the achievement of the objectives of various development projects and the Company's strategy.

The Group supports local procurement. Most of the construction materials are purchased locally in the project development. This will not only reduce the supply chain risk of suppliers failing to meet the requirements of the Group, but also support environmental protection and reduce carbon emissions from transporting construction materials.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B5. Supply chain management (continued)

General Disclosure (continued)

Environmental and social risk management of the supply chain (continued)

We have formulated the *Operation Guideline on Management of Supplier Resources Pool* (《供應商資源庫管理作業指引》), the *Operation Guideline on Supplier Certification* (《供應商認證作業指引》) and the *Operation Guidelines on Supplier Assessment* (《供應商評估作業指引》) to build the information management platform for suppliers. After qualification or on-site review, suppliers will be classified and put into storage. Through the establishment and maintenance of the supplier database, the resource information of suppliers is systematically collected and processed to ensure that the Group can efficiently find the most suitable suppliers.

In order to standardize the Group's strategic procurement management (engineering) and improve the procurement efficiency and transparency, the Group has established a strategic procurement supplier receipt/issue review team, which is responsible for approving the receipt/issue of strategic procurement suppliers. We have a *Supplier Inspection Report* (《供方考察報告》) to record the basic situation of suppliers and the opinions of the review team. The report mainly inspects aspects of the supplier such as the size and ability of the company, management standardization, personnel mobility, allocation mode of contract funds and construction site management, and explains the conclusion of the inspection.

At the end of each year, the department of contract bidding management will jointly evaluate and screen suppliers with other management centres and project companies in order to reduce the environmental and social risks brought to the Group's operations by suppliers' non-achievement of the target performance, such as environmental pollution at construction sites or damage to our reputation caused by the employment of illegal workers. After the review report is approved by the leaders of the Group, the supplier level in the cooperative supplier database is updated in line with the review results, and unqualified suppliers are eliminated to ensure that the qualified suppliers remaining on the roster can provide quality assurance.

In addition to environmental risks, we will also take measures to inspect whether its major suppliers and contractors meet relevant laws and regulations and other standards to be met in terms of health, safety, forced labour and child labour, as well as the awareness of suppliers in the above aspects.

B. SOCIAL (continued)

B5. Supply chain management (continued)

General Disclosure (continued)

Fair and open procurement

The Group attaches great importance to anti-corruption in processes such as procurement. We have formulated the *Integrity Agreement* (《廉潔協議書》) to prevent commercial bribery in the field of engineering construction, to define the responsibilities and obligations of the contracting parties, and to prevent all kinds of violations of law and discipline parties who seek illegitimate interests. The procurement procure of the Group is conducted in an open, fair and impartial manner in strict accordance with relevant regulations such as the *Law of the People's Republic of China on Tenders and Bids* (《中華人民共和國招標投標法》). It will not discriminate against any supplier, but employees and other individuals who have interests in relevant suppliers will not be allowed to participate in relevant procurement activities. The Group also pays attention to the integrity of suppliers and partners. We will only select suppliers and partners who have a good business record in the past and have no serious violations of laws or business ethics. We have zero tolerance for bribery and corruption and prohibit suppliers and partners from obtaining procurement contracts or cooperative relationships through any form of profit transmission.

Commercial ethics

The Group also pays attention to the integrity of suppliers and partners. We will only select suppliers and partners who have a good business record in the past and have no serious violations of laws or business ethics. The Group adopts a zero-tolerance strategy against corruption and bribery and prohibits suppliers and partners from obtaining procurement contracts or cooperative relationships through any form of profit transmission.

B6. Product responsibility

General Disclosure

The Group attaches great importance to product quality and corporate reputation. We actively ensure the quality of products and services through internal controls and actively develop high-quality real estate projects. We have also been maintaining communication with customers to ensure that we understand and meet customers' needs and expectations, and we hope to know customers' satisfaction so as to continuously improve the real estate projects and services of the Company.

During the reporting period, the Group did not find any major violations regarding the health and safety, advertising, labelling and privacy of the products and services provided, and strictly abided by relevant laws and regulations, including but not limited to the *Trade Descriptions Ordinance* (《商品說明條例》) of Hong Kong, the *Law of the People's Republic of China on Product Quality* (《中華人民共和國產品質量法》), the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* (《中華人民共和國消費者權益保護法》), the *Advertising Law of the People's Republic of China* (《中華人民共和國廣告法》), the *Copyright Law of the People's Republic of China* (《中華人民共和國著作權法》), the *Patent Law of the People's Republic of China* (《中華人民共和國專利法》), as well as the *Trademark Law of the People's Republic of China* (《中華人民共和國商標法》).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

The Group has complied with the development needs of cities and customers. From quality to scale, the Group has won praise from the industry and society. We carry out the Company's management policy of honesty and service as well as market and reputation in priority, and have won the recognition of customers in all regions by creating brand with high-quality products. The Group has won many awards for outstanding performance in 2019. Details of the major honours and awards in 2019 are set out under the section headed "Corporate Profile" on pages 8 to 10 of this annual report.

Quality control

The Group places high value in the importance to quality factors and corporate reputation and thoroughly understands the importance of quality control in production. In order to ensure that the Company's properties for sale complies with the relevant national standards, we have formulated the *Operation Guideline on Engineering Quality Control* (《工程質量控制作業指引》) to supervise the compliance of the projects with the relevant national standards, technical standards and the requirements of engineering and service contracts. The project companies review the construction plans submitted by contractors, quality control and assurance measures, and the enterprise qualifications of subcontractors and suppliers, and conduct on-site inspections and spot checks on the construction quality. The Project Management Department of the Group provides technical support to the project companies and reviews quality assurance measures.

In addition, the Group has also devised the *Operation Guidelines on Indoor Environmental Pollutions Control* (《室內環境污染控制作業指引》) to ensure that the construction materials used comply with the government's regulations and meet environmental indicators. Effective indoor environmental pollution controls are carried out at key stages during the course of construction in order to prevent the delivery of unqualified products to customers. The department responsible for procurement and tendering is required to comply with the Group's guidelines and the Government's relevant regulations when setting up procurement and out-source contracts. Project companies are responsible to monitor the radon concentration in soil and examine the delivered materials according to environmental protection indicators. The supervising contractors are responsible to perform tests on indoor environment contamination rates and emission rates of materials that may cause pollution before being put into use, and monitor the concentration of pollutants before acceptance of completed works.

According to the relevant policies or the contractors' *Regulation on the Maintenance of End-Product after Construction* (《建築成品保護規定》) monitored by the Group, the engineering departments of project companies procure the main contractors to set up working teams to maintain the quality of the end-products by coordinating independent sub-contractors in such respects to ensure that the end products are completed according to the requirements in the relevant contracts, so as to discharge all parties' responsibilities and imposing penalties.

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

Processing of Non-conforming Products

The Group has developed the *Procedure Document for Control of Non-conforming Products* (《不合格控制程序文件》) to identify and control the non-conformity arising during the work and service so as to meet the specified requirements and prevent unintended use or delivery. The definitions of non-conformity listed in the document are classified into general non-conformity and severe non-conformity according to their degree of influence and nature. The project company shall check and accept equipment materials and construction according to the specified requirements, immediately correct, identify and record the non-conformity of any items found to fail to meet the requirements, and directly or require the supervision company to issue a *Notification of Remediation* (《整改通知單》) as well as request the supplier to submit a quality report. For the non-conforming products, we will have the following treatment:

- The leader of the department in charge is responsible for identifying, reviewing, approving, correcting and tracking and verifying the general non-conformity;

- Regarding severe non-conformity, the department in charge shall formulate corrective measures, the Planning and Operation Department is responsible for reviewing the measures, and the management representatives and the Company leaders should take charge of approval. The Planning and Operation Department organizes the correction tracking, verification and recording of the severe non-conformity;

- For non-conforming service, resource allocation, training, punishment and compensation, and other treatment measures can be taken;

- The following four circumstances should be treated and adjusted and their verification records should be kept, the process and product are unqualified, and the materials for the supply equipment are unqualified; there is control of the non-conforming products and procedures appearing during the construction process; quality accidents; unqualified work during inspection and acceptance;

- All severe non-conformity should be handled with corrective and preventive measures in accordance with the *Control Procedures for Corrective and Preventive Measures* (《糾正和預防措施控制程序》); and

- The processing of all non-conformity will be verified and the complete records will be kept. Relevant records will be saved in the relevant departments. All departments and project companies set up non-conformity and corrective measures to tracking accounts and report to the Planning and Operation Department monthly. The Planning and Operation Department collects data about unqualified and corrective situations and analyses the unqualified information and data each month.

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

Processing of Non-conforming Products (continued)

Besides, we have made *Procedures of Corrective and Preventive Actions Control* (《糾正與預防措施控制程序》) to take corrective and preventive actions against potential or existing unqualified situations, eliminate the causes of potential or existing unqualified situations, and prevent them from occurring or recurring. In the procedures, we will list corresponding handling of certain situations, including the approaches of finding unqualified situations or potential unqualified situations, project approvals of preventive measures, analysis of causes of potential unqualified situations, development and approval of preventive proposals, implementation of preventive measures, review of results of preventive measures, and analysis and documentation of implementing results of preventive measures.

Customer service and privacy

The Group believes that customer satisfaction is one of the key factors for sustainable production and business development. Therefore, we have developed a *Monitoring Procedure for Customer Satisfaction Measurement* (《顧客滿意度測量監控程序》), and established a procedure to investigate and understand customers' satisfaction with the Group's work quality, engineering entity quality and services during the processes of real estate development, sales and after-sales services. We will propose corrective and preventive measures based on the measurement results and continuously make progress to maintain or improve customer satisfaction. Our Marketing Management Department and the District Office's Marketing Management Department develop annual plans of customer satisfaction survey in the department's annual work plan. The starting time of customer satisfaction survey of each building is at least once a year after moving in. Three years after moving in, the survey will be taken up by the property management company for implementation. The survey will be conducted through telephone interviews, home visits, online surveys, questionnaire distributions, etc. The survey includes but is not limited to planning and design, project quality, property management, sales management, and customer service, etc. The Marketing Management Department and the District Office's Marketing Management Department shall organize relevant departments and company executives to review the customer satisfaction surveys and customer opinions and suggestions, come up with advice and determine the projects that need to be corrected and prevented. Besides, the Marketing Management Department and the District Office's Marketing Management Department shall issue Reports on *Corrective and Preventive Measures* (《糾正和預防措施報告》) to the responsible departments with projects that the customers are not satisfied with, and ask them to improve or make progress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

Customer service and privacy (continued)

Besides, to elevate the standard of the Company's products, services, and management, to enhance product quality and service, to ensure customers' complaints are resolved in a timely, accurate and reasonable manner and to achieve the Company's target of refining the Company's products and service continuously, we shall set up special customer service hotlines and arrange special personnel to receive the calls in each project's Customer Service Department. The Group has also established *Code for Customers' Complaints Handling* (《顧客投訴處理程序》) to standardize the procedures of handling customer complaints to make them dealt with in time and effectively. We focus on three "roles" while handling customer complaints. Marketing is the first contact of customer services, the solutions to solve customers' problems, and the consultant to customers. Two latitudes include customer latitude, meaning that customer needs and complaints are both legitimate, and customer services latitude, which means all customer needs and complaints are where we should improve. Two tools refer to first-be-inquired responsibility system and highest working level. Careful complaints definition, complaints classification, complaint grading, and handling procedures are clearly documented, such as evidence obtaining and collections of sales information, acceptance of complaints, complaints handling, time limit of handling general complaints, complaints reply, closure of complaints, early warning of complaints upgrading, and statistical feedback of complaints, etc.

Moreover, the Group carefully manages the customers' files to avoid disclosure of customer privacy. As part of the Group's resources, customer information and customer data shall not be sold, shared, or revealed for any purpose. Each employee must protect the customer information and data in accordance with the company's regulations to avoid disclosure of customer information.

Intellectual property

We have relevant management procedures to effectively manage the Group's intellectual property. When we find out that someone has infringed the Group's intellectual property, we will protect our rights with the guidance of relevant lawyers and experts. We will file a lawsuit against those having infringed our intellectual property rights based on Article 213 of *Criminal Law of the People's Republic of China* (《中華人民共和國刑法》) to safeguard the legitimate rights and interests of intellectual property held by the Group. Moreover, we also avoid infringement of intellectual property rights of others. When using words, graphics or their combinations similar to or identical to registered trademarks, we will conduct patent novelty searching to avoid infringement of intellectual property rights.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

Advertisement and labels

The Group has formulated a *Sales Manual on Operation Guide*, which lists the procedures of the *Sales Manual* (《銷售手冊》) and standardizes the sales methods, including but not limited to advertising and labelling issues. The operating procedures are as follows.

1. The Marketing Management Department and the District Office's Marketing Management Department make an outline and consult relevant professional departments' opinions. The opinions of relevant departments shall be replied after being signed and confirmed by the person in charge.

2. The Marketing Management Department and the District Office's Marketing Management Department prepare the sales manual. Direct projects shall be approved by the person in charge of the Marketing Management Department. Projects of the city company shall be submitted to the general manager of design and development and the general manager of marketing for review, and approved by the president of the city company.

3. After being approved, the Marketing Management Department and the District Office's Marketing Management Department will train the sales staff on-site.

4. If there are any changes or supplement to the contents of the sales manual, it shall be updated by the Marketing Management Department and the District Office's Marketing Management Department and used after review and approval according to Step 2.

B7. Anti-corruption

General Disclosure

Anti-corruption

The Group believes that corruption-free corporate culture is the key to our continued success, so the Group attaches great importance to anti-corruption policies and systems. The Group has been protecting all its business from any illicit behaviour in its operating environment. In addition, honesty, integrity and fairness are the core values of the Group which all employees are required to fulfil and safeguard. In order to manifest such values, the *Staff Manual* (《員工手冊》) of the Group sets out the measures against any offender of anti-corruption regulations. The provision or recipient of bribery or interests (including commissions, handling charges, rebates, rewards, vouchers, gifts, etc.) in any forms from business- related units are deemed as serious violations of the Group's regulations. The Company shall rescind the employment contract of the offender and may seek relevant economic and legal responsibilities from the offender. The Group also prescribes its contract management procedures, which strictly prohibit business institutions and its staffs from obtaining direct or indirect monetary benefits from contracted parties through illicit means such as bribery and rebate when performing contracts.

B. SOCIAL (continued)

B7. Anti-corruption (continued)

General Disclosure (continued)

Anti-corruption (continued)

During the reporting period, the Group strictly abides by the relevant laws and regulations to prevent bribery, extortion, fraud and money laundering, including but not limited to *Prevention of Bribery Ordinance* (《防止賄賂條例》), *Company Law of the People's Republic of China* (《中華人民共和國公司法》), *Law of the People's Republic of China on Tenders and Bids* (《中華人民共和國招標投標法》), *Criminal Law of the People's Republic of China* (《中華人民共和國刑法》), *Law of the People's Republic of China against Unfair Competition* (《中華人民共和國反不正當競爭法》), *Interim Provisions on Prohibiting Commercial Bribery* (《關於禁止商業賄賂行為的暫行規定》), etc.. Major violations had not been discovered.

The Group is highly concerned about potential bribery and corruption during the purchasing process. Thus, we have formulated rules and regulations to manage the bribery and corruption, which have been described in the section of "Supply Chain Management" in Aspect B5.

Reporting System

The Group has established a clear reporting system to build and maintain our corruption-free and transparent culture. If an employee is found to have violated the code of integrity, the customers or business organisations are welcome to report the case voicing the customer complaints and suggestions through email (tousu@tianyudc.com, tydc110@163.com), by phone ((86-20) 2208 2803, 2208 2827)) or to the Company's website (www.skyfame.com.cn).

B8. Community contribution

General Disclosure

Corporate Social Responsibility

The Group believes that the success of an enterprise depends not only on its business development, but also its responsibility to repay the society. Therefore, as the Group is devoted to developing our business and achieving better returns for our shareholders, we also fulfil our corporate social responsibilities through our continued contribution to society.

The Group hopes to cultivate our employees' sense of social responsibility. Thus, we always encourage our staff to take part in public welfare activities during work time and private time to contribute more to the society. We believe that by encouraging the employees to participate in social charity and fundraising activities expressing their concerns for the society, we do not improve only the ideological quality of our employees, but also bring warmth to people in need. We believe that we can raise our employees' civic awareness and help them establish the correct value on repaying society by joining these activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INDEX OF *REPORTING GUIDE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE OF THE STOCK EXCHANGE* OF HONG KONG LIMITED

Aspects, General Disclosure and Key Performance Indicators	Description	Chapter/Statement
Aspect A1: Emissions		
General disclosure A1	Air and greenhouse gas emission, discharges into water and land, generation of hazardous or non-hazardous wastes: (a) Policies; and (b) compliance with relevant laws and regulations that have a significant on the issuer.	Emissions: Exhaust gas emissions, greenhouse gas emissions, sewage discharge, and waste treatment.
KPI A1.1 ("Comply or Explain")	Type of emission and related emissions data.	Emissions: Exhaust gas emissions, greenhouse gas emissions, sewage discharge, and waste treatment.
KPI A1.2 ("Comply or Explain")	Total greenhouse gas emissions (calculated in tonnes) and intensity	Emissions – Greenhouse gas emissions
KPI A1.3 ("Comply or Explain")	Total amount (calculated in tonnes) and intensity of hazardous waste	Emissions: Waste treatment (Inapplicable – explained)
KPI A1.4 ("Comply or Explain")	Total amount (calculated in tonnes) and intensity of non-hazardous waste	Emissions: Waste treatment
KPI A1.5 ("Comply or Explain")	Description of measures and achievements of emissions reduction.	Emissions: Exhaust gas emissions, greenhouse gas emissions, and sewage discharge.
KPI A1.6 ("Comply or Explain")	Description of methods of handling hazardous and non-hazardous waste, measures and achievements of emissions reduction.	Emissions: Waste treatment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosure and Key Performance Indicators	Description	Chapter/Statement
Aspect A2: Use of Resources		
General disclosure A2	Policy of effective utilization of resources (including energy, water and other raw materials).	Use of resources – Energy consumption, water management
KPI A2.1 ("Comply or Explain")	Total amount and intensity of direct and/or indirect energy consumption by type.	Use of resources – Energy consumption
KPI A2.2 ("Comply or Explain")	Total water consumption and intensity.	Use of resources – Water management
KPI A2.3 ("Comply or Explain")	Description of energy efficiency scheme and its achievements.	Use of resources – Energy consumption
KPI A2.4 ("Comply or Explain")	Description of problems on obtaining applicable water source, improving water efficiency scheme and its achievements.	Use of resources – Water management
KPI A2.5 ("Comply or Explain")	Total amount (calculated in tonnes) and unit amount of packaging materials used in the finished product	Use of resources – Use of packaging materials (Inapplicable – explained)
Aspect A3: Environment and Natural Resources		
General disclosure A3	Policy reducing the major impact of initiators on the environment and natural resources	Environment and natural resources
KPI A3.1 ("Comply or Explain")	Description of business activities` major impacts on environment and natural resources and actions taken to manage related impacts.	The environment and natural resources – Noise management, indoor environmental pollution control, and green construction
Aspect B1: Employment		
General disclosure B1	Salary and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversification, anti-discrimination and other treatment and welfares: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Employment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosure and Key Performance Indicators	Description	Chapter/Statement
Aspect B2: Health and Safety		
General disclosure B2	Providing safe working environment and protect employees from occupational hazard: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Health and safety
Aspect B3: Development and Training		
General disclosure B3	Policy related to improving knowledge and skill of employees to let them better fulfil their duties. Describing the trainings	Development and training
Aspect B4: Labour Standards		
General disclosure B4	Preventing engagement of child labour or force labour: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Labour standards
Aspect B5: Supply Chain Management		
General disclosure B5	Policy managing the environment of the supply chain and social risks.	Supply chain management
Aspect B6: Product Responsibility		
General disclosure B6	Health and safety, advertisement, label and private issues of the provided products and services and their remedial measures: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Product responsibility
Aspect B7: Anti-Corruption		
General disclosure B7	Preventing bribery, extortion, fraud and money laundering: (a) Policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer.	Anti-corruption
Aspect B8: Community Investment		
General disclosure B8	Policy related to knowing the need of the community where the operation lies in through the participation of the community as well as ensuring the business activity take the interest of the community into consideration.	Community investment

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through its Board of Directors (the "**Board**") and various committees with designated functions.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period covered by the 2019 financial statements, in compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except for the following deviation:

Code Provision A.2.1 – Chairman and Chief Executive

The roles of chairman and chief executive officer of the Company are not separated as required but are currently dually performed by Mr. YU Pan since 2004.

Explanation on the deviation is elaborated below under the heading of "Segregation of the Management of the Board and the Management of the Group's Business".

BOARD OF DIRECTORS

As at 31 December 2019, the Board comprised eight Directors as follows:

Executive Directors

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Mr. WANG Chenghua
Mr. JIN Zhifeng *(appointed on 1 October 2019)*

Non-executive Director

Mr. WONG Lok

Independent Non-executive Directors

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

The terms of service of all the Independent Non-executive Directors are one year and are subject to automatic renewal and retirement provision under the amended and restated bye-laws of the Company (the "**Bye-laws**").

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

The attendance record Directors and Committee Members in 2019 is as follows:

	Attendance Record of Directors and Committee Members in 2019					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	General Meeting
Number of meetings held during the year 2019	10	3	1	2	1	1
Executive Directors						
Mr. YU Pan *(Chairman and Chief Executive Officer)*	9/10		1/1	2/2		1/1
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*	9/10				1/1	0/1
Mr. WANG Chenghua	10/10					1/1
Mr. JIN Zhifeng *(appointed on 1 October 2019)*	3/3					
Non-executive Director						
Mr. WONG Lok	9/10					0/1
Independent Non-executive Directors						
Mr. CHOY Shu Kwan	7/10	3/3	1/1	2/2	1/1	0/1
Mr. CHENG Wing Keung, Raymond	10/10	3/3	1/1	2/2	1/1	0/1
Ms. CHUNG Lai Fong	9/10	2/3	0/1	1/2	1/1	1/1
Average Attendance Rate	89.19%	88.89%	75%	87.5%	100%	42.86%

The Board is responsible for formulating and reviewing the long-term business directions and strategies, monitoring the operating and financial performance of the Group, and performing the corporate governance functions. Management is delegated by the Board with the authority to make decisions on daily operations. Both the Directors and management interact frequently to ensure efficient communications between the parties.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

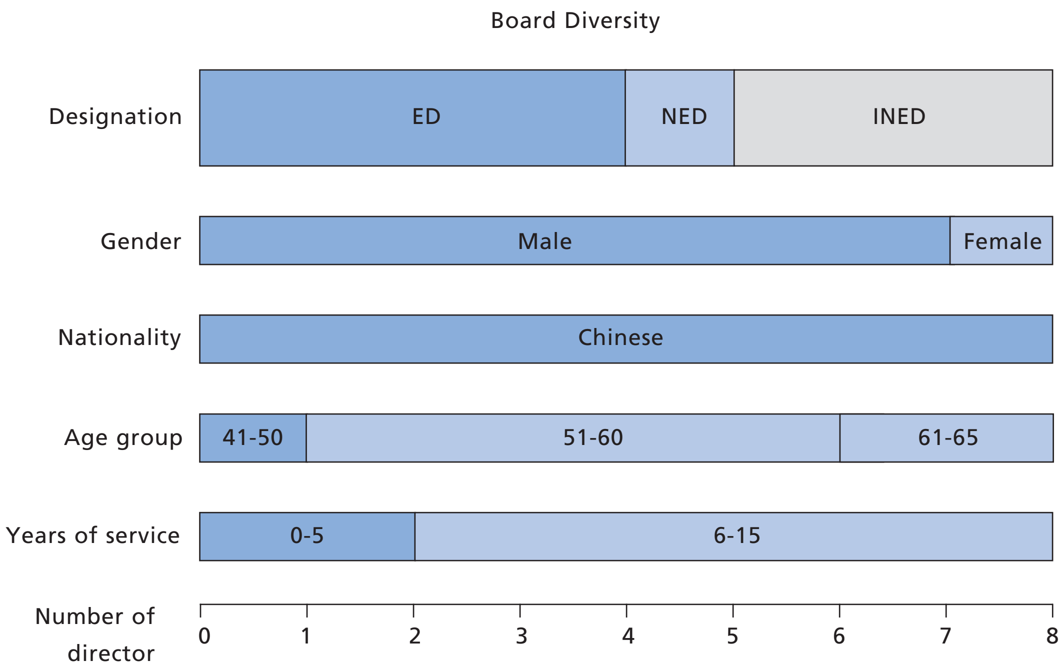
To the best knowledge of the Company, there is no financial, business and family relationship amongst the members of the Board, save as Mr. WEN Xiaobing is an executive director and legal representative of 廣州天譽控股集團有限公司 (Guangzhou Tianyu Holdings Group Company Limited*), a PRC incorporated company, of which, Mr. YU Pan, the Chairman of the Company, is the controlling shareholder.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities of the Group.

BOARD DIVERSITY POLICY

The Board recognizes the contribution that diversification of the Board can enhance the quality of its performance but considers that it would be inappropriate to set targets on the diversity on the ground that all appointments of directors will be made on merit and individual basis. Notwithstanding, gender and other diversity issues will be taken into consideration when evaluating the skills, knowledge and experience of any candidate to fill any vacancy at the Board and candidates will be considered against contribution that he/she will bring to the Board, and at the same time with due regard to the diversity on the Board.

As at the date of this report, the Board's composition under major diversified perspectives is summarized as follows:



ED: Executive Director
NED: Non-executive Director
INED: Independent Non-executive Director

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY IN THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements on a going concern basis which give a true and fair view of the state of affairs of the Group in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct for Securities Transactions by Directors and Relevant Employees of the Company (the "**Code**") on terms no less exact than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules and the Code is updated from time to time in accordance with the Listing Rules requirements. Following specific enquiry by the Company, all Directors of the Company confirmed that they have complied with the required standards as set out in the Code throughout the year under review.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company has provided resources and supports to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. Besides, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

The training each Director received during the year ended 31 December 2019 is summarized as below:

Name of Director	Reading materials regarding regulatory update and corporate governance matters	Attending seminars relevant to the Company's business, Listing Rules compliance and directors' duties
Executive Directors		
Mr. YU Pan *(Chairman and Chief Executive Officer)*	✓	–
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*	✓	–
Mr. WANG Chenghua	✓	–
Mr. JIN Zhifeng *(appointed on 1 October 2019)*	✓	–
Non-executive Director		
Mr. WONG Lok	–	–
Independent Non-executive Directors		
Mr. CHOY Shu Kwan	✓	✓
Mr. CHENG Wing Keung, Raymond	✓	✓
Ms. CHUNG Lai Fong	✓	✓

CORPORATE GOVERNANCE REPORT

SEGREGATION OF THE MANAGEMENT OF THE BOARD AND THE MANAGEMENT OF THE GROUP'S BUSINESS

In pace with the business development and growth of the Group, the Group currently maintains a relatively small but efficient staff force in the management team to take care of the daily operations of the property development business. Both the roles of the Chairman of the Board and Chief Executive Officer who leads the management of the Company are currently played by Mr. YU Pan. The Board considers the current simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out clearer division of responsibilities at the board level and the management team to ensure a more proper segregation of the management of the board of the Company and the management of the Group's business.

CORPORATE GOVERNANCE FUNCTIONS

The board has established four Board committees, namely, the Remuneration Committee, the Nomination Committee, the Audit Committees and Risk Management Committee. All Board committees have been established with defined written terms of reference, which are posted on the Company's website at www.skyfame.com.cn and the Stock Exchange's website at www.hkex.com.

All Board committees meet regularly and are provided with sufficient resources to perform their duties. The committee members can seek independent professional advice at the Company's expense upon reasonable request.

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Code which includes the following:

(i) to develop, review and monitor the Group's policies on corporate governance and compliance with legal and regulatory requirements;

(ii) to review and monitor the training and continuous professional development of directors;

(iii) to develop, review and monitor the code of conduct applicable to the employees and Directors; and

(iv) to review the Group's compliance with the corporate governance code and disclosure requirements in the Corporate Governance Report.

The Board has reviewed the Corporate Governance Report to ensure its compliance with the disclosure requirements as set out in the Appendix 14 to the Listing Rules. The Company has issued "Policies on Preservation and Disclosure of Price Sensitive Information" in May 2013 to comply with the requisite inside information disclosure requirements as specified under the Securities and Futures Ordinance and the Listing Rules.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

As at 31 December 2019, the Remuneration Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

The roles and functions of the Remuneration Committee are, amongst others, to make recommendations to the Board on the overall remuneration policy structured for all directors and senior management; and to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives achieved. The terms of reference of the Remuneration Committee are available at the Company's website at www.skyfame.com.cn and on the Stock Exchange's website at www.hkex.com.

The Remuneration Committee held two meetings in March 2019 to which all the members attended except only one member was absent in one of the meeting. The matters discussed included (i) the approval of shares conditionally awarded to directors and employees; (ii) the review of the remuneration policy of the Group's directors and senior management; and (iii) the review of incentive bonus paid to directors and senior management for 2019.

Details of the remuneration of each director are set out in the consolidated financial statements on pages 194 to 195 of this annual report.

NOMINATION COMMITTEE

As at 31 December 2019, the Nomination Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board and Nomination Committee) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The roles and functions of the Nomination Committee, amongst others, are to make recommendations to the Board on the procedures of appointment of directors and the selection from individuals nominated for directorship; to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; and to make recommendations on any proposed changes to the Board to complement the Group's corporate strategies. The terms of reference of the Nomination Committee are available at the Company's website at www.skyfame.com.cn and the Stock Exchange's website at www.hkex.com.

The Nomination Committee held one meeting in March 2019 and one member was absent in the meeting. The matters discussed included (i) the review of the size, structure and composition of the Board; (ii) the assessment of the independence of independent non-executive directors; and (iii) the recommendation of retiring Directors for re-election in 2019 annual general meeting. In September 2019, the Nomination Committee has passed a written resolution to make recommendation to the Board on the appointment of a new executive director.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

As at 31 December 2019, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The roles and functions of Audit Committee, amongst others, are as follows:

1. to review the integrity of accounts and financial reporting procedures;

2. to review and oversee the effectiveness of internal control systems;

3. to appoint external auditors and assess their qualifications, independence and performance; and

4. to review periodically the Company's and the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

The terms of reference of the Audit Committee are available at the Company's website at www.skyfame.com.cn and the Stock Exchange's website at www.hkex.com.

The Audit Committee held three meetings in March, August and December 2019 to which all members attended except one member was absent in the meeting held in March 2019. The matters discussed in the meetings included: (i) reviewing the financial statements of the Company for the year ended 31 December 2018 and the six months ended 30 June 2019 before submission to the Board for approval; (ii) considering the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department; (iii) reviewing and discussing the effectiveness of the Group's internal controls system with the Chief Internal Auditor; (iv) reviewing and discussing the 2019 work plan of Internal Audit Department; and (v) reviewing the status report of the Risk Management Committee in respect of their work done in 2019. The representatives of the external auditor were present at the meetings held on 13 December 2019 and 22 March 2019 and discussed with the committee members, amongst the other agendas, the scope of audit for the year ended 31 December 2019 and presented their findings on major issues to the committee members on the audit of the financial statements for the year ended 31 December 2018. Both the annual results for the year ended 31 December 2018 and the interim result for the six months ended 30 June 2019 have been reviewed by the Audit Committee before presenting to the Board for approval. Upon the resignation of the ex-auditor, the Audit Committee has made recommendation to the Board for the engagement of the new auditor.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

BDO Limited resigned as auditor on 27 September 2019. The Company has engaged PricewaterhouseCoopers as the Company's auditor for the year 2019.

During the year under review, the remuneration paid/payable to the Company's auditor is set out as follows:

Nature of service	**Fees** *(Renminbi)*
Audit services	2,880,000
Non-audit services (note)	1,395,000
TOTAL	4,275,000

Note: The services provided was for issuance of bonds/notes of the Company during the year.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with shareholders of the Company and understands that the Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and committee members and the external auditor, where appropriate, are present to answer shareholders' questions in the meetings. Meeting circulars are distributed to all shareholders before the annual general meeting and special general meetings in accordance with the timeline requirement as laid down in the Listing Rules and the Bye-laws. All the resolutions proposed to be approved at the general meetings are taken by poll. The chairman of the meeting and/or the secretary of the Company explain the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. Independent scrutineers are engaged to supervise the entire process of the voting. An announcement of the results of the poll will be published on the Company's websites at www.skyfame.com.cn and the Stock Exchange's at www.hkex.com.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has defined policy, namely the "Policies on Preservation and Disclosure of Price Sensitive Information", to govern the release of price sensitive information to the public in an equal, timely and effective manner to enable shareholders' easy appraisal of the Company's performance and business development, and senior staff who obtains sensitive information are refrained from dealing with shares of the Company. The Company has made prompt releases of information about the business and other affairs of the Group to the public and announced its annual and interim results in a timely manner within the time limits as laid down in the Listing Rules.

The 2020 annual general meeting is scheduled to be held at *Empire Room 1, 1st Floor, Empire Hotel Hong Kong•Wanchai, 33 Hennessy Road, Wanchai, Hong Kong at 3:00 p.m. on Tuesday, 16 June 2020.*

SHAREHOLDERS' RIGHTS

To protect the rights of shareholders to have reasonable involvements in the Company's affairs, the Bye-laws and applicable laws in Bermuda (the place of incorporation of the Company) provide shareholders the following rights about the holding of general meetings of the Company:

Rights to convene a special general meeting

Pursuant to the Bye-law 58 of the Company's Bye-Laws, members of the Company, holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board to transact or discuss any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of each requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Procedures for putting forward proposals at shareholders' meeting

Subject to Section 79 of The Companies Act 1981 of Bermuda, it shall be the duty of the Company, on the requisition in writing of (i) either any number of members representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred members, at the expense of the requisitionists:

(a) to give to members of the company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Notice of any such intended resolution shall be deposited to the Company's registered office or principal place of business in Hong Kong not less than six weeks before the meeting (in the case of a requisition requiring notice of a resolution); and not less than one week before the meeting (in the case of any other requisition) together with a sum reasonably sufficient to meet the Company's expenses in sending the notice.

Upon receiving the requisition, the Company would take appropriate actions and make necessary arrangements in accordance with the requirements under the provision of the Bye-laws and Sections 79 and 80 of The Companies Act 1981 of Bermuda.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (continued)

Company's contact details

For general enquires:

Enquiries, concerns and requisitions to the Board can be addressed to: (i) for shareholders and corporate investors, the secretary of the Company at the principal place of business in Hong Kong at Unit 1401, 14/F., Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, or by fax to (852) 2890 4459, or by email to cs@sfr59.com or (ii) for other stakeholders, the customer officer at the head office in Guangzhou at 33/F., HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, the PRC (Postage code: 510610), or by telephone to (86 20) 2208 2888, or by fax to (85 20) 2208 2777.

For suggestions and complaints:

All the suggestions and complaints can be sent to our Hong Kong and Guangzhou offices as stated above or through the Company's website at www.skyfame.com.cn. The Company has set up separate mail box (tousu@tianyudc.com) and telephone lines (86(20) 2208 2803 and 2208 2827) to receive shareholders' and other stakeholders' suggestions and complaints which will be served by an officer designated for the relevant issues.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibilities for maintaining sound and effective risk management and internal control systems of the Group. The management is responsible for designing a system of well-defined policies, controls and procedures which are executed from time to time. The Chief Internal Auditor and risk management team report to the Board regularly on the effectiveness of these control systems.

Internal Audit Department

The internal audit department is a designated operating unit set up in the Group which plays a dominating role to ensure the internal control and risk management systems are functioning. The Group's system of internal control includes a defined management structure with clear lines of reporting, limits of authority that are designed to help the management team to carry out the daily management functions for the accomplishment of the Group's business strategies. The internal audit department plays an important lead in the development of internal control systems of the Group that safeguard its assets against unauthorised use or disposition, to maintain proper accounting records of reliable financial information, and to comply with relevant laws and regulations. The internal control systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and to mitigate failure in material aspects in the Group's operations.

Risk Management Committee

The Risk Management Committee comprises one Executive Director, Mr. WEN Xiaobing and three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. The committee delegates its routine monitoring function to the risk management team which assists the management to develop systems to highlight risks and controls to alleviate risks. The risk management team consists of a risk management officer and the head of the internal audit department who report to the committee as to how the risk management work are carried out by the management and key risk factors highlighted by management are relieved and are addressed to the committee for review and recommendations.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT (continued)

Risk Management Committee (continued)

The Risk Management Committee held one meeting in December 2019 to review the works performed and difficulties encountered by the risk management team during the year. Those highlighted high level risks factors, covering aspects on strategic, regulatory, operational, financial and liquidity, were discussed in the meeting in which control measures defined by operating units for alleviation of risks were focused.

The major roles and functions of risk management team are to monitor and review the risk management system and advise to the Board about the effectiveness of and improvements to be made to the existing system and to review the internal control policies associated with the management of risks to ensure adequate control procedures have been developed in daily management to identify and encounter the risks.

The terms of reference of the Risk Management Committee are available at the Company's website at www.skyfame.com.cn and the Stock Exchange's website at www.hkex.com.

Regular Review of the Risk Management and Internal Control Systems

Through regular interactions with the internal auditor and the Audit Committee, the Board has assessed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2019. The Chief Internal Auditor reports to the Chairman of the Board regularly and periodically to the Board through the Audit Committee with findings on regular and ad hoc internal audits. He developed the work plan setting out the objectives and scopes of the audit work to be undertaken for the year 2020 in late 2019 which was approved by the Audit Committee. The internal audit covers testing on controls over financial, operation and compliance aspects of the Group. In the internal audit reports issued by the internal audit department, the Chief Internal Auditor highlights deficiencies in controls and makes recommendations on the internal control systems to the responsible managers in the operating units under internal review. Interim and annual internal audit reports issued by the internal audit department during the year 2019, comprising the details of audit work, findings and recommendations of improvements in all audit assignments performed by the internal control department, have been reviewed and discussed by the Audit Committee during the two audit committee meetings held in August and March 2019. In the internal audits performed in the year, the Chief Internal Auditor identified no fundamental deficiencies with material adverse consequences, but pointed out potential risks and areas for improvements and recommended to the management the remedial actions to be taken by the management team. The internal audit department consistently follows up those highlighted issues with the departments covered by the audits to ensure proper improvement measures are executed by management and also the follow-up results are reported in its audit reports. Based on the audit findings and management responses noted from the assignments, though enhancements are required in certain areas that need to be taken for further improvements, the Board considers that, overall, the existing internal control system is effective and adequate in controlling the operations and safeguarding the assets of the Company, and can prevent irregularities and protect the interests of its shareholders in material aspects.

DIRECTORS' REPORT

The Directors herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are property development, property investment, property management and provision of commercial services at our youth community projects.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the section "Management Discussion and Analysis" on pages 11 to 30 and Environmental, Social and Governance Report on pages 35 to 70 of this annual report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2019. Details of the Company's relationships with its employees, suppliers and customers who have significant impacts on the Group and on which the Group's success depends are set out in Environmental, Social and Governance Report under the section headed "Social" in paragraphs B1 (Employment), B5 (Supply Chain Management) and B6 (Product Responsibility/Customers Service and Privacy).

The Group has strictly complied with relevant laws and regulations which have a significant impact on the operations of the Group during the year. In this regard, the Company has retained an in-house legal consultant and outsourced legal advisers in the PRC to provide advices on legal matters and, when necessary, will consult external lawyers of other territories in contemplated transactions.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income on page 99 of this annual report.

The Board proposed to declare a final dividend of HK$0.023 per share for the year ended 31 December 2019. The proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting and, if approved, is expected to be paid on or before 31 August 2020 and will be paid in Hong Kong dollars.

DIRECTORS' REPORT

DIVIDEND

At a meeting of reviewing the half-yearly and annual results of the Company, the Board will determine if dividend will be paid to shareholders and the extent of distribution. The maximum distributable amount of dividend shall be twenty percent (20%) of the consolidated post-tax profit of the Group for the period/year. However, such distribution ratio will be subject to adjustment after the Board's taking into account of other factors, including profit available for distribution by subsidiaries for the period/year and undistributed reserve as at the financial period/year end date, cash flow forecast of the Group, restriction from foreign exchange control and restriction from creditors over borrowers. However, if under special circumstances, where the profit is above the normal level, the Board can propose a special resolution if necessary to distribute a special dividend of higher ratio to shareholders.

The Board will realign such dividend distribution after taking account of the changes in business environment, the outlook of cash flow and financing arrangement.

PRINCIPAL PROPERTIES

Details of the Group's principal properties under development, properties held for sale and investment properties are set out in notes 18, 19 and 15 to the consolidated financial statements respectively.

SHARE ISSUED IN THE YEAR

During the year of 2019, an aggregate of 14,507,500 Shares and 7,139,706 Shares were allotted and issued upon the exercise of options by some employees granted under the 2015 Scheme and 2005 Scheme (both as defined below) at the adjusted exercise price of HK$0.3607 and HK$0.2238 per Share respectively.

Details of the Company's share capital during the year are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2019, the Company's distributable reserves amounted to RMB1,683.5 million (inclusive of the Company's share premium account in the amount of approximately RMB1,684.7 million which can be distributed to shareholders of the Company in the form of fully paid bonus shares in accordance with Section 40 of the Companies Act 1981 of Bermuda. Besides, to enlarge the base of distributable reserves of the Company, the Company customarily receives dividends declared by it subsidies from time to time. The Board recommends the payment of a final dividend in form of cash of HK$0.023 per Share for the year ended 31 December 2019.

DIRECTORS' REPORT

EQUITY LINKED AGREEMENTS

Other than the share options granted and shares awarded by the Company as disclosed below, no equity-linked agreements that will or may result in the Company issuing shares were entered into by the Company during the year.

Share Options

The Company adopted another share option scheme on 9 June 2015 (the "**2015 Scheme**") upon the expiry of the old scheme adopted in 2005 (the "**2005 Scheme**") to provide incentives and rewards to eligible participants who are directors of the Company and employees of the Group.

During the year, no share option was granted to eligible participants and an aggregate of 14,556,000 share options were cancelled upon the resignation of employees. Pursuant to the 2005 Scheme and 2015 Scheme, 7,139,706 share options and 14,507,500 share options were exercised for subscription of 7,139,706 and 14,507,500 Shares at respective exercise prices of HK$0.2238 and HK$0.3607 per Share during the year. There were in total 141,601,761 share options (granted under the 2005 Scheme and 2015 Scheme) outstanding as at 31 December 2019.

Details of the share options scheme are set out in note 33 to the consolidated financial statements.

Share Awards

On 3 July 2018, the Company has adopted a share award scheme (the "**Share Award Scheme**") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. Unless terminated earlier pursuant to the terms of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a period of ten (10) years commencing on its adoption date. The maximum aggregate number of shares to be awarded by the Board under the Share Award Scheme shall not exceed 5% of the issued share capital of the Company from time to time. The maximum aggregate number of the awarded shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

During the year, pursuant to the Share Award Scheme, an aggregate of 143,500,000 shares were conditionally awarded to directors of the Company and employees of the Group with vesting period of three years commencing from May 2020 to May 2022.

Details of the Share Award Scheme are set out in note 34 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 32 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Apart from Sales of properties to 南寧市良慶區人民政府 (Nanning Liangqing District Government*) that contributed 16.0% of the Group's revenue for the year, there were no other customers of the Group contributed more than 10% of the Group's revenue for the year.

The aggregate construction costs incurred attributable to the Group's largest supplier, being a main contractor engaged for three projects, and five largest suppliers accounted for approximately 16.3% and 59.4%, respectively, of the Group's total construction costs incurred for the year.

To the knowledge of the Directors, none of the Directors and their associates, or any shareholders who own more than 5% of the Company's share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

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

During the period from 28 November 2019 to 31 December 2019 and 1 January 2020 to 17 January 2020, 17,590,000 and 7,488,000 Shares were respectively repurchased under the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 31 May 2019. The aforesaid repurchased Shares were subsequently cancelled on 7 February 2020. During the year, pursuant to the terms of the Share Award Scheme, the trustee of the Share Award Scheme purchased in the open market a total of 32,738,000 shares of the Company at a total consideration of approximately HK$37,584,160. Save as the aforesaid, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Details of Shares repurchased during the year is as follows:

Month	Number of Share Repurchased	Highest Price Per Share (HK$)	Total Consideration (HK$)
November 2019	1,312,000	1.03	1,339,840
December 2019	16,278,000	1.05	16,896,260
	17,590,000		18,236,100

* *English name is for identification purpose only*

DIRECTORS' REPORT

DIRECTORS AND THEIR SERVICE CONTRACTS

The Directors during the year and up to the date of this report were as follows:

Executive Directors
Mr. YU Pan *(Chairman and Chief Executive officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer))*
Mr. WANG Chenghua
Mr. JIN Zhifeng *(appointed on 1 October 2019)*
Ms. LIU Juan *(resigned on 18 February 2019)*

Non-executive Director
Mr. WONG Lok

Independent Non-executive Directors
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

In accordance with the Bye-law 83(2) of the Company's amended and restated bye-laws (the "**Bye-laws**"), Mr. JIN Zhifeng, will retire from office at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

In accordance with Bye-law 84(1) of the Bye-laws, Mr. YU Pan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong will retire from office by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election.

None of the Directors being proposed for re-election at the forthcoming general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Except as those disclosed in the section of "Connected Transactions" of this report hereinafter, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its holding company was a party and in which a director and/or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Specific Performance Obligations of the Controlling Shareholder

Pursuant to the terms of various bonds instruments and certain facility agreements entered into between the Company and various lenders, a change of control event (a "**Change of Control Event**") happens if Mr. YU Pan and his associates (as defined under the Listing Rules) cease to (i) collectively be the beneficial owners (directly or indirectly through wholly owned subsidiaries) of at least 30% or 50%, as applicable, of the issued share capital of the Company, or (ii) be the largest shareholder of the Company, or (iii) be employee of the Company or any Group company or any changes in the terms and conditions of employment of Mr. Yu has been made (other than any adjustment in the annual salary of Mr. Yu or any grant of discretionary bonus or any award of shares under the share award scheme to Mr. Yu duly approved by the remuneration committee and board of directors of the Company). Upon the occurrence of a Change of Control Event, the lenders will declare the outstanding loan together with accrued interest and all other amounts accrued to be immediately due and payable.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out in section headed "Brief biographical details of directors and senior management" on pages 31 to 34 of this annual report.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares		Approximate shareholding percentage *(note 4)*
Mr. YU Pan ("**Mr. Yu**")	Company	Interest of controlled corporation and/or beneficial owner	5,751,983,221 32,716,666 *(note 1)*	(long) (short)	72.40% 0.41%
Mr. WEN Xiaobing ("**Mr. Wen**")	Company	Beneficial owner	11,058,000 *(note 2)*	(long)	0.14%
Mr. WANG Chenghua ("**Mr. Wang**")	Company	Beneficial owner	6,000,000 *(note 3)*	(long)	0.08%
Mr. JIN Zhifeng ("**Mr. Jin**")	Company	Beneficial owner	6,000,000 *(note 3)*	(long)	0.08%

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(a) Interests in the Shares or underlying Shares(continued)

Notes:

1. These Shares comprised (i) 726,650,000 Shares directly held by Mr. Yu; (ii) 9,500,000 Shares granted by the Company pursuant to the Share Award Scheme were held by a trustee and shall be vested to Mr. Yu upon fulfillment of certain performance target set by the Company; and (iii) 5,015,833,221 existing Shares held directly by Cosmos Tianyu Holdings Limited (Formerly known as Grand Cosmos Holdings Limited) ("**Cosmos Tianyu**"). The entire issued share capital of Cosmos Tianyu was held by Sharp Bright International Limited ("**Sharp Bright**"), the entire issued share capital of which was held by Mr. Yu. Of the 5,751,983,221 Shares, (i) 3,000,000,000 Shares were charged by Cosmos Tianyu in favour of Haitong International Investments Solutions Limited ("**Haitong IISL**") as security trustee pursuant to a security deed dated 19 December 2019 in relation to a term loan facility granted to Cosmos Tianyu by Haitong IISL; and (ii) 117,840,000 Shares were charged by Cosmos Tianyu in favour of West Ridge Investment Company Limited ("**West Ridge**") pursuant to a share charge dated 17 April 2018 (as amended) in relation to a redeemable exchangeable bond in an outstanding principal amount of HK$39,260,000 issued by Cosmos Tianyu to West Ridge which is exchangeable for 32,716,666 Shares upon exercise of the exchange right.

2. These Shares comprised (i) 5,058,000 Shares directly held by Mr. Wen; and (ii) 6,000,000 Shares granted by the Company pursuant to the Share Award Scheme were held by a trustee and shall be vested to Mr. Wen upon fulfillment of certain performance target set by the Company.

3. These 6,000,000 Shares granted by the Company pursuant to the Share Award Scheme were held by a trustee and shall be vested to Mr. Wang and Mr. Jin upon fulfillment of certain performance target set by the Company.

4. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 7,944,322,137 Shares in issue as at 31 December 2019.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Interests in underlying Shares arising from share options

As at 31 December 2019, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme and 2015 Scheme:

Name of Director	Exercise price (adjusted) (HK$)	Exercise period	Number of underlying Shares	Approximate shareholding percentage *(note 2)*
Mr. WEN Xiaobing	0.2238	11 August 2015 to 10 August 2021	9,529,291	0.12%
	0.3607	26 June 2016 to 25 June 2025 *(note 1)*	24,000,000	0.30%
Mr. CHOY Shu Kwan	0.3607	26 June 2016 to 25 June 2025 *(note 1)*	3,000,000	0.04%
Mr. CHENG Wing Keung, Raymond	0.3607	26 June 2016 to 25 June 2025 *(note 1)*	3,000,000	0.04%
Ms. CHUNG Lai Fong	0.3607	26 June 2016 to 25 June 2025 *(note 1)*	2,142,000	0.03%

Notes:

1. (i) First tranche (14.3% of the Options granted) is exercisable from 26 June 2016 to 25 June 2025;

   (ii) Second tranche (14.3% of the Options granted) is exercisable from 26 June 2017 to 25 June 2025;

   (iii) Third tranche (14.3% of the Options granted) is exercisable from 26 June 2018 to 25 June 2025;

   (iv) Fourth tranche (14.3% of the Options granted) is exercisable from 26 June 2019 to 25 June 2025;

   (v) Fifth tranche (14.3% of the Options granted) is exercisable from 26 June 2020 to 25 June 2025;

   (vi) Sixth tranche (14.3% of the Options granted) is exercisable from 26 June 2021 to 25 June 2025; and

   (vii) Seventh tranche (14.2% of the Options granted) is exercisable from 26 June 2022 to 25 June 2025.

2. For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 7,944,322,137 Shares in issue as at 31 December 2019.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(c) Interests in the Debenture

Name of Director	Company/ Associated corporation	Capacity	Principal Amount of Debentures	Denomination of the Debentures
Mr. Yu	Company	Interest of controlled corporation	US$20,000,000	US$200,000

The USD20,000,000 debentures are held by Cosmos Tianyu and bears interest at a rate of 13.0% per annum payable semi-annually and will mature on 8 July 2022.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and his/her respective close associates had any other interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules).

SUBSTANTIAL SHAREHOLDERS

At 31 December 2019, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	**Capacity**	**Number of Shares and underlying Shares**		**Approximate shareholding percentage** *(note 2)*
Sharp Bright	Interest of controlled corporation	5,015,833,221 32,716,666 *(note 1)*	(long) (short)	63.14% 0.41%
Cosmos Tianyu	Beneficial owner	5,015,833,221 32,716,666 *(note 1)*	(long) (short)	63.14% 0.41%
Haitong International Investment Solutions Limited	Person having a security interest in shares	3,000,000,000	(long)	37.76%
Haitong International Holdings Limited	Interest of controlled corporation	3,117,840,000	(long)	37.87%
Haitong International Securities Group Limited	Interest of controlled corporation	3,150,556,666	(long)	39.77%
Haitong Securities Co., Ltd.	Interest of controlled corporation	3,150,556,666	(long)	39.77%

Notes:

1. The 5,015,833,221 existing Shares were held directly by Cosmos Tianyu. As the entire issued share capital of Cosmos Tianyu was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Cosmos Tianyu was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. Yu, Mr. Yu was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. Of 5,015,833,221 Shares, (i) 3,000,000,000 Shares were charged in favour of Haitong IISL as security trustee pursuant to a security deed dated 19 December 2019 in relation to a term loan facility granted to Cosmos Tianyu by Haitong IISL; and (ii) 117,840,000 Shares were charged by Cosmos Tianyu in favour of West Ridge pursuant to a share charge dated 17 April 2018 (as amended) in relation to a redeemable exchangeable bond in an outstanding principal amount of HK$39,260,000 issued by Cosmos Tianyu to West Ridge, which is exchangeable for 32,716,666 Shares upon exercise of the exchange right.

2. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 7,944,322,137 Shares in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Subscription of the 13% Senior Notes due 2022

On 8 July 2019, the Company issued the 13.0% senior notes due 2022 in an aggregate principal amount of US$105,000,000 (the "**Notes**"). Cosmos Tianyu has subscribed the Notes in the principal amount of US$20,000,000 and this subscription constitutes a connected transaction under Chapter 14A of the Listing Rules. For details of the issuance of the Notes and this connected transaction, please refer to the Company's announcement dated 8 July 2019.

Details of the related party transactions of the Group for the year ended 31 December 2019 are set out in note 38 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Particular of the retirement benefits schemes of the Group are set out in note 9 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 202 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, the Director(s) shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation to any affairs of the Company.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

AUDITOR

BDO Limited has resigned as auditor of the Company with effect from 27 September 2019. The Board has appointed PricewaterhouseCooper as new auditor of the Company to fill the vacancy following BDO's resignation and to hold office until the conclusion of the next annual general meeting.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board

YU Pan
Chairman
Hong Kong, 20 March 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Skyfame Reality (Holdings) Limited
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Skyfame Reality (Holdings) Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 99 to 201, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters identified in our audit are summarised as follows:

- Net realisable value ("**NRV**") assessment of properties under development ("**PUD**") and properties held for sale ("**PHS**")
- Valuation of investment properties

Key Audit Matters	How our audit addressed the Key Audit Matters
NRV assessment of PUD and PHS	
Refer to notes 2.12, 18 and 19 to the consolidated financial statements. PUD and PHS amounted to RMB10,687 million and RMB2,307 million, respectively, as at 31 December 2019. PUD and PHS are stated at the lower of cost and the NRV. The NRV are assessed by taking into account of the selling prices, variable selling expenses and estimated costs to completion of PUD based on prevailing market conditions. No provision of impairment was made for PUD and PHS based on management's assessment as at 31 December 2019. We focused on NRV assessment because the determination of NRV involved significant judgements and estimates on the selling prices, variable selling expenses and estimated costs to completion of PUD.	We have performed the following procedures to address this key audit matter: (i) We understood, evaluated and validated the key internal control over management determination of NRV including the selling prices, variable selling expenses and costs to completion of PUD; (ii) We assessed the Group's estimates of the anticipated costs to completion for PUD by comparing them to the budgets approved by management, examining the signed construction contracts on a sample basis, or comparing the anticipated completion costs to the actual costs of comparable properties with similar sizes, usages and locations of the Group in recent years; (iii) We assessed whether the variable selling expenses were reasonable with reference to historical selling expenses to selling price ratio; (iv) We checked selling prices to most recent selling price of the PUD and PHS or the prevailing market price of the similar type of properties in the same location. We found that management's judgements and estimates used in the NRV assessment of PUD and PHS were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters	How our audit addressed the Key Audit Matters
Valuation of investment properties	
Refer to notes 2.8 and 15 to the consolidated financial statements. The Group's investment properties are stated at fair values. As at 31 December 2019, the Group's investment properties amounted to RMB3,512 million and the fair value gains on investment properties for the year ended 31 December 2019 amounted to RMB334 million. Management has engaged independent external valuers to assist them to perform valuations of all the investment properties. The valuations of completed investment properties are dependent on certain key assumptions that require significant judgements, including term yields and reversionary yields, fair market rents and fair market prices. The valuations of investment properties under construction are also dependent upon the estimated costs to complete and anticipated developer's profit margin. We focus on this area because of the significance of the balance and fair value gain of investment properties to the Group's consolidated financial statements and significant judgements involved in determining the critical estimates and assumptions used in the valuations.	We have performed the following procedures to address this key audit matter: (i) We understood, evaluated and validated the key internal control over the valuation of investment properties including the determination of appropriate valuation models and assumptions used in determining the fair values of investment properties; (ii) We evaluated the competence, capabilities and objectivity of the independent external valuers; (iii) We checked, on a sample basis, accuracy and relevance of the input data used in the valuations, to the recent external market data; (iv) We assessing the appropriateness of methodologies used and the reasonableness of the key assumptions applied in the valuations with the involvement of our internal valuation specialist. We assessed the term yields, reversionary yields, fair market rents and fair market prices used in the valuations to recent comparable transactions and market research of similar comparable data in similar locations of the Group's investment properties; and (v) In addition to the above, for investment properties under construction, we assessed the reasonableness of management's estimates of costs to complete by checking, on a sample basis, the total budgeted construction costs against the signed contracts with vendors and actual construction costs of similar properties and the actual costs incurred up to date of balance sheet. For the anticipated developer's profit margin, we compared against the historical developer's profit margin of similar properties of the Group. We found the key estimates and assumptions used in the valuation of investment properties were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance is responsible for overseeing the Group's financial reporting process.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yeung Chor Ho.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 20 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	5	**6,591,043**	6,191,763
Cost of sales and services	8	**(4,691,703)**	(4,305,878)
Gross profit		**1,899,340**	1,885,885
Other income		**21,571**	2,283
Other gains - net	6	**9,522**	87,096
Sales and marketing expenses	8	**(249,765)**	(156,851)
Administrative and other expenses	8	**(367,894)**	(319,245)
Impairment loss of trade and other receivables		**(15,383)**	(6,245)
Fair value changes in investment properties	15	**334,267**	269,702
Operating profit		**1,631,658**	1,762,625
Share of loss of joint ventures, net of tax		**(20,629)**	(8,101)
Finance costs - net	7	**(31,179)**	(110,422)
Profit before income tax		**1,579,850**	1,644,102
Income tax expense	10	**(747,868)**	(823,346)
Profit for the year		**831,982**	820,756
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**2,211**	(4,043)
Total comprehensive income for the year		**834,193**	816,713
Profit for the year attributable to:			
– Owners of the Company		**792,258**	751,315
– Non-controlling interests		**39,724**	69,441
		831,982	820,756
Total comprehensive income for the year attributable to:			
– Owners of the Company		**794,469**	747,272
– Non-controlling interests		**39,724**	69,441
		834,193	816,713
Earnings per share			
– Basic		**RMB0.102**	RMB0.095
– Diluted		**RMB0.101**	RMB0.092

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

		31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment	*13*	**454,108**	693,859
Right-of-use assets	*14*	**243,593**	–
Investment properties	*15*	**3,512,291**	2,907,157
Financial asset at fair value through profit or loss	*16*	**329,828**	10,000
Interest in joint ventures	*17*	**46,295**	15,899
Derivative financial assets	*22*	**–**	60,388
Deferred tax assets	*23*	**84,311**	25,649
		4,670,426	3,712,952
Current assets			
Properties under development	*18*	**10,686,501**	7,554,327
Properties held for sale	*19*	**2,307,057**	4,144,040
Trade receivables	*20*	**440,184**	196,440
Other receivables and prepayments	*21*	**2,686,068**	2,461,839
Contract costs	*24*	**152,882**	80,698
Restricted and pledged deposits	*26*	**336,029**	676,630
Cash and cash equivalents	*27*	**1,572,618**	2,410,063
		18,181,339	17,524,037
Total assets		**22,851,765**	21,236,989
Equity			
Share capital	*31*	**24,670**	24,659
Other reserves	*32*	**1,313,332**	1,325,407
Retained earnings	*32*	**2,201,171**	1,563,359
Equity attributable to owners of the Company		**3,539,173**	2,913,425
Non-controlling interests		**210,873**	390,134
Total equity		**3,750,046**	3,303,559

CONSOLIDATED BALANCE SHEET

	Note	31 December 2019 RMB'000	2018 RMB'000
Non-current liabilities			
Bank and other borrowings	22	**4,330,684**	3,534,510
Derivative financial liabilities	22	**–**	8,757
Deferred tax liabilities	23	**585,051**	594,856
		4,915,735	4,138,123
Current liabilities			
Bank and other borrowings	22	**1,929,664**	2,817,188
Derivative financial liabilities	22	**670**	2,138
Trade and other payables	28	**3,542,819**	2,164,105
Contract liabilities	29	**8,050,565**	8,559,878
Income tax payable		**662,266**	251,998
		14,185,984	13,795,307
Total liabilities		**19,101,719**	17,933,430
Total equity and liabilities		**22,851,765**	21,236,989

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 99 to 201 were approved by the Board of Directors on 20 March 2020 and were signed on its behalf.

Jin Zhifeng
Director

Wang Chenghua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the Company									
	Note	Share capital	Share premium	Share-based payment reserve	Share held for share award scheme reserve	Foreign exchange reserve	Other reserves	Retained profits	Sub-total	Non-controlling interests	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019		**24,659**	**1,691,673**	**20,847**	**(114,691)**	**(2,657)**	**(269,765)**	**1,563,359**	**2,913,425**	**390,134**	**3,303,559**
Profit for the year		–	–	–	–	–	–	**792,258**	**792,258**	**39,724**	**831,982**
Other comprehensive income		–	–	–	–	**2,211**	–	–	**2,211**	–	**2,211**
Total comprehensive income for the year		–	–	–	–	**2,211**	–	**792,258**	**794,469**	**39,724**	**834,193**
Transaction with owners:											
Repurchase of shares	*31*	**(54)**	**(16,366)**	–	–	–	–	–	**(16,420)**	–	**(16,420)**
Purchase of shares for share award scheme	*34*	–	–	–	**(29,223)**	–	–	–	**(29,223)**	–	**(29,223)**
Issue of shares: Exercise of share options issue	*31, 33*	**65**	**9,364**	**(3,075)**	–	–	–	–	**6,354**	–	**6,354**
Arising on acquisition of subsidiaries		–	–	–	–	–	–	–	–	**33,484**	**33,484**
Employee share option and share award schemes	*33*	–	–	**30,848**		–	–	–	**30,848**	–	**30,848**
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	**(5,834)**	–	–	–	**5,834**	–	–	–
Final dividend for 2018	*12*	–	–	–	–	–	–	**(160,280)**	**(160,280)**	–	**(160,280)**
Distributions		–	–	–	–	–	–	–	–	**(72,469)**	**(72,469)**
Others		–	–	–	–	–	–	–	–	**(180,000)**	**(180,000)**
At 31 December 2019		**24,670**	**1,684,671**	**42,786**	**(143,914)**	**(446)**	**(269,765)**	**2,201,171**	**3,539,173**	**210,873**	**3,750,046**
At 1 January 2018		24,469	1,664,749	24,636	–	1,386	(269,765)	898,131	2,343,606	52,598	2,396,204
Profit for the year		–	–	–	–	–	–	751,315	751,315	69,441	820,756
Other comprehensive expenses		–	–	–	–	(4,043)	–	–	(4,043)	–	(4,043)
Total comprehensive income for the year		–	–	–	–	(4,043)	–	751,315	747,272	69,441	816,713
Transaction with owners:											–
Issue of shares: Exercise of share options issue	*33*	190	26,924	(9,498)	–	–	–	–	17,616	–	17,616
Capital contribution		–	–	–	–	–	–	–	–	11	11
Arising on acquisition of subsidiaries		–	–	–	–	–	–	–	–	268,084	268,084
Share-based payment expenses	*33*	–	–	5,709	–	–	–	–	5,709	–	5,709
Purchase of shares for share award scheme	*34*	–	–	–	(114,691)	–	–	–	(114,691)	–	(114,691)
Final dividend for 2017		–	–	–	–	–	–	(86,087)	(86,087)	–	(86,087)
At 31 December 2018		24,659	1,691,673	20,847	(114,691)	(2,657)	(269,765)	1,563,359	2,913,425	390,134	3,303,559

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019 RMB'000	 2018 RMB'000
Cash flows from operating activities			
Cash generated from operations		**67,063**	3,101,396
PRC corporate income tax paid		**(266,710)**	(595,812)
PRC land appreciation tax paid		**(139,357)**	(102,782)
Cash (used in)/generated in operating activities	*35(a)*	**(339,004)**	2,402,802
Cash flows from investing activities			
Interest received		**24,967**	17,669
Acquisition of subsidiaries, net of cash acquired		**(50,000)**	(481,369)
Purchases of property, plant and equipment		**(8,548)**	(18,505)
Acquisition of assets		**(96)**	(193,973)
Investment in a joint venture		**(51,025)**	(24,000)
Advanced from a joint venture		**–**	55,817
Acquisition of financial assets		**(315,434)**	–
Purchase of short-term investments		**(427,000)**	–
Proceeds from short-term investments		**427,000**	100,000
Loan to a third party		**(349,000)**	–
Repayments from non-controlling shareholders of subsidiaries		**29,402**	–
Decrease in restricted and pledged deposits		**340,601**	636,634
Net cash (used in)/generated from investing activities		**(379,133)**	92,273
Cash flows from financing activities			
Repurchase of ordinary shares		**(16,420)**	–
Purchase of ordinary shares for share award scheme		**(29,223)**	(114,691)
Proceeds from issue of ordinary shares for share option scheme		**6,354**	17,616
Advance from a joint venture		**885,715**	–
Proceeds from bank and other borrowings	*35(b)*	**3,254,670**	4,797,745
Repayment of bank and other borrowings	*35(b)*	**(3,517,277)**	(6,797,103)
Interest and other borrowing costs paid		**(467,620)**	(872,894)
Dividend paid to owners of the Company		**(160,280)**	(86,087)
Dividend paid to non-controlling interests		**(72,469)**	–
Capital contributions from non-controlling interests of subsidiaries		**–**	2,712
Net cash used in financing activities		**(116,550)**	(3,052,702)
Net decrease in cash and cash equivalents		**(834,687)**	(557,627)
Effect of exchange rate changes on cash and cash equivalents		**(2,758)**	(16,109)
Cash and cash equivalents at beginning of year		**2,410,063**	2,983,799
Cash and cash equivalents at end of year	*27*	**1,572,618**	2,410,063

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company and its subsidiaries are hereinafter collectively referred to as the "Group". The principal activity of the Company continues to be investment holding. Other than the operations in our youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the principal activities of its subsidiaries are property development, property investment and property management.

These financial statements have been approved for issue by the board of directors (the "**Board**") of the Company on 20 March 2020.

These financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) Compliance with HKFRSs and HKCO

These consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622 ("**HKCO**").

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties which are carried at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(iii) New and amended standards and interpretation adopted by the Group

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

Save for the impact of adoption of HKFRS 16 set out in Note 2.2, the adoption of other new and amended standards and interpretation did not have any material impact on the consolidated financial statements of the Group.

(iv) New standards, amendments and interpretation not yet adopted

The following new standards and amendments and interpretation to standards have been published that are not effective for the year ended 31 December 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Financial Reporting	Revised Conceptual Framework	1 January 2020
HKFRS 39, HKFRS 7 and HKFRS 9	Hedge Accounting (amendments)	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

These new and amended standards and revised framework are not expected to have a material impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial information and the new accounting policies that have been first applied from 1 January 2019.

The Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.26.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. The Group mainly has land use rights in PRC which are recognised as right-of-use assets, others are short-term leases which are recognised as expense on a straight-line basis.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

(ii) Measurement of right-of-use assets

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The land use rights in property, plant and equipment are reclassified to right-of-use assets as at 31 December 2019, respectively.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	As at 1 January 2019 *RMB'000*
Property, plant and equipment (land use rights)	(255,704)
Right-of-use assets	255,704

There was no significant impact on the Group's net profit after tax for the year ended 31 December 2019 as a result of adoption of HKFRS 16.

(iv) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS. Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) Business combinations (continued)

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of identifiable assets and liabilities of the joint venture is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.6 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**"). These consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within 'finance costs – net'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'Other gains – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(c) *Group entities*

The results and financial positions of the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet of the Group's entities are translated at the closing rate at the date of that balance sheet;

- income and expenses for each consolidated statement of comprehensive income of the Group's entities 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 rate on the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation (continued)

(c) Group entities (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. Depreciation on Property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or, in case of leasehold improvements, and certain leased plants and equipment, the shorter lease term, as follows:

Buildings	12-30 years
Furniture, fixtures and equipment	2-10 years
Motor vehicles	3-10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains – net' in the consolidated statement of comprehensive income.

Assets under construction are stated at historical cost less any impairment loss. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, amortisation of land use rights during the construction period, borrowing costs on qualifying assets and professional fees incurred during the development period. On completion, the assets are transferred to buildings within Property, plant and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land and commercial buildings held under leases are accounted for as investment properties when the rest of the definition of an investment property is met. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value, representing open market value determined at each balance sheet date by external valuer. Property that is being constructed or developed for future use as investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flows projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- The provisions of the construction contract.
- The stage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Past experience with similar constructions.
- Status of construction permits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment property (continued)

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount 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 costs are expensed in the profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values of investment property are recognised as 'Fair value changes in investment properties' in the consolidated statement of comprehensive income.

Completed properties held for sale are transferred to investment properties when it is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount shall be recognised in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as Property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and charged directly to revaluation reserves within equity. Any resulting decrease in the carrying amount of the property is charged to the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("**OCI**"). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group categories its debt instruments as amortised cost, which are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

(b) Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss accounts. Dividends from such investments continue to be recognised in profit or loss accounts as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognised as 'Other gains – net' in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. The Group held no equity investments measured at FVOCI during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

2.10.3 Impairment

The Group assesses on a forward looking basis the expected credit losses ("**ECLs**") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 20 for further details.

Impairment on other financial assets at amortised cost is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.11 Offsetting financial instruments

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

2.12 Properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Development cost of property comprises cost of land use rights, construction costs, borrowing costs on qualifying assets, and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond a normal operating cycle.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.14 Contract costs and liabilities and costs for obtaining contracts

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract costs if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

The Group recognises the incremental costs of obtaining a contract with a customer within contract costs if the Group expects to recover those costs.

2.15 Cash and cash equivalents and restricted cash

Cash and cash equivalent includes cash in hand and at banks and deposits held at call with banks, other short-term highly liquid investment with original maturities of three months or less.

Bank deposits which are restricted to use are included in 'Restricted cash'. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new share are shown in equity as a deduction, net of tax, from the proceeds.

Where any entity of the Group purchases the Company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

General and specific 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 added to 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Borrowings and borrowing costs (continued)

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits

(a) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("**MPF Scheme**"), which is a defined contribution retirement scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Share-based payments

Equity-settled share-based payment transactions

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options or shares) of the Group. The fair value of the employee services received in exchange for the grant of the options or shares is recognised as expense. The total amount to be expensed is determined by reference to the fair value of the options or shares granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options or shares that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Provisions and contingent liabilities (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.23 Revenue recognition

Revenue is measured at the consideration received or receivable for the sales of properties and rendering of services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales within the Group. The Group recognises revenue when specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of properties

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

- provides all of the benefits received and consumed simultaneously by the customer; or

- creates and enhances an asset that the customer controls as the Group performs; or

- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

(a) *Sales of properties (continued)*

For property development and sales contract for which the control of the property is transferred at a point in time and there is no enforceable right to payment from the customers for performance completed to date, revenue is recognised 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.

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

(b) *Property investment*

Rental income from properties letting under operating leases is recognised on a straight line basis over the term of the lease.

(c) *Property management*

Revenues from rendering of property management services are recognised in the accounting period in which the related services are rendered.

(d) *Commercial operation*

Revenues from commercial operations are recognised in the accounting period in which the related services are rendered.

Financial components

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price and the amount of revenue from the sales of completed properties is adjusted for the effects of a financing component, if significant. For the year ended 31 December 2019 and 2018, the Group has assessed and considered that the financing component effect is insignificant.

2.24 Interest income

Interest income from financial assets at FVTPL is included in the Other gains – net on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated statement of comprehensive income within ‘Other income’.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI). Dividends are recognised as other income in profit or loss when the right to receive payment is established.

2.26 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset which was recognised as investment properties is carried at fair value at each reporting date after initial recognition and others being included in property and equipment is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Leases (continued)

Variable lease payments based on an index or a rate are initially measured using the index or the rate at the commencement date. The Group do not forecast future changes of the index/rate; these changes are taken into account when the lease payments change. Variable lease payments that are not based on an index or a rate are not part of the lease liability, but they are recognised in profit or loss when the events or conditions that triggers those payments occurs.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 5). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.27 Dividend distribution

Dividend distribution to the owners of the Company is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the owners of the Company.

2.28 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

3.1 Financial risk factor

(a) *Market risk*

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB. The Group has transactional currency exposures. Such exposures arise from financing and operating activities of the Group's entities conducted in currencies other than the functional currency. As at 31 December 2019, major non-RMB assets and liabilities are cash and cash equivalents, FVTPL, and bank and other borrowings, which are dominated in Hong Kong dollar ("**HK$**") or US dollar ("**US$**"). Fluctuation of the exchange rate of RMB against HK$ or US$ could affect the Group's results of operations. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective Group's entities at the end of the reporting period are as follows:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Financial asset at fair value through profit or loss		
– US$	**319,828**	–
Derivative financial asset		
– HK$	**–**	60,388
Cash and cash equivalents		
– US$	**28,623**	3,731
– HK$	**1,949**	68,165
Bank and other borrowings		
– US$	**(2,005,986)**	(202,186)
– HK$	**(2,220,087)**	(2,157,092)
Derivative financial liabilities		
– HK$	**(670)**	(10,895)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's profit after income tax in the next accounting period:

	Year ended 31 December			
	2019		2018	
	Change in exchange rate	**Increase (decrease) in profit after income tax**	Change in exchange rate	Increase (decrease) in profit after income tax
	%	***RMB'000***	*%*	*RMB'000*
If US$ weakens against RMB	**4%**	**66,301**	4%	7,938
If US$ strengthens against RMB	**4%**	**(66,301)**	4%	(7,938)
If HK$ weakens against RMB	**4%**	**88,752**	4%	81,577
If HK$ strengthens against RMB	**4%**	**(88,752)**	4%	(81,577)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risks arise from long-term borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group's exposure to changes in interest rates is mainly attributable to its long-term borrowings. As at 31 December 2019, long-term borrowings of the Group bearing floating interest rates amounted to approximately RMB1,277,390,000 (2018: RMB1,627,588,000). If interest rates on borrowings at floating rates as at 31 December 2019 had been 50 basis point higher/lower with all other variables held constant, interest charges for the year would increase/decrease by RMB6,386,900 (2018: RMB8,137,900), most of which would have been capitalised in qualified assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk

The Group has no concentrations on credit risk. The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents (excluding cash on hand), restricted cash, trade receivables, other receivables, contract costs and financial assets at fair value through profit or loss shown in the consolidated balance sheets.

Cash transactions are limited to high credit quality institutions. Deposits are only placed with reputable banks.

For the trade receivables arising from sales of properties, the Group closely monitors repayment progress of the customers in accordance with the terms as specified in the enforceable contracts. The Group has set up policies to ensure follow-up action is taken to recover overdue debts. The Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 50% to 70% of the total purchase price of the properties. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the property sales proceeds received from the customers and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is minimal. Detailed disclosure of these guarantees is made in Note 30. The Group managed the credit risk by fully receiving cash or properly arranging the purchasers' mortgage loans financing procedures before delivery of properties unless strong credit records of the customers could be established. The Group closely monitors the collection of progress payments from customers in accordance with payment schedule agreed with customers. The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments.

For other receivable, the Group assessed the credit quality of the counter parties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The directors of the Company are of the opinion that the risk of default by counter parties is low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- 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
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data. The loss allowance provision for the Group's financial assets were not material as at 31 December 2019 and 31 December 2018.

(i) Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables from third parties and related parties.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days of initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

(i) Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade and other receivables as at 31 December 2019 and 31 December 2018:

	As at 31 December 2019		
Trade receivables	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	***RMB'000***	***RMB'000***
Within 30 days	**0.1%**	**112,253**	**(112)**
Over 30 days and within 90 days	**2%**	**3,277**	**(66)**
Over 90 days and within 365 days	**5%**	**322,337**	**(16,117)**
Over 365 days	**10%**	**20,680**	**(2,068)**
		458,547	**(18,363)**

	As at 31 December 2018		
Trade receivables	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Within 30 days	0.1%	804	(1)
Over 30 days and within 90 days	2%	175,294	(3,506)
Over 90 days and within 365 days	5%	22,366	(1,118)
Over 365 days	10%	2,890	(289)
		201,354	(4,914)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

(ii) Other receivables

Other financial assets at amortised cost include other receivables from third parties.

For other categories of other receivables which have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and thus the loss allowance is immaterial.

The loss allowance provision for other receivables from third parties as at 31 December 2019 reconcile to the opening loss allowance for that provision as follows:

	Other receivables	
	2019	2018
	RMB'000	*RMB'000*
Opening loss allowance as at 1 January	**4,976**	–
Increase in loss allowance recognised in profit or loss during the year	**1,934**	4,976
Closing loss allowance as at 31 December	**6,910**	4,976

For the years ended 31 December 2019 and 2018, the provision for loss allowance were recognised in profit or loss in "Impairment loss of trade and other receivables" in relation to the impaired other receivables.

Expected loss of other receivables was not material during the years ended 31 December 2019 and 2018 as there was no recent history of default and management considered the credit risk is low.

As at 31 December 2019 and 2018, the maximum exposure to loss of other receivables from third parties and related parties were the carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(c) Liquidity risk

Management of the Group aims to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through available sources of financing.

The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include control on investment in land bank, adjusting project development timetable to adapt the changing local real estate market environment, implementing cost control measures, promotion of sales of completed properties, accelerating sales with more flexible pricing. The Group will pursue such options basing on its assessment of relevant future costs and benefits.

The table below sets out the Group's financial liabilities by relevant maturity grouping at each statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows:

				Total undiscounted cash flow					
			Less than	3 to 12	1 to 2	2 to 5	Over 5		Carrying
		On demand	3 months	months	years	years	years	Total	amount
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019									
Trade and other payables, excluding accrued taxes and surcharges and salaries payable		**1,009,150**	**66,473**	**2,328,884**	**–**	**–**	**–**	**3,404,507**	**3,404,507**
Bank and other borrowings	(i)	**–**	**666,668**	**1,421,016**	**1,130,561**	**2,831,595**	**4,771,172**	**10,821,012**	**6,260,348**
Guarantee for property mortgage		**9,917,542**	**–**	**–**	**–**	**–**	**–**	**9,917,542**	**–**
		10,926,692	**733,141**	**3,749,900**	**1,130,561**	**2,831,595**	**4,771,172**	**24,143,061**	**9,664,855**
As at 31 December 2018									
Trade and other payables, excluding accrued taxes and surcharges and salaries payable		82,982	55,375	1,858,684	–	–	–	1,997,041	1,997,041
Bank and other borrowings	(i)	156,690	69,788	1,815,900	2,541,059	540,683	4,913,773	10,037,893	6,351,698
Guarantee for property mortgage		7,617,557	–	–	–	–	–	7,617,557	–
		7,857,229	125,163	3,674,584	2,541,059	540,683	4,913,773	19,652,491	8,348,739

(i) Interest on bank and other borrowings is calculated on borrowings held as at 31 December 2019 and 2018 respectively. Floating-rate interest is estimated using the current interest rate as at 31 December 2019 and 2018 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents (Note 27) and less guarantee deposits for bank borrowings included in restricted cash (Note 26). Total borrowings comprise corporate bonds, bank borrowings and other borrowings (Note 22). Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2019 and 2018 are as follows:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Total borrowings *(Note 22)*	**6,260,348**	6,351,698
Less: cash and cash equivalents *(Note 27)*	**(1,572,618)**	(2,410,063)
Less: guarantee deposits for bank borrowings *(Note 26)*	**(12,000)**	(45,410)
Net debt	**4,675,730**	3,896,225
Total equity	**3,750,046**	3,303,559
Total capital	**8,425,776**	7,199,784
Gearing ratio	**55.5%**	54.1%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is as follow:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

See Note 15 for disclosures of the investment properties that are measured at fair value.

The following table presents the Group's financial assets and liability that are measured at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value:

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
At 31 December 2019				
Financial assets:				
Financial assets at fair value through profit or loss *(Note 16)*	–	329,828	–	329,828
Derivative financial assets	–	–	–	–
Financial liabilities:				
Derivative financial liabilities	–	–	670	670
At 31 December 2018				
Financial assets:				
Financial assets at fair value through profit or loss *(Note 16)*	–	–	10,000	10,000
Derivative financial assets	–	–	60,388	60,388
Financial liabilities:				
Derivative financial liabilities	–	–	10,895	10,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The fair value of financial assets at fair value through profit or loss in level 2 were determined mainly based on valuation report provided by managing companies, which making reference to quoted market price.

The fair value of derivative financial assets/liabilities in level 3 is estimated by the hull-white trinomial tree at rates that reflect management's best estimation of the expected risk level. The significant unobservable inputs of the valuation techniques include discount rates and short-term volatility parameter that correspond to the expected risk level.

Financial assets/liabilities	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Derivative financial assets	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the value of the company's redemption rights
			Short-term volatility parameter	Higher the short-term volatility parameter, higher the value of the company's redemption rights
Derivative financial liabilities	Level 3	The hull-white trinomial tree	Discount Rate	Higher discount rate, higher value of the holder's redemption rights
			Short-term volatility parameter	Higher the short-term volatility parameter, higher value of the holder's redemption rights

For the year ended 31 December 2019, if the fair values of the financial assets at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax would have been approximately RMB32,915,800 higher/lower. For the year ended 31 December 2018, if the fair values of the financial assets at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax would have been approximately RMB5,949,300 higher/lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements used in preparing these consolidated financial statements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates for net realisable value of properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties. Net realisable value for properties under development is determined by reference to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion (including land costs). Net realisable value for completed properties held for sale is determined by reference, to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses. Based on management's best estimates, there was no material impairment for properties under development and completed properties held for sale as at 31 December 2019 and 2018.

(b) Fair value of investment properties

The Group assesses the fair value of its completed investment properties and investment properties under construction based on assessments determined by an independent and professional qualified valuer.

The best evidence of fair value of completed investment properties is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flows projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Fair value of investment properties (continued)

Investment properties under construction are carried at fair value when is considered to be reliably measurable. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers certain factors, please refer to Note 2.8.

Management, after consulting independent qualified valuer, considers that the fair value of investment properties under construction as at 31 December 2019 can be measured at a reasonable accurate level. Therefore, these investment properties under construction as at 31 December 2019 were measured at fair value.

The fair value gains from completed investment properties and investment properties under construction are disclosed in Note 15.

(c) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.

(d) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(e) PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. However, the implementation and settlement of these taxes varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its PRC land appreciation taxes calculation and payments with most of local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related taxes. The Group recognised these PRC land appreciation taxes based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the taxation and tax provisions in the years in which such taxes have been finalised with local tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING

The executive directors, as the chief operating decision-makers ("**CODM**") of the Group, review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: property development, property investment, property management and commercial operation. As the CODM considers most of the Group's consolidated revenue and results are attributable to the market in the PRC and the Group's consolidated assets are substantially located in the PRC, no geographical information is presented.

Revenue consists of sales of properties, rental income of investment properties, income of property management services and commercial operations. Revenue of the year consists of the following:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Sale of properties	**6,502,557**	6,122,384
Property management services	**51,021**	41,404
Rental income	**28,537**	19,590
Commercial operations	**8,928**	8,385
	6,591,043	6,191,763

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

Segment results represent the profit earned by each segment without fair value gains/losses on financial assets, gains/losses on disposal of financial assets, dividend income of financial assets, unallocated operating costs, finance costs – net and income tax expense. Property management services comprise mainly of provision of property management services and rental assistance services. Commercial operation services are mainly operations in youth community projects. The segment results and other segment items for the year ended 31 December 2019 and 2018 are as follows:

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Commercial operation *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Year ended 31 December 2019						
Segment revenue						
External revenue	6,502,557	28,537	51,021	8,928	–	6,591,043
Inter-segment revenue	–	17,186	48,990	–	(66,176)	–
	6,502,557	45,723	100,011	8,928	(66,176)	6,591,043
Timing of revenue recognition						
At a point in time	6,502,557	–	–	–	–	6,502,557
Transferred over time	–	–	100,011	8,928	(48,990)	59,949
Revenue from other sources	–	45,723	–	–	(17,186)	28,537
Total	6,502,557	45,723	100,011	8,928	(66,176)	6,591,043
Segment results	1,388,668	18,067	3,336	2,064	–	1,412,135
Reconciliation:						
Unallocated corporate net expenses						(99,361)
						1,312,774
Impairment loss of trade and other receivables						(15,383)
Fair value changes in investment properties	–	334,267	–	–	–	334,267
Share of loss of joint ventures, net of tax						(20,629)
Finance costs – net						(31,179)
Consolidated profit before income tax						1,579,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Commercial operation *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Other segment information:						
Depreciation and amortisation	(2,685)	(260)	(175)	(1,000)	–	(4,120)
Additions to properties held for/ under development	5,131,890	–	–	–	–	5,131,890
Capital expenditure	6,245	–	451	–	–	6,696
As at 31 December 2019						
Assets and liabilities						
Assets						
Reportable segment assets	16,191,429	3,615,680	40,634	3,636	–	19,851,379
Reconciliation:						
Interest in joint ventures						46,295
Financial assets at fair value through profit or loss						329,828
Deferred tax assets						84,311
Cash and cash equivalents						1,572,618
Unallocated corporate assets						
– Property, plant and equipment						113,944
– Other receivables and prepayments						361,204
– Restricted and pledged deposits						12,000
– Other corporate assets						480,186
Consolidated total assets						22,851,765
Liabilities						
Reportable segment liabilities	12,206,407	10,343	41,091	7,829	–	12,265,670
Reconciliation:						
Deferred tax liabilities						585,051
Other liabilities						670
Income tax payable						662,266
Unallocated corporate liabilities						
– Bank and other borrowings						4,564,064
– Trade and other payables						941,532
– Other corporate liabilities						82,466
Consolidated total liabilities						19,101,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Commercial operation *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Year ended 31 December 2018						
Segment revenue						
External revenue	6,122,384	19,590	41,404	8,385	–	6,191,763
Inter-segment revenue	–	8,375	19,776	–	(28,151)	–
	6,122,384	27,965	61,180	8,385	(28,151)	6,191,763
Timing of revenue recognition						
At a point in time	6,122,384	–	–	–	–	6,122,384
Transferred over time	–	–	61,180	8,385	(19,776)	49,789
Revenue from other sources	–	27,965	–	–	(8,375)	19,590
Total	6,122,384	27,965	61,180	8,385	(28,151)	6,191,763
Segment results	1,455,024	7,479	(13,220)	(2,791)	–	1,446,492
Reconciliation:						
Unallocated corporate net expenses						52,676
						1,499,168
Impairment loss of trade and other receivables						(6,245)
Fair value changes in investment properties	–	269,702	–	–	–	269,702
Share of loss of joint ventures, net of tax						(8,101)
Finance costs – net						(110,422)
Consolidated profit before income tax						1,644,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Commercial operation RMB'000	Elimination RMB'000	Total RMB'000
Other segment information:						
Depreciation and amortisation	(2,103)	(481)	(1,836)	(952)	–	(5,372)
Additions to properties held for/under development	2,510,449	–	–	–	–	2,510,449
Capital expenditure	1,337	–	561	108	–	2,006
As at 31 December 2018						
Assets and liabilities						
Assets						
Reportable segment assets	14,030,468	3,784,592	47,941	13,001	–	17,876,002
Reconciliation:						
Interest in joint ventures						15,899
Financial assets at fair value through profit or loss						10,000
Derivative financial assets						60,388
Deferred tax assets						25,649
Cash and cash equivalents						2,410,063
Unallocated corporate assets						
– Property, plant and equipment						221,398
– Restricted and pledged deposits						45,410
– Other corporate assets						572,180
Consolidated total assets						21,236,989
Liabilities						
Reportable segment liabilities	11,544,400	59,487	26,786	16,132	–	11,646,805
Reconciliation:						
Deferred tax liabilities						594,856
Income tax payable						251,998
Derivative financial liabilities						10,895
Unallocated corporate liabilities						
– Bank and other borrowings						5,312,209
– Trade and other payables						105,817
– Other corporate liabilities						10,850
Consolidated total liabilities						17,933,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

Revenue from a customer contributing over 10% of total revenue of the Group is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Customer A	**1,042,957**	–

6 OTHER GAINS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Gain from bargain purchase	**–**	81,214
Interest income from financial assets at FVTPL	**7,021**	–
Others	**2,501**	5,882
	9,522	87,096

7 FINANCE COSTS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Interest expense for bank and other borrowings	**643,448**	559,055
Less: amount capitalised	**(633,226)**	(505,135)
	10,222	53,920
Foreign exchange losses on financing activities – net	**38,903**	74,171
	49,125	128,091
Finance income:		
Bank interest income	**13,885**	11,230
Others	**4,061**	6,439
	17,946	17,669
Finance costs – net	**31,179**	110,422

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 9.6% (2018: 9.1%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cost of properties sold – including construction cost, land cost and interest cost	**4,643,818**	4,283,215
Advertising costs	**229,433**	142,925
Staff costs (including directors' emoluments)	**196,048**	203,200
Other direct costs	**36,517**	22,337
Depreciation and amortisation	**31,434**	22,278
Taxes and levies	**15,083**	13,686
Auditor's remunerations	**4,275**	3,309
– audit services	**2,880**	2,131
– non-audit services	**1,395**	1,178

The short-term leases fees of RMB1,780,000 are recognised as expenses for the year ended 31 December 2019.

9 STAFF COSTS

		Year ended 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Staff costs (including directors' emoluments) comprise:			
Basic salaries		**151,914**	137,927
Equity-settled share-based payment expenses	*33*	**30,848**	5,709
Bonuses and other benefits		**42,872**	87,913
Contributions to defined contribution pension plans	*(a)*	**10,776**	8,552
		236,410	240,101
Less: Amount capitalised as properties under development		**(40,362)**	(36,901)
Staff costs charged to profit or loss		**196,048**	203,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9 STAFF COSTS (continued)

(a) Pensions – defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of certain percentage of eligible employees' relevant aggregate income, with a maximum cap per employee per month.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group during the year, three (2018: two) are directors whose emoluments are included in Note 39. The emoluments of the remaining two (2018: three) are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Basic salaries and other benefits	**4,129**	5,320
Bonuses	**1,539**	6,502
Equity-settled share-based payment expenses	**2,801**	1,347
Contributions to defined contribution pension plans	**88**	165
	8,557	13,334

Their emoluments are within the following bands:

	Number of individuals Year ended 31 December	
	2019	2018
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,500,001 to HK$5,000,000	**2**	1
HK$6,500,001 to HK$7,000,000	**–**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 INCOME TAX EXPENSE

The amount of taxation in the consolidated statement comprehensive income represents:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC corporate income tax	**427,675**	453,862
PRC land appreciation tax	**365,160**	373,129
	792,835	826,991
Deferred tax		
– PRC corporate income tax	**(44,967)**	(3,645)
	(44,967)	(3,645)
Total income tax expenses	**747,868**	823,346

PRC corporate income tax

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. The corporate income tax rate applicable to the Group's entities located in Mainland China is 25%.

PRC withholding income tax ("WHT")

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. The relevant overseas holding companies have successfully obtained endorsement from the PRC tax bureau to enjoy the treaty benefit of 5% withholding income tax rate on dividends received from the PRC subsidiaries of the Group. Accordingly, withholding income tax has been provided at 5% of the dividends to be distributed by the PRC subsidiaries of the Group for the year ended 31 December 2019 (2018: 5%).

PRC land appreciation tax ("LAT")

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT effective 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective on 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items. The Group has made provision of LAT for sales of properties according to the aforementioned progressive rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 INCOME TAX EXPENSE (continued)

Hong Kong profits tax

No provision for Hong Kong profits tax has been made in these consolidated financial statements as the Company and the Group did not have assessable profit in Hong Kong for the year. The profit of the Group's entities in Hong Kong is mainly derived from dividend income, which is not subject to Hong Kong profits tax.

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**1,579,850**	1,644,102
Calculated at applicable corporate income tax rate	**410,946**	474,755
Tax effect of tax losses not recognised as deferred income tax asset	**41,911**	32,318
Tax effect of expenses not deductible for tax purposes	**20,976**	21,466
Adjustments on income tax for prior years which affect current profit or loss	**165**	(1,515)
PRC land appreciation tax deductible for PRC corporate income tax purposes	**(91,290)**	(93,282)
	382,708	433,742
Tax effect on withholding tax arising on distributable profits of the PRC subsidiaries	**–**	16,475
PRC land appreciation tax	**365,160**	373,129
	747,868	823,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11 EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the years ended 31 December 2019 and 2018 is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue and participating equity instruments resulting to new shares issued due to the exercises of share options during the years.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2019 and 2018 is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares after adjustment for the effect of the exercise of the Company's outstanding share option under the 2005 and 2015 Scheme, and assuming the exercise is made at no consideration at the beginning of the periods.

		Year ended 31 December	
		2019	2018
		RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share		**792,258**	751,315
		Number of shares	
	Note	***'000***	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share		**7,772,357**	7,892,360
Effect of dilutive potential ordinary shares from share options (2005 Scheme)	*33(a)*	**14,655**	52,373
Effect of dilutive potential ordinary shares from share options (2015 Scheme)	*33(b)*	**73,752**	216,482
Weighted average number of ordinary shares for the purposes of diluted earnings per share		**7,860,764**	8,161,215
Basic		**RMB0.102**	RMB0.095
Diluted		**RMB0.101**	RMB0.092

12 DIVIDENDS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Final dividend proposed after the end of the year of HK$0.023 (approximately RMB0.021) per ordinary share (2018: HK$0.023 approximately RMB0.020)	**160,000**	160,280

At the meeting held on 20 March 2020, the directors proposed a final dividend of HK$0.023 (approximately RMB0.021) (2018: HK$0.023 approximately RMB0.020) per ordinary share of the Company for the year ended 31 December 2019. This proposed final dividend, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2019, but will be reflected as an appropriation for the year ending 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019					
Net book amount at 31 December 2018	267,093	9,402	4,837	412,527	693,859
Changed in accounting policies *(Note 2.2)*	(105,675)	–	–	(150,029)	(255,704)
Opening net book amount	161,418	9,402	4,837	262,498	438,155
Additions	–	5,334	1,659	26,366	33,359
Acquisitions of subsidiaries	–	66	30	–	96
Written off/disposals	–	(3)	–	–	(3)
Depreciation	(14,362)	(3,416)	(1,576)	–	(19,354)
Exchange differences	1,812	22	21	–	1,855
Closing net book amount	148,868	11,405	4,971	288,864	454,108
At 31 December 2019					
Cost	**213,452**	**30,365**	**16,058**	**288,864**	**548,739**
Accumulated depreciation	**(64,585)**	**(18,959)**	**(11,087)**	**–**	**(94,631)**
Net book amount	**148,867**	**11,406**	**4,971**	**288,864**	**454,108**
Year ended 31 December 2018					
Opening net book amount	226,028	9,298	4,171	–	239,497
Additions	–	2,023	1,199	15,283	18,505
Acquisitions of subsidiaries	11,669	1,504	952	397,244	411,369
Transfer from investment properties *(Note 15)*	42,409	–	–	–	42,409
Depreciation	(17,317)	(3,461)	(1,578)	–	(22,356)
Exchange differences	4,304	38	93	–	4,435
Closing net book amount	267,093	9,402	4,837	412,527	693,859
At 31 December 2018					
Cost	333,572	24,433	13,987	412,527	784,519
Accumulated depreciation	(66,479)	(15,031)	(9,150)	–	(90,660)
Net book amount	267,093	9,402	4,837	412,527	693,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation charges were included in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Property under development	**31**	78
Administrative and other expenses	**19,323**	22,278
	19,354	22,356

As at 31 December 2019, property and equipment with a net book amount of RMB113,944,000 (2018: RMB221,398,000) were pledged as collateral for the Group's borrowings (Note 22(k)).

Borrowing costs of RMB24,811,000 (2018: Nil) have been capitalised in assets in construction for the year ended 31 December 2019.

The capitalisation rate of borrowings for the year ended 31 December 2019 was 9.6% (2018: Nil).

14 RIGHT-OF-USE ASSETS

	Land use rights
	RMB'000
At 31 December 2018	N/A
Changed in accounting policies *(Note 2.2)*	255,704
At 1 January 2019	255,704
Depreciation	(12,111)
At 31 December 2019	243,593

Right-of-use assets comprise cost of acquiring rights to use certain land, which are all located in the PRC, mainly for self-use buildings over fixed periods.

As at 31 December 2019, right-of-use asset with a net book amount of RMB93,093,000 were pledged as collateral for the Group's borrowings (Note 22(k)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES

	Note	Completed investment properties *RMB'000*	Investment properties under construction *RMB'000*	Total *RMB'000*
Year ended 31 December 2019				
At 1 January 2019		**1,692,157**	**1,215,000**	**2,907,157**
Transfer from properties under development	*(a)*	**–**	**250,976**	**250,976**
Transfer from properties held for sale		**16,950**	**–**	**16,950**
Fair value (losses)/gains – net	*(a)*	**(23,757)**	**358,024**	**334,267**
Exchange differences		**2,941**	**–**	**2,941**
At 31 December 2019		**1,688,291**	**1,824,000**	**3,512,291**

	Completed investment properties *RMB'000*	Investment properties under construction *RMB'000*	Total *RMB'000*
Year ended 31 December 2018			
At 1 January 2018	1,094,400	–	1,094,400
Additions	51,690	–	51,690
Acquired through acquisition of a subsidiary	–	1,163,000	1,163,000
Transfer to property, plant and equipment	(42,409)	–	(42,409)
Transfer from properties under development	316,702	48,508	365,210
Fair value gains – net	266,210	3,492	269,702
Exchange differences	5,564	–	5,564
At 31 December 2018	1,692,157	1,215,000	2,907,157

(a) In December 2019, certain commercial units are transferred from properties under development due to a change in use. At the date of transfer, carrying amount of RMB250,976,000 of the properties was revalued at RMB527,000,000 by an independent valuer. As a result, the Group recognised RMB358,024,000 of fair value gain in the profit or loss for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

The following amounts have been recognised in the consolidated statement of comprehensive income:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Rental income *(Note 5)*	**28,537**	19,590
Direct operating expenses arising from investment properties that generate rental income	**(4,043)**	(4,036)
Direct operating expenses arising from investment properties that do not generate rental income	**(684)**	(235)

Investment properties as at 31 December 2019 are held in the PRC on leases between 10 to 50 years (2018:10 to 50 years).

As at 31 December 2019, investment properties of RMB2,985,291,000 (2018: RMB1,867,157,000) were pledged as collateral for the Group's borrowings (Note 22(k)).

The fair value of the investment properties are expected to be realised through rental income. The Group has measured the deferred tax relating to the temporary differences of these investment properties using the tax rates and the tax bases that are consistent with the expected manner of recovery of these investment properties.

(i) Fair value hierarchy

An independent valuation of the Group's certain completed investment properties and investment properties under construction was performed by the independent and professionally qualified valuer, to determine the fair value of the investment properties as at 31 December 2019. The revaluation gains or losses are included in 'Fair value changes in investment properties in the statement of comprehensive income.

As at 31 December 2019, as certain significant inputs used in the determination of fair value of investment properties are arrived at by reference to certain significant unobservable market data, the fair value of all investment properties of the Group are included in level 3 of the fair value measurement hierarchy.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. No transfers in or out of fair value hierarchy levels during the year.

(ii) Valuation processes of the Group

The Group's investment properties were valued at 31 December 2019 by independent professionally qualified valuer who holds a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(ii) Valuation processes of the Group (continued)

The Group's finance department includes a team that review the valuations performed by the independent valuer for financial reporting purposes. This team reports to the senior management of the Group. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

(iii) Valuation techniques

Completed investment properties comprise of commercial properties and carparks. For commercial properties, fair values are generally derived using the term and reversionary method and direct comparison method. The term and reversionary method is based on the tenancy agreements as at the respective valuation dates. The rental income derived within the tenancy agreements are discounted by adopting term yields and the potential reversionary income are discounted by adopting appropriate reversionary yields for the period beyond the rental period in the tenancy agreements. Potential reversionary income and the reversionary yields are derived from analysis of prevailing market rents and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

For carparks, valuations are determined using the direct comparison methods. The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. Given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the selling price such as property size, locations.

Fair values of the investment properties under development are generally derived using the residual method. This valuation method is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed as at the date of valuation.

The Group has also used the sale comparison approach by making reference to the sales transactions or asking price evidences of comparable properties as available in the market to cross check the valuation result.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

There were no changes to the valuation techniques during the year.

	Property Category	Fair value at 31 December 2019 RMB'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties in Hong Kong	Commercial properties	125,191	Direct Comparison Method	Market Unit Price (RMB/square meter)	198,000-364,000	The higher the unit price, the higher the fair value
Completed investment properties in PRC	Commercial properties	1,027,100	Term and reversionary method	Term yields	2.0%-4.25%	The higher the capitalisation rate, the lower the fair value
				Reversionary yields	3.0%-4.75%	The higher the capitalisation rate, the lower the fair value.
				Market rents (RMB/ square meter/ month)	125-262	The higher the market rent, the higher the fair value
			Direct comparison	Market price (RMB/per sq m)	18,802-54,400	The higher the market price, the higher the fair value
	Car parks	536,000	Direct comparison	Market price (RMB/per lot)	720,000	The higher the market price, the higher the fair value
			Term and reversionary method	Term yields	1.0%	The higher the term yields, the lower the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

	Property Category	Fair value at 31 December 2019 RMB'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
				Reversionary yields	1.5%	The higher the reversionary yields, the lower the fair value
				Market rents (RMB/lot/month)	1,810	The higher the market rent, the higher the fair value
Investment properties under construction in PRC	Commercial properties	1,824,000	Residual method	Market rents (RMB/square meter/month)	56-185	The higher the market rent, the higher the fair value
				Reversionary yields	3.5%-4.5%	The higher the reversionary yields, the lower the fair value
				Budgeted construction costs to be incurred (RMB/sq.m)	3,600-4,221	The higher the budgeted construction costs to be incurred, the lower the fair value
				Developer's profit (%)	5.0%-25.0%	The higher the developer's profit, the lower the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

	Property Category	Fair value at 31 December 2018 RMB'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties in Hong Kong	Commercial properties	131,467	Direct Comparison Method	Market Unit Price (RMB/square meter)	253,788-380,142	The higher the unit price, the higher the fair value
Completed investment properties in PRC	Commercial properties	1,040,690	Term and reversionary method	Term yields	2.0%-4.5%	The higher the term yields, the lower the fair value
				Reversionary yields	3.0%-5.0%	The higher the reversionary yields, the lower the fair value
				Market rents (RMB/square meter/month)	132-265	The higher the market rents, the higher the fair value
	Car parks	520,000	Direct comparison	Market price (RMB/per lot)	700,000	The higher the market price, the higher the fair value
			Term and reversionary method	Term yields	1.0%	The higher the term yields, the lower the fair value
				Reversionary yields	1.5%	The higher the reversionary yields, the lower the fair value
				Market rents (RMB/lot/month)	1,500-1,950	The higher the market rent, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

	Property Category	Fair value at 31 December 2018 RMB'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment properties under construction in PRC	Commercial properties	1,215,000	Residual method	Market rents (RMB/square meter/month)	58	The higher the market rents, the higher the fair value
				Reversionary yields	4.0%	The higher the reversionary yields, the lower the fair value
				Budgeted construction costs to be incurred (RMB/sq.m)	3,600	The higher the budgeted construction costs to be incurred, the lower the fair value
				Developer's profit (%)	20.0%	The higher the developer's profit, the lower the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

		31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Financial assets at fair value through profit or loss			
At 1 January		**10,000**	10,000
Additions		**315,434**	–
Fair value changes		**4,394**	–
At 31 December		**329,828**	10,000
Classification:			
– Related parties	*(a)*	**10,000**	10,000
– Investment funds	*(b)*	**319,828**	–
		329,828	10,000

Notes:

(a) This is the investment into a fund incorporated in the PRC managed by Shenzhen Qianhai Yitong Fund Management Company Limited* (深圳前海易通基金管理有限公司) ("**Qianhai Yitong**"), which is wholly-owned by the Company's controlling shareholder, Mr. Yu Pan. As at 31 December 2019 and 2018, the cost of the investment was RMB10,000,000, and the Group determined the fair value on the basis of the report provided by the Qianhai Yitong. Qianhai Yitong executes unified operation and investment management, while the Group share investment risks as well as potential income in proportion to their contributions. The directors of the Company considered that the fair value of the debt investment approximated the carrying value as at 31 December 2019 and 2018, and categorised within level 3 of the fair value hierarchy.

(b) The investments mainly represent investments in various investment funds managed by HK fund managing companies. The fair values of these investments were determined mainly based on valuation report provided by managing companies, making reference to quoted market price. The fair value measurement is categorised within level 2 of the fair value hierarchy.

* *English name is for identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 INTEREST IN JOINT VENTURES

There was no joint venture of the Group as at 31 December 2019 which, in the opinion of the executive directors, are material to the Group. For those individually immaterial joint ventures that are accounted for using the equity method, amounts recognised in the consolidated balance sheet and the profit or loss are set out as below:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**15,899**	–
Additions	**51,025**	24,000
Share of losses – net	**(20,629)**	(8,101)
At 31 December	**46,295**	15,899

There is no contingent liabilities nor commitment relating to the Group's interests in the joint ventures.

Details of the Group's joint ventures as at 31 December, are as follows:

Name of joint ventures	Place of incorporation/ establishment/ operation	Percentage of equity interest held by the Company 2019	2018	Principal activities
廣西眾擎易舉投資有限公司 (Guangxi Zhongqing Yiju Investment Company Limited)*	PRC	**40%**	40%	Property development in the PRC
貴陽海洋房地產開發有限公司 (Guiyang Haiyang Property Development Company Limited)*	PRC	**51%**	N/A	Property development in the PRC

* *English name is for identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 INTEREST IN JOINT VENTURES (continued)

Summarised financial information in respect of the Group's joint ventures are set out below:

Guangxi Zhongqing Yiju Investment Company Limited

	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current assets	**142**	153
Cash and cash equivalents	**353,224**	67,700
Properties under development	**2,771,533**	1,821,382
Other current assets	**2,744,642**	534,178
Total assets	**5,869,541**	2,423,413
Bank borrowings	**510,849**	1,180,028
Other current liabilities	**5,360,640**	1,203,638
Total liabilities	**5,871,489**	2,383,666
Net assets	**(1,948)**	39,747
The Group's share in%	**40%**	40%
Share of net assets	**(779)**	15,899

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Expenses	**42,341**	20,851
Others	**(645)**	(598)
Loss for the year	**41,696**	20,253
Total comprehensive loss for the year	**41,696**	20,253
The Group's share in %	**40%**	40%
Share of loss	**16,678**	8,101

As at 31 December 2019, an amount of approximately RMB941,532,000 (2018: RMB55,817,000) was advanced from Guangxi Zhongqing Yiju Investment Company Limited. The amount is unsecured, interest-free and repayable on demand (Note 38(e)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 INTEREST IN JOINT VENTURES (continued)

Guiyang Haiyang Property Development Company Limited

	2019
	RMB'000
Non-current assets	1,158
Cash and cash equivalents	17,377
Properties under development	1,346,033
Other current assets	107,877
Total assets	1,472,445
Non-current liabilities	8,992
Bank borrowings	132,719
Other current liabilities	1,238,432
Total liabilities	1,380,143
Net assets	92,302
The Group's share in %	51%
Share of net assets	47,074

	Year ended 31 December 2019
	RMB'000
Expenses	5,541
Others	2,206
Loss for the year	7,747
Total comprehensive loss for the year	7,747
The Group's share in %	51%
Share of loss	3,951

* *English name is for identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18 PROPERTIES UNDER DEVELOPMENT

Properties under development in the PRC are as follows:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Properties under development include:		
– Construction costs	**4,439,414**	3,180,117
– Interests capitalised	**600,661**	505,135
– Land use rights	**5,646,426**	3,869,075
	10,686,501	7,554,327

The properties under development are all located in the PRC and expected to be completed within an operating cycle. The relevant land use rights in the PRC are on leases of 40 to 70 years.

As at 31 December 2019, properties under development of approximately RMB4,872,716,000 (2018: RMB6,370,886,000) were pledged as collateral for the Group's borrowings (Note 22(k)).

The capitalisation rate of borrowings for the year ended 31 December 2019 was 9.6% (2018: 9.1%).

19 PROPERTIES HELD FOR SALE

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Completed properties held for sale	**2,307,057**	4,144,040

All completed properties held for sale as at 31 December 2019 were located in the PRC.

As at 31 December 2019, completed properties held for sale of approximately RMB440,000,000 (2018: Nil) were pledged as collateral for the Group's borrowings (Note 22(k)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20 TRADE RECEIVABLES

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**458,547**	201,354
Less: loss allowance	**(18,363)**	(4,914)
	440,184	196,440

(a) The majority of the Group's sales are derived from sales of properties and rental income. Proceeds in respect of sales of properties and rental income are to be received in accordance with the terms of related sales and purchase agreements and rental contracts. All trade receivables are due from independent third parties.

The ageing analysis of trade receivables as at the respective balance sheet date is as follows:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**112,253**	804
Over 30 days and within 90 days	**3,277**	175,294
Over 90 days and within 365 days	**322,337**	22,366
Over 365 days	**20,680**	2,890
	458,547	201,354

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2019, a provision of RMB18,363,000 was made against the gross amounts of trade receivables (2018: RMB4,914,000).

The closing loss allowance for trade receivables reconcile to the opening loss allowance as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**4,914**	–
Impact of initial application of HKFRS 9	**–**	90
Provision of impairment of trade receivables during the year	**13,449**	4,824
At 31 December	**18,363**	4,914

(b) As at 31 December 2019 and 2018, the fair value of trade receivables approximated their carrying amounts. The maximum exposure to credit risk of the trade receivables at the reporting date was the carrying value of each class of receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21 OTHER RECEIVABLES AND PREPAYMENTS

		31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Other receivables:			
Sale proceeds kept by a monitoring governmental authority	*(a)*	**458,768**	391,453
Loan receivable	*(b)*	**361,204**	–
Maintenance funds paid on behalf of properties owners		**53,858**	55,459
Tender deposit in development project		**40,000**	40,800
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary		**24,900**	24,900
Loan to a non-controlling shareholder of a subsidiary	*(c)*	**23,498**	52,900
Others		**181,017**	274,759
		1,143,245	840,271
Less: loss allowance	*(d)*	**(6,910)**	(4,976)
Subtotal		**1,136,335**	835,295
Prepayment:			
Prepayment for proposed projects	*(e)*	**923,106**	994,928
Prepaid taxes and surcharges		**414,788**	443,641
Prepaid construction costs		**211,839**	187,975
		1,549,733	1,626,544
Total		**2,686,068**	2,461,839

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21 OTHER RECEIVABLES AND PREPAYMENTS (continued)

Notes:

(a) The balance represents pre-sales proceeds of two projects held by a governmental authority in Xuzhou. This governmental authority is responsible for the monitoring of the usage of funds which were deposited in a regulated bank account in the name of the government authority when the sales and purchase agreements have been entered into between the Group and the customers and sale proceeds received. The Group has a right to use the pre-sale proceeds kept in the bank account to pay construction costs of the related development project and the pre-sales proceeds will be put for free use by the Group upon completion of the relevant project.

(b) The balance is a loan to an independent third party, plus interests charged at an interest rate of 15% per annum and repayable within one year. Managements perceives no credit loss on the loan.

(c) As at 31 December 2019 and the balance is unsecured, plus interests charged at an interest rate 15% per annum and repayable within one year. In the opinion of the management of the Company, ECL on the balance was provided. As at 31 December 2018, the balance is unsecured, interest bearing and paid in 2019.

(d) The movements of impairment loss on other receivables of the Group are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**4,976**	–
Impact of initial application of HKFRS 9	**–**	3,555
Provision of other receivables during the year	**1,934**	1,421
At 31 December	**6,910**	4,976

(e) Prepayment costs were made for start-off costs on two old district remodeling projects in Guangzhou and several proposed projects in Guangzhou, Xuzhou, Zhuhai and Kunming. For the remodeling projects in Guangzhou, the management is currently conducting works as customarily required in the preliminary stage of a typical old district remodeling project. In view of the steady progress since project start-off, the management anticipates that the demolishment contracts will be entered into by subsidiaries of the Group designated to act as the project companies in near future and the district governments will put the lands for auctions with pre-requisite conditions made exclusively to the benefit of the project companies.

(f) All balances of other receivables and prepayments are from independent third parties. The carrying amounts of other receivables approximate their fair values. The maximum exposure to credit risk of the other receivables at the reporting date was the carrying value of each class of receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

		31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Borrowings included in non-current liabilities:			
Bank borrowings	*(a)*	**1,277,390**	1,627,588
Secured notes	*(b)*	**2,005,986**	–
Unsecured bonds	*(c)*	**1,485,360**	1,646,900
Other borrowings	*(d)*	**1,491,612**	3,077,210
– secured		**1,491,612**	3,042,094
– unsecured		**–**	35,116
Less: current portion of non-current borrowings		**(1,929,664)**	(2,817,188)
		4,330,684	3,534,510
Borrowings included in current liabilities:			
Current portion of long-term borrowings		**1,929,664**	2,817,188
		1,929,664	2,817,188
Total borrowings		**6,260,348**	6,351,698
Derivative financial asset included in non-current assets	*(e)*	**–**	(60,388)
Derivative financial liabilities included in non-current liabilities:		**–**	8,757
Derivative financial liabilities included in current liabilities	*(e)*	**670**	2,138
		670	10,895

(a) As at 31 December 2019, the bank borrowings carry interest at variable rates ranging from 2.50% to 5.94% per annum (2018: 2.50% to 8.0% per annum). The bank borrowings are secured by mortgages of ownership titles of properties held of self use, properties under development and investment properties with or without corporate guarantee provided by the Company or personal guarantee provided by Mr. Yu.

(b) During the year, the Company issued secured notes in aggregate principal sum of US$274,000,000 (RMB1,911,479,000) to institutional investors. The notes bear interest at 13.0% per annum, payable semi-annually in arrears on 8 January and 8 July of each year, and will be mature on 8 July 2022. The notes are secured by a pledge of the entire equity interest in Winprofit Investments Limited, a subsidiary of the Group, for which the noteholders will be entitled to a first priority lien on the security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(c) The details of the unsecured bonds are as follows:

	2019/2020 Bonds	2021 Bonds(A)	2021 Bonds(B)	2024 Bonds	2025 Bonds	2026 Bonds	2027 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	2034 Bonds
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	200,000	249,000	147,400	290,000	80,000	100,000	10,000	570,000	960,000	1,300,000	1,880,000
	RMB$'000	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*	*RMB$'000*
Nominal value	179,160	223,054	132,041	259,782	71,664	89,580	8,958	510,606	859,968	1,164,540	1,684,104
Issue date	2017	2018	2019	2016 /2018	2014 /2015	2015 /2016	2016	2016 /2017 /2019	2014 /2015	2015 /2016	2016 /2017
Coupon rate	5.00%	6.00%	9.00%	7.60%	7.60%	7.60%	7.60%	8.10%	8.10%	8.10%	8.07%- 8.10%
Maturity date	2019/2020	2021	2021	2024	2025	2026	2027	2031	2032	2033	2034
Transaction costs	(25,978)	(31,228)	(7,922)	(7,793)	(2,150)	(2,687)	(269)	(15,318)	(25,799)	(34,936)	(50,523)
Prepaid interest	–	–	–	(163,686)	(44,035)	(56,851)	(5,803)	(415,147)	(696,045)	(952,261)	(1,371,610)
Cash received	153,182	191,827	124,118	88,303	25,479	30,041	2,886	80,140	138,124	177,343	261,971
Effective interest rates	13.69%- 14.07%	11.58%	12.42%	11.62%- 12.38%	11.66%- 11.99%	11.94%- 12.08%	12.19%	11.55%- 11.78%	11.55%- 11.71%	11.67%- 11.83%	11.27%- 11.81%
Outstanding balance as at 31 December 2019	10,957	208,495	127,360	150,021	37,321	41,263	3,824	133,819	202,508	242,127	327,665

(d) A third party provided a secured loan to a subsidiary in the principal amount of RMB2,300,000,000. The secured loan has a term of 24 months, bearing interests at an annual rate of 12.0% and was repayable quarterly. As at 31 December 2019, the principal outstanding amount was RMB1,206,512,000 (2018: RMB2,349,833,000).

As at 31 December 2019, borrowings from a trust company of RMB285,100,000 with the interest rate of 14.0% per annum were secured by a legal charge over the land use right of the project.

(e) The early redemption rights of the Group and bondholder constitutes an embedded derivative and has been recognised as a financial derivative asset/liability. The fair value of financial derivative asset/liability was determined by reference to valuation prepared by an independent valuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(f) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	1 year or less *RMB'000*	**1–5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Borrowings included in non-current liabilities:				
At 31 December 2019	565,195	2,776,962	988,527	4,330,684
At 31 December 2018	519,420	1,973,565	1,041,525	3,534,510
Borrowings included in current liabilities:				
At 31 December 2019	1,929,664	–	–	1,929,664
At 31 December 2018	2,817,188	–	–	2,817,188

(g) The carrying amounts and fair value of the borrowings are as follows:

		31 December 2019		31 December 2018	
	Notes	**Carrying amount** ***RMB'000***	**Fair Value** ***RMB'000***	Carrying amount *RMB'000*	Fair Value *RMB'000*
Bank borrowings	*(i)*	**1,277,390**	**1,277,390**	1,627,588	1,627,588
Secured notes	*(ii)*	**2,005,986**	**1,981,743**	–	–
Unsecured bonds	*(ii)*	**1,485,360**	**1,630,211**	1,646,900	1,771,722
Other borrowings	*(i)*	**1,491,612**	**1,491,612**	3,077,210	3,077,210
		6,260,348	**6,380,956**	6,351,698	6,476,520

(i) The fair values were estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

(ii) Inputs for the liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(h) The effective interest rates of borrowings are as follows:

	31 December 2019	2018
Bank borrowings	**2.50%-5.94%**	2.50%-8.00%
Secured notes	**13.15%-13.26%**	N/A
Unsecured bonds	**11.27%-14.07%**	10.92%-18.75%
Other borrowings	**12.00%-14.00%**	7.00%-12.00%

(i) The maturity of the borrowings is as follows:

	Bank borrowings *RMB'000*	Secured notes *RMB'000*	Unsecured bonds *RMB'000*	Other borrowings *RMB'000*	Total *RMB'000*
As at 31 December 2019					
Within 1 year	**712,195**	**–**	**10,957**	**1,206,512**	**1,929,664**
1–2 years	**194,496**	**–**	**335,855**	**–**	**530,351**
2–5 years	**55,721**	**2,005,986**	**150,021**	**285,100**	**2,496,828**
Over 5 years	**314,978**	**–**	**988,527**	**–**	**1,303,505**
	1,277,390	**2,005,986**	**1,485,360**	**1,491,612**	**6,260,348**
As at 31 December 2018					
Within 1 year	1,108,168	–	289,174	1,419,846	2,817,188
1–2 years	48,960	–	121,890	1,622,316	1,793,166
2–5 years	176,460	–	194,311	35,048	405,819
Over 5 years	294,000	–	1,041,525	–	1,335,525
	1,627,588	–	1,646,900	3,077,210	6,351,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(j) As at 31 December 2019 and 2018, the Group had the following undrawn borrowing facilities:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Floating rate:		
– expiring within 1 year	**161,244**	399,360
– expiring beyond 1 year	**–**	630,864
	161,244	1,030,224

(k) Pledge of assets

As at 31 December 2019 and 2018, the Group's assets with carrying amounts included in the following categories in the consolidated balance sheet were pledged to secure credit facilities granted to the Group:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Buildings	**113,944**	221,398
Right-of-use assets	**93,093**	–
Investment properties	**2,985,291**	1,867,157
Properties under development	**4,872,716**	6,370,886
Properties held for sale	**440,000**	–
Pledged deposits	**12,000**	45,410
	8,517,044	8,504,851

In addition, as at 31 December 2019 and 2018, the Group's certain loan facilities were secured by:

– personal guarantee provided by Mr. Yu Pan and legal charge over shares which are beneficially owned by Mr. Yu Pan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Deferred income tax assets		
To be realised after more than 12 months	**73,875**	20,388
To be realised within 12 months	**10,436**	5,261
	84,311	25,649
Deferred income tax liabilities		
To be realised after more than 12 months	**(584,791)**	(534,488)
To be realised within 12 months	**(260)**	(60,368)
	(585,051)	(594,856)
	(500,740)	(569,207)

The net movements on the deferred income tax are as follows:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Beginning of the year	**(569,207)**	(235,246)
Acquisition of subsidiaries	**–**	(337,606)
Payment of withholding tax	**23,500**	–
Tax charged in consolidated income statement	**44,967**	3,645
Ending of the year	**(500,740)**	(569,207)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Tax losses	Temporary difference on unrealised profit of intercompany transactions	Non-deductible land appreciation tax	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	**–**	**–**	**25,649**	**25,649**
Charged to profit or loss	**17,539**	**8,788**	**99,095**	**125,422**
As at 31 December 2019	**17,539**	**8,788**	**124,744**	**151,071**
As at 1 January 2018	–	–	18,142	18,142
Acquisition of a subsidiary	–	–	2,247	2,247
Charged to profit or loss	–	–	5,260	5,260
As at 31 December 2018	–	–	25,649	25,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES (continued)

(b) Deferred income tax liabilities

		Tax base difference				
	Withholding tax	Building	Investment properties	Properties under development	Properties held for sales	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	(23,500)	(15,435)	(295,230)	(80,356)	(180,335)	(594,856)
Payment of withholding tax	23,500	–	–	–	–	23,500
Credit/(charged) to profit or loss	–	260	(85,872)	2,530	2,627	(80,455)
At 31 December 2019	–	(15,175)	(381,102)	(77,826)	(177,708)	(651,811)
At 1 January 2018	(39,975)	(5,778)	(179,465)	(28,170)	–	(253,388)
Acquisition of subsidiaries	–	(9,917)	(55,399)	(70,933)	(203,604)	(339,853)
Payment of withholding tax	32,950	–	–	–	–	32,950
Credit/(charged) to profit or loss	(16,475)	260	(60,366)	18,747	23,269	(34,565)
At 31 December 2018	(23,500)	(15,435)	(295,230)	(80,356)	(180,335)	(594,856)

As at 31 December 2019, the Group have estimated unutilised tax losses of approximately RMB342,527,000 (2018: RMB121,871,000) for offsetting against future assessable profits. RMB70,372,000 out of the tax losses has been recognised deferred tax assets as at 31 December 2019 (2018: Nil). The unrecognised tax losses include a balance of RMB213,726,000 (2018: RMB57,815,000) which may be carried forward indefinitely, and the remaining balance of RMB128,801,000 (2018: RMB64,057,000) will expire in five years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries. The relevant overseas holding companies have successfully obtained endorsement from the PRC tax bureau to enjoy the treaty benefit of 5% withholding income tax rate on dividends received from the PRC subsidiaries of the Group in 2019. Accordingly, withholding income tax has been provided at 5% of the dividends to be distributed by the PRC subsidiaries of the Group for the year ended 31 December 2019 (2018: 5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES (continued)

(b) Deferred income tax liabilities (continued)

Year	*RMB'000*
2020	3,809
2021	4,983
2022	26,657
2023	28,608
2024	64,744
Indefinite	213,726
	342,527

24 CONTRACT COSTS

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Contract costs	**152,882**	80,698

Expenses of sales recognised in relation to contract costs

The following table set out the expenses of sales recognised in the current reporting period relates to carried-forward contract costs:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Expenses recognised that was included in contract costs balance at the beginning of the year	**74,680**	70,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Financial assets

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Financial assets at amortised cost:	**3,485,166**	4,118,428
Trade receivables	**440,184**	196,440
Other receivables	**1,136,335**	835,295
Restricted cash	**336,029**	676,630
Cash and cash equivalents	**1,572,618**	2,410,063
FVTPL	**329,828**	10,000
Derivative financial assets	**–**	60,388
	3,814,994	4,188,816

Financial liabilities

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Financial liabilities at amortised cost:		
Borrowings	**6,260,348**	6,351,698
Trade and other payables excluding accrued taxes and surcharges and salaries payable	**3,404,507**	1,997,041
Derivative financial liabilities	**670**	10,895
	9,665,525	8,359,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26 RESTRICTED AND PLEDGED DEPOSITS

		31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
To secure for:			
– letter of credit issued by banks to guarantee repayment of loans	*(a)*	**12,000**	45,410
– the payment of construction cost of development projects	*(b)*	**324,029**	630,987
– others		**–**	233
		336,029	676,630
Denominated in:			
– RMB		**336,029**	676,630

(a) As at 31 December 2019, to secure a subsidiary's repayment of a commercial bank's loan of HK$750,000,000 (2018: HK$50,000,000), approximately RMB671,850,000(2018: RMB43,810,000), a bank deposit of RMB12,000,000 (2018: RMB45,410,000) was placed in a local bank in the PRC and legal charges over the titles of some investment properties and properties held for sale were made in favour of the bank.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits are restricted to be used only to pay construction costs of the development projects and will be put for free use by the project companies upon completion of the relevant projects.

27 CASH AND CASH EQUIVALENTS

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Short-term bank deposits	**12,000**	45,410
Cash at bank and in hand	**1,896,647**	3,041,283
	1,908,647	3,086,693
Less: Restricted and pledged deposits *(Note 26)*	**(336,029)**	(676,630)
	1,572,618	2,410,063
Denominated in:		
– RMB	**1,410,265**	2,338,167
– US$	**159,903**	3,731
– HK$	**2,450**	68,165
	1,572,618	2,410,063

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28 TRADE AND OTHER PAYABLES

		31 December	
		2019	2018
		RMB'000	*RMB'000*
Trade payables	*(a)*	**9,000**	5,392
Construction costs payable	*(b)*	**2,222,869**	1,708,808
Other payables and accruals		**1,087,163**	205,707
– A joint venture	*38(e)(i)*	**941,532**	55,817
– Third parties	*(c)*	**145,631**	149,890
Accrued taxes and surcharges		**76,706**	77,572
Salaries and bonuses accruals		**61,606**	89,492
Tender payable to the suppliers		**56,895**	61,533
Receipt in advance, rental and other deposits from residents and tenants		**28,580**	15,601
– Related parties	*38(e)(ii)*	**213**	265
– Third parties		**28,367**	15,336
		3,542,819	2,164,105

(a) The ageing analysis of trade payables as at 31 December 2019 and 2018 is as follows:

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**–**	–
Over 30 days and within 90 days	**7,598**	2,242
Over 90 days and within 365 days	**1,377**	3,146
Over 365 days	**25**	4
Total trade payables	**9,000**	5,392

(b) Construction costs payable comprise construction costs and other project-related expenses payable which are based on project progress measured by project management team of the Group. Therefore, no ageing analysis is presented.

(c) These amounts are unsecured, interest-free, repayable on demand and non-trade item.

(d) The Group's trade and other payables are mainly denominated in RMB.

(e) The fair value of trade and other payables approximate their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 CONTRACT LIABILITIES

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Contract liabilities	**8,050,565**	8,559,878

(a) Revenue recognised in relation to contract liabilities

The following table set out the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities balance at the beginning of the year	**6,735,055**	6,288,527

(b) Unsatisfied performance obligations

The amount of unsatisfied performance obligation is approximately the same as the balance of contract liability, which are expected to be recognised in 1 to 3 years as of 31 December 2019 and 31 December 2018.

30 FINANCIAL GUARANTEE CONTRACT

	31 December	
	2019	2018
	RMB'000	*RMB'000*
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**9,917,542**	7,617,557

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors of the Company consider that the likelihood of default in payments by purchasers is minimal and in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore the fair value of these financial guarantees is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 SHARE CAPITAL AND SHARE PREMIUM

	Note	Number of shares Ordinary share capital '000	Nominal value Ordinary share capital HK$'000	Equivalent nominal value of ordinary share capital RMB'000	Share premium RMB'000	Total RMB'000
Authorised:						
At 1 January 2018		30,000,000	300,000	311,316		
Effect of Share Subdivision	(i)	60,000,000	–	–		
At 31 December 2018, 1 January 2019 and 31 December 2019		90,000,000	300,000	311,316		
Issued and fully paid:						
At 1 January 2018		2,618,097	26,181	24,469	1,664,749	1,689,218
Shares issued under share option scheme		30,310	303	190	26,924	27,114
Effect of Share Subdivision		5,274,268	–	–	–	–
At 31 December 2018 and 1 January 2019		7,922,675	26,484	24,659	1,691,673	1,716,332
Shares issued under share option scheme	(ii)	21,647	72	64	9,365	9,429
Shares repurchased	(iii)	(17,590)	(59)	(53)	(16,367)	(16,420)
At 31 December 2019		7,926,732	26,497	24,670	1,684,671	1,709,341

Notes:

(i) Pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting of the Company held on 19 October 2018, every one issued and unissued existing ordinary share of HK$0.01 each in the share capital of the Company was subdivided into three subdivided shares of one third Hong Kong cent each (the "**Share Subdivision**"). The Share Subdivision was completed on 22 October 2018.

(ii) During the year ended 31 December 2019, total of 7,139,706 share options with exercise price of HK$0.2238 granted under the 2005 Scheme and 14,507,500 share options with exercise price of HK$0.3607 granted under 2015 Scheme to subscribe for aggregate 21,647,206 ordinary shares in the Company were exercised at a total consideration of HK$6,830,721, equivalent to approximately RMB6,354,000. Accordingly the Company recognised RMB64,000 and RMB6,290,000 as share capital and share premium respectively. The amount of RMB3,075,000 was transferred from the share-based payment reserve to the share premium which was recognised in previous years in accordance with policy set out in Note 2.22.

(iii) During the year ended 31 December 2019, the Company repurchased its 17,590,000 ordinary shares from market at a consideration of HK$18,284,000, equivalent to approximately RMB16,420,000. The shares are under process of cancellation. RMB53,000 was debited to share capital and the balance of RMB16,367,000 was debited to share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32 RESERVES

	Note	Share-based payment reserve RMB'000	Shares held for share award scheme reserve RMB'000	Foreign Exchange RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018		24,636	–	1,386	(269,765)	898,131	654,388
Exchange differences arising on foreign operations		–	–	(4,043)	–	–	(4,043)
Issue of shares: upon exercise of share options	33	(9,498)	–	–	–	–	(9,498)
Recognition of equity-settled share-based payment expenses	33	5,709	–	–	–	–	5,709
Purchase of shares for share award scheme	34	–	(114,691)	–	–	–	(114,691)
Final dividend for 2017		–	–	–	–	(86,087)	(86,087)
Profit for the year		–	–	–	–	751,315	751,315
As at 31 December 2018 and at 1 January 2019		20,847	(114,691)	(2,657)	(269,765)	1,563,359	1,197,093
Exchange differences arising on foreign operations		–	–	2,211	–	–	2,211
Issue of shares: Exercise of share options	33	(3,075)	–	–	–	–	(3,075)
Recognition of employee share option and share award scheme	33	30,848	–	–	–	–	30,848
Reallocation of lapsed options from share-based payment reserve to retained profits		(5,834)	–	–	–	5,834	–
Purchase of shares for share award scheme	34	–	(29,223)	–	–	–	(29,223)
Final dividend for 2018		–	–	–	–	(160,280)	(160,280)
Profit for the year		–	–	–	–	792,258	792,258
At 31 December 2019		42,786	(143,914)	(446)	(269,765)	2,201,171	1,829,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32 RESERVES (continued)

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in Note 2.22.
Shares held for share award scheme reserve	The shares held for share award scheme is the consideration paid, including any directly attributable incremental costs for purchase of shares under the Share Award Scheme.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations.

33 SHARE OPTION SCHEME

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest to participate in the 2005 Scheme. Each option gives the holder the right to subscribe for ordinary share in the Company.

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

As at 31 December 2019, share options of 18,259,661 granted under 2005 Scheme were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33 SHARE OPTION SCHEME (continued)

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the "**2015 Scheme**").

The Company operates the 2015 Scheme for the purposes of continuing the provision of incentives or rewards to eligible participants. The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee; and (ii) any directors of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

As at 31 December 2019, share options of 123,342,100 granted under 2015 Scheme were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33 SHARE OPTION SCHEME (continued)

(c) 2005 and 2015 Scheme

Details of the movement of the share options are as follows:

					During the year ended 31 December 2018				During the year ended 31 December 2019		
Date of grant	Exercise period	Exercise price per share before the completion of share sub-division	Adjusted exercise price per share	Number of options outstanding at 1 January 2018	Options exercised	Adjusted options upon completion of share sub-division	Options exercised after completion of share sub-division	Number of options outstanding at 31 December 2018 and 1 January 2019	Options exercised	Options lapsed	Number of options outstanding at 31 December 2019
11 August 2011	11 August 2012 to 10 August 2021	HK$0.6714	HK$0.2238	5,942,929	(3,219,826)	5,446,206	(4,103,094)	4,066,215	(4,066,215)	–	**–**
11 August 2011	11 August 2015 to 10 August 2021	HK$0.6714	HK$0.2238	5,942,930	(2,840,984)	6,203,892	(923,432)	8,382,406	(402,060)	–	**7,980,346**
11 August 2011	11 August 2018 to 10 August 2021	HK$0.6714	HK$0.2238	5,942,932	–	11,885,864	(4,878,050)	12,950,746	(2,671,431)	–	**10,279,315**
				17,828,791	(6,060,810)	23,535,962	(9,904,576)	25,399,367	(7,139,706)	–	**18,259,661**
26 June 2015	26 June 2016 to 25 June 2025	HK$1.0820	HK$0.3607	8,622,900	(4,884,300)	7,477,200	–	11,215,800	(2,763,300)	–	**8,452,500**
26 June 2015	26 June 2017 to 25 June 2025	HK$1.0820	HK$0.3607	8,629,900	(4,137,700)	8,984,400	(1,003,000)	12,473,600	(2,802,700)	–	**9,670,900**
26 June 2015	26 June 2018 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	(3,954,000)	10,910,800	(365,400)	16,000,800	(576,000)	(3,000)	**15,421,800**
26 June 2015	26 June 2019 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	–	18,818,800	–	28,228,200	(8,365,500)	(429,000)	**19,433,700**
26 June 2015	26 June 2020 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	–	18,818,800	–	28,228,200	–	(4,719,000)	**23,509,200**
26 June 2015	26 June 2021 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	–	18,818,800	–	28,228,200	–	(4,719,000)	**23,509,200**
26 June 2015	26 June 2022 to 25 June 2025	HK$1.0820	HK$0.3607	9,343,600	–	18,687,200	–	28,030,800	–	(4,686,000)	**23,344,800**
				64,234,000	(12,976,000)	102,516,000	(1,368,400)	152,405,600	(14,507,500)	(14,556,000)	**123,342,100**
				82,062,791	(19,036,810)	126,051,962	(11,272,976)	177,804,967	(21,647,206)	(14,556,000)	**141,601,761**
Weighted average exercise price				HK$0.9928	HK$0.9513	HK$0.3351	HK$0.2404	HK$0.3411	HK$0.3155	HK$0.3607	**HK$0.3430**
Analysis by category:											
Directors				16,213,097	(656,000)	31,114,194	(5,000,000)	41,671,291	–	–	**41,671,291**
Other employees				65,849,694	(18,380,810)	94,937,768	(6,272,976)	136,133,676	(21,647,206)	(14,556,000)	**99,930,470**
				82,062,791	(19,036,810)	126,051,962	(11,272,976)	177,804,967	(21,647,206)	(14,556,000)	**141,601,761**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 SHARE OPTION SCHEME (continued)

(d) The fair value of each option granted on 11 August 2011 and 26 June 2015 were HK$0.42 and HK$0.58 respectively which was determined using Binomial Model by an independent valuer.

The share options granted on 11 August 2011 and 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	2005 Scheme Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

Option Exercise Period	2015 Scheme Number of share options exercisable
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognised as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB1,394,000 (2018: RMB5,709,000), as equity-settled share-based payment expenses for the year ended 31 December 2019 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK$0.2238 to HK$0.3607. During the year, 21,647,206 share options were exercised, the weighted average share price at the date of exercise of option is HK$0.3155.

The number of exercisable options as at 31 December 2019 is 71,238,561 (2018: 65,089,567). The weighted average remaining contractual life of the outstanding options as at 31 December 2019 is 5.7 years (2018: 7.1 years)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34 SHARE AWARD SCHEME BY THE COMPANY

On 3 July 2018 (the "**Adoption Date**"), the Board adopted a share award scheme (the "**Share Award Scheme**") which has taken effect on the same day to provide individual employees ("**Selected Participants**") of the Group proposed by the Board with an opportunity to acquire a proprietary interest in the Company for the purpose of (i) recognising the contributions by certain employees and give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) attracting suitable personnel for further development of the Group.

On the Adoption Date, The Company appointed a trustee, an independent third party, for the administration of the Share Award Scheme. The award shares may be satisfied by (i) existing shares to be acquired by the trustee from the market; or (ii) new shares to be allotted and issued to the trustee by the Company under the mandate sought from the shareholders in its general meeting, in both case the costs of which will be borne by the Company. The trustee shall hold such shares in trust until they are vested to the beneficiaries in accordance to the rules of the Share Award Scheme.

The Share Award Scheme came into effect on the Adoption Date, and shall terminate on the earlier of (i) the tenth anniversary date; and (ii) such date of early termination as determined by the directors of the Company.

As at 31 December 2019, 158,278,000 shares (2018: 125,540,000 shares) were purchased for a total cash consideration of approximately HK$164,186,000 (equivalent to approximately RMB143,913,000) (2018: approximately HK$129,426,000 (equivalent to approximately RMB114,691,000)) and held by the Trustee representing approximately 1.99% (2018: approximately 1.58%) of the issued share capital of the Company.

Approved by Remuneration Committee, on 26 April 2019, a total of 39,833,333 shares are awarded to Selected Participant with no consideration. The vesting period covers from 1 May 2019 to 30 April 2020. The fair value of the shares HK$1.21 was estimated by taking reference to the market price of the Company's shares on grant date. The fair value of shares granted is recognised as employee costs with a corresponding increase in share award scheme reserve within equity over the relevant vesting periods. The Group recognised RMB29,454,000 (2018: Nil), as share award scheme expenses for the year ended 31 December 2019 in relation to share award scheme granted by the Company.

All the shares held by the Trustee for the purpose of the Scheme are listed below:

	Number of shares	
	2019	2018
At 31 December	**158,278,000**	125,540,000
% of the issued share capital	**1.99%**	1.58%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash from operating activities

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Profit before income tax		**1,579,850**	1,644,102
Adjustments for:			
Finance costs – net	*7*	**18,975**	93,247
Other gains – net		**(5,065)**	(83,193)
Equity-settled share-based payment expenses		**30,848**	5,709
Depreciation of property, plant and equipment	*13*	**19,323**	18,871
Depreciation of right-of-use assets	*14*	**12,111**	–
Amortisation of leasehold land		**–**	3,407
Fair value changes in financial assets		**(4,457)**	1,476
Share of losses in joint ventures, net of tax		**20,629**	8,101
Impairment loss of trade and other receivables		**15,383**	6,245
Loss on disposal of property, plant and equipment		**3**	–
Fair value changes in investment properties	*15*	**(334,267)**	(269,702)
Impairment loss on goodwill		**–**	13,554
Operating profit before working capital changes		**1,353,333**	1,441,817
Increase in properties under development		**(2,741,220)**	(28,252)
Decrease in properties held for sale		**1,820,033**	2,124,064
(Increase)/decrease in trade and other receivables		**(151,554)**	3,779
Increase/(Decrease) in trade and other payables		**367,968**	(488,070)
Increase in contract costs		**(72,184)**	(80,698)
(Decrease)/increase in contract liabilities		**(509,313)**	128,756
Cash generated from operations		**67,063**	3,101,396
PRC corporate income tax paid		**(266,710)**	(595,812)
PRC land appreciation tax paid		**(139,357)**	(102,782)
Net cash (used in)/generated from operating activities		**(339,004)**	2,402,802

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities

	Note	Bank and other borrowings RMB'000	Amount due to related parties RMB'000	Total RMB'000
As at 1 January 2019		**6,351,698**	**–**	**6,351,698**
Cash flows				
– Inflow from financing activities		**3,254,670**	**885,715**	**4,140,385**
– Outflow from financing activities		**(3,517,277)**	**–**	**(3,517,277)**
Foreign exchange adjustments		**33,218**	**–**	**33,218**
Other changes	(i)	**138,039**	**–**	**138,039**
As at 31 December 2019		**6,260,348**	**885,715**	**7,146,063**

	Note	Bank and other borrowings RMB'000	Amount due to related parties RMB'000	Total RMB'000
As at 1 January 2018		4,275,294	–	4,275,294
Cash flows				
– Inflow from financing activities		4,797,745	–	4,797,745
– Outflow from financing activities		(6,797,103)	–	(6,797,103)
Foreign exchange adjustments		70,342	–	70,342
Other changes	(i)	4,005,420	–	4,005,420
As at 31 December 2018		6,351,698	–	6,351,698

(i) Other non-cash movements mainly comprise: i) the acquisition of a subsidiary with loans during the year ended 31 December 2018, and (ii) amortisation of issuance costs and prepaid interest of corporate bonds.

36 COMMITMENTS

(a) Operating leases commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Within one year	**2,244**	826

(b) Other commitments

	31 December 2019 RMB'000	31 December 2018 RMB'000
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**1,701,740**	2,313,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37 CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2019 (2018: Nil).

38 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
Mr. Yu Pan	The ultimate controlling shareholder and also the director of the Company
廣州市豐嘉企業發展有限公司 *(Guangzhou Fengjia Enterprise Development Company Limited)**	Controlled by the ultimate controlling shareholder
綠景控股股份有限公司 *(Lvjing Holding Company Limited)** *(“**Lvjing Holding**”)*	Controlled by the ultimate controlling shareholder
廣州市明安醫療投資有限公司 *(Guangzhou Mingan Medical Investment Company Limited)** *(“**Guangzhou Mingan**”)*	Controlled by the ultimate controlling shareholder
Qianhai Yitong	Controlled by the ultimate controlling shareholder
Cosmos Tianyu Holdings Limited (“**Cosmos Tianyu**”) (宏宇天譽控股有限公司)	Controlled by the ultimate controlling shareholder
廣西眾擎易舉投資有限公司 *(Guangxi Zhongqing Yiju Investment Company Limited)** *(“**Zhongqing Yiju**”)*	Joint venture of the Group

* *English name is for identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

During the years ended 31 December 2019 and 2018, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Nature of transactions		
Controlled by the ultimate controlling shareholder		
Secured notes invested by a related company	**139,524**	–
Rental income received from office leasing	**1,386**	111
Management fee paid to a related company	**(200)**	(200)
Consideration paid for acquisition of a subsidiary from a related company	**–**	(45,126)

(c) Personal guarantee by the ultimate controlling shareholder

As at 31 December 2019, Mr. Yu Pan and a company controlled by him have provided guarantee to banks in respect of the loan facilities extended to some Company's subsidiaries as disclosed in Note 22(k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38 RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in Note 39, incurred during the year is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Short-term benefits	**29,562**	30,400
Other long-term benefits	**669**	462
Equity-settled share-based payment expenses	**20,444**	2,802
	50,675	33,664

(e) Balances with related parties

As at 31 December 2019 and 2018, the Group has the following significant balances with related parties:

		31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Secured notes included in bank and other borrowings:			
Cosmos Tianyu		**139,524**	–
Financial assets at fair value through profit or loss:			
Qianhai Yitong	*16(a)*	**10,000**	10,000
Amounts due to related parties included in other payables:			
Zhongqing Yiju	*(i)*	**941,532**	55,817
Lvjing Holding and Guangzhou Mingan	*(ii)*	**213**	265
		941,745	56,082

(i) Amounts due to a joint venture included in other payables is cash advance in nature, which is unsecured, interest-free and repayable on demand.

(ii) Amounts due to companies controlled by the ultimate controlling shareholder in other payables are deposits from lease, which is unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39 BENEFITS OF DIRECTORS

The remuneration of each director for the year ended 31 December 2019 and 2018 are set out below:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

	Fees *RMB'000*	Salaries and other benefits *RMB'000* *(Note (a))*	Bonuses *RMB'000* *(Note (b))*	Equity-settled share-based payment and share awards expenses *RMB'000* *(Note (c))*	Contributions to defined contribution pension plan *RMB'000*	Total *RMB'000*
2019						
Executive directors						
Yu Pan	–	2,223	2,687	1,950	16	6,876
Wen Xiaobing	105	2,099	228	1,584	88	4,104
Wang Chenghua	–	1,942	907	1,231	16	4,096
Jin Zhifeng (appointed on 1 October 2019)	–	528	734	1,231	4	2,497
Non-executive director						
Wong Lok (re-designated from executive director to non-executive director on 1 January 2019)	228	–	–	–	–	228
Liu Juan (resigned on 28 February 2019)	–	–	–	–	–	–
Independent non-executive directors						
Choy Shu Kwan	210	–	–	44	–	254
Cheng Wing Keung, Raymond	210	–	–	44	–	254
Chung Lai Fong	210	–	–	44	–	254
	963	6,792	4,556	6128	124	18,563
2018						
Executive directors						
Yu Pan	–	2,138	2,552	–	15	4,705
Wen Xiaobing	101	1,936	2,502	561	85	5,185
Wong Lok	–	223	–	–	11	234
Wang Chenghua (appointed on 22 October 2018)	–	1,563	–	–	12	1,575
Non-executive director						
Liu Juan (appointed on 22 October 2018)	–	–	–	–	–	–
Li Weijing (resigned on 22 October 2018)	–	–	–	–	–	–
Independent non-executive directors						
Choy Shu Kwan	202	–	–	63	–	265
Cheng Wing Keung, Raymond	202	–	–	63	–	265
Chung Lai Fong	202	–	–	63	–	265
	707	5,860	5,054	750	123	12,494

39 BENEFITS OF DIRECTORS (continued)

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.

(c) The Group has to estimate the expected percentage of grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") of the shares option scheme and share award scheme in order to determine the amount of share-based compensation expenses charged to profit or loss. As at 31 December 2019, the Expected Retention Rate was assessed to be 100% (2018: 100%).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40 BALANCE SHEET OF THE COMPANY

	Note	31 December 2019 RMB'000	2018 RMB'000
Non-current assets			
Interests in subsidiaries		**90,332**	2,119
Amounts due from subsidiaries		**3,711,203**	3,497,959
Derivative financial asset		**–**	60,388
		3,801,535	3,560,466
Current assets			
Amounts due from subsidiaries		**1,889,842**	18,282
Other receivables and prepayments		**49,650**	28,961
Cash and cash equivalents		**142,692**	47,676
		2,082,184	94,919
Current liabilities			
Accruals and other payables		**52,532**	6,295
Bank and other borrowings		**687,282**	782,997
Derivative financial liabilities		**670**	2,138
Income tax payable		**55,830**	55,830
		796,314	847,260
Net current assets/(liabilities)		**1,285,870**	(752,341)
Total assets less current liabilities		**5,087,405**	2,808,125
Non-current liabilities			
Bank and other borrowings		**3,480,388**	1,419,108
Derivative financial liabilities		**–**	8,757
		3,480,388	1,427,865
Net assets		**1,607,017**	1,380,260
Capital and reserves			
Share capital	*31*	**24,670**	24,659
Other reserves	*41*	**1,599,659**	1,613,945
Accumulated losses	*41*	**(17,312)**	(258,344)
Total equity		**1,607,017**	1,380,260

On behalf of the Board

Jin Zhifeng
Director

Wang Chenghua
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41 RESERVES OF THE COMPANY

	Share premium *RMB'000*	Contributed surplus reserve *RMB'000*	Share-based payment reserve *RMB'000*	Shares held for share award scheme reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2018	1,664,749	16,116	24,636	–	(555,870)	1,149,631
Issue of shares: upon exercise of share options	26,924	–	(9,498)	–	–	17,426
Recognition of equity-settled share-based payment expenses	–	–	5,709	–	–	5,709
Purchase of shares for share award scheme	–	–	–	(114,691)	–	(114,691)
Final dividend for 2017	–	–	–	–	(86,087)	(86,087)
Profit for the year	–	–	–	–	383,613	383,613
As at 31 December 2018 and at 1 January 2019	**1,691,673**	**16,116**	**20,847**	**(114,691)**	**(258,344)**	**1,355,601**
Issue of shares: Exercise of share options	**9,364**	**–**	**(3,075)**	**–**	**–**	**6,289**
Repurchase of shares	**(16,366)**	**–**	**–**	**–**	**–**	**(16,366)**
Employee share option and share award schemes	**–**	**–**	**30,848**	**–**	**–**	**30,848**
Reallocation of lapsed options from share-based payment reserve to accumulated losses	**–**	**–**	**(5,834)**	**–**	**5,834**	**–**
Purchase of shares for share award scheme	**–**	**–**	**–**	**(29,223)**	**–**	**(29,223)**
Final dividend for 2018	**–**	**–**	**–**	**–**	**(160,280)**	**(160,280)**
Profit for the year	**–**	**–**	**–**	**–**	**395,478**	**395,478**
At 31 December 2019	**1,684,671**	**16,116**	**42,786**	**(143,914)**	**(17,312)**	**1,582,347**

42 PRINCIPAL SUBSIDIARIES

		Year ended 31 December	
		2019	2018
		RMB'000	*RMB'000*
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	*(a)*	**90,332**	2,119
Amounts due from subsidiaries			
Amounts due from subsidiaries	*(b)*	**5,629,649**	3,544,845
Less: Impact of initial application of HKFRS 9		**–**	(10,618)
Less: Provision for impairment loss		**(28,604)**	(17,986)
		5,601,045	3,516,241
		5,691,377	3,518,360
Amounts due to subsidiaries		**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42 PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2019 and 2018 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/paid-up capital 2019	2018	Percentage of equity interest held by the Company 2019 Directly	2019 Indirectly	2018 Directly	2018 Indirectly	Principal activities
重慶核盛房地產開發有限公司 (Chongqing Hesheng Real Estate Development Company Limited)*	PRC	RMB50,000,000	RMB50,000,000	–	100%	–	100%	Property development in the PRC
重慶之遠地產有限公司 (Chongqing Zhiyuan Property Company Limited)*	PRC	–	–	–	100%	–	–	Property development in the PRC
Fine Luck Group Limited	BVI	United States dollar ("US$") 1	United States dollar ("US$") 1	100%	–	100%	–	Investment holding
廣州市創豪譽置業有限公司 (前稱 廣州市創譽投資管理諮詢有限公司) (Guangzhou Chuanghaoyu Realty Company Limited)* (Formerly named as Guangzhou Chuanghaoyu Investment Management Consulting Company Limited)*	PRC	US$6,000,000	US$6,000,000	–	100%	–	100%	Investment holding and property leasing
廣州海涌房地產有限公司 (Guangzhou Haiyong Property Limited)*	PRC	RMB100,000,000	–	–	80%	–	–	Property development In the PRC
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	RMB53,000,000	–	100%	–	100%	Property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB800,000	RMB800,000	–	70%	–	70%	Provision of innovative technology operating services
廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited)*	PRC	US$100,000,000	US$100,000,000	–	100%	–	100%	Property development in the PRC
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)*	PRC	HK$755,000,000	HK$8,000,000	–	100%	–	100%	Investment holding and provision of property development project management services in the PRC
廣州粵威環保實業有限公司 (Guangzhou Yuwei Environmental Enterprise Company Limited)*	PRC	US$11,327,445	–	–	100%	–	–	Property development in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42 PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) Details of the Company's principal operating subsidiaries as at 31 December 2019 and 2018 are as follows (continued):

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/paid-up capital 2019	2018	Percentage of equity interest held by the Company 2019 Directly	2019 Indirectly	2018 Directly	2018 Indirectly	Principal activities
Guangzhou Zhoutouzui Development Limited	Hong Kong	**HK$100**	HK$100	–	**100%**	–	100%	Investment holding
桂林荔蒲天譽文旅投資有限公司 (Guilin Lipu Tianyu Wenlu Investment Company Limited)*	PRC	**–**	–	–	**100%**	–	100%	Property development in the PRC
江西新好景實業發展有限公司 (Jiangxi Xinhaojing Industrial Development Company Limited)*	PRC	**RMB30,000,000**	–	–	**65.5%**	–	–	Property development in the PRC
昆明創澳置業有限公司 (Kunming Chuangao Realty Company Limited)*	PRC	**RMB88,000,000**	–	–	**90%**	–	90%	Property development in the PRC
南寧市明安醫院管理有限公司 (Nanning Mingan Hospital Management Company Limited)*	PRC	**RMB210,000,000**	RMB210,000,000	–	**70%**	–	70%	Hospital operation in the PRC
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)*	PRC	**RMB50,000,000**	RMB50,000,000	–	**80%**	–	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited)*	PRC	**RMB777,625,000**	RMB50,000,000	–	**100%**	–	100%	Property development in the PRC
南寧天譽新景置業有限公司 (Nanning Tianyu Xinjing Realty Company Limited)*	PRC	**–**	–	–	**80%**	–	80%	Property development in the PRC
深圳市新圍房地產開發有限公司 (Shenzhen Xinwei Property Development Company Limited)*	PRC	**RMB50,000,000**	–	–	**100%**	–	–	Property development in the PRC
Skyfame International Holdings Limited	BVI	**US$100**	–	–	**100%**	–	–	Provision of financing
Skyfame Investments Management Limited (Formerly named as Skyfame Management Services Limited)	Hong Kong	**HK$100,000,000**	HK$1	**100%**	**–**	100%	–	Provision of management services to group entities and investment holding
Waymax Investments Limited	Hong Kong	**HK$1**	HK$1	–	**100%**	–	100%	Property investment
Winprofit Investments Limited	BVI	**US$100**	US$100	**100%**	**–**	100%	–	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42 PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) Details of the Company's principal operating subsidiaries as at 31 December 2019 and 2018 are as follows (continued):

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/paid-up capital 2019	2018	Percentage of equity interest held by the Company 2019 Directly	2019 Indirectly	2018 Directly	2018 Indirectly	Principal activities
徐州嘉譽置業有限公司 (Xuzhou Jiayu Realty Company Limited)*	PRC	**US$35,000,000**	–	**–**	**100%**	–	–	Property development in the PRC
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)*	PRC	**RMB55,000,000**	RMB55,000,000	**–**	**70%**	–	70%	Property development in the PRC
徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited)*	PRC	**RMB113,500,000**	RMB113,500,000	**–**	**78%**	–	78%	Property development in the PRC
中山市天譽萬利房地產開發有限公司 (Zhongshan Tianyu Wanli Property Development Company Limited)*	PRC	**RMB1,000,000**	RMB1,000,000	**–**	**51%**	–	51%	Property development in the PRC

* *English name is for identification purpose only*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43 SUBSEQUENT EVENT

Since January 2020, the epidemic of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") has spread across China and other countries and it has affected the business and economic activities of the Group to some extent.

The directors of the Company have assessed that the COVID-19 outbreak may have the following potential impact to the Group:

- The Group's contacted sales of properties from 1 January 2020 to 29 February 2020 relatively dropped comparing to the same period of last year. The Group has adopted several measures to mitigate the negative impact of COVID-19 outbreak. Considering the Group does not have property projects in Hubei, which severely affected by the "COVID-19 outbreak", the Directors consider the epidemic would not have a significant impact on the Group's operating results in 2020.

- The Group's rental income and commercial operation in 2020 could possibly be negatively affected by the epidemic temporarily. Given that the income from the both business lines contributed less than 5% to the Group, the Directors consider the COVID-19 outbreak would not have a significant impact on the Group's operating results in 2020.

The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Group.

FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group:

	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
For the year ended 31 December					
Revenue	**6,591,043**	6,191,763	4,080,514	1,507,971	306,321
Profit/(loss) before income tax	**1,579,850**	1,644,102	1,038,504	95,757	(208,483)
Income tax expense	**(747,868)**	(823,346)	(491,232)	(9,518)	(23,781)
Profit/(loss) after income tax	**831,982**	820,756	547,272	86,239	(232,264)
Attributable to					
– Owners of the Company	**792,258**	751,315	550,460	92,918	(211,769)
– Non-controlling interests	**39,724**	69,441	(3,188)	(6,679)	(20,495)
	831,982	820,756	547,272	86,239	(232,264)
FINANCIAL POSITION					
At 31 December					
Total assets	**22,851,765**	21,236,989	16,252,454	13,920,633	10,357,027
Total liabilities	**(19,101,719)**	(17,933,430)	(13,873,827)	(12,120,665)	(8,848,022)
Net assets	**3,750,046**	3,303,559	2,378,627	1,799,968	1,509,005
Non-controlling interests	**(210,873)**	(390,134)	(52,598)	(34,859)	(5,065)
Equity attributable to owners of the Company	**3,539,173**	2,913,425	2,326,029	1,765,109	1,503,940

PARTICULARS OF PROPERTIES UNDER DEVELOPMENT, PROPERTIES HELD FOR SALE AND INVESTMENT PROPERTIES

Location	Project type	Status	Actual/ Expected completion year	Estimated project gross floor area ("GFA") *(sq.m.)*	Estimated undelivered saleable GFA at 31.12.2019 *(sq.m.)*	Effective equity interest % held	Market value in existing state *RMB'000*	Market value attributable to the Group *RMB'000*	Carrying book value *RMB'000*	Carrying book value attributable to the Group *RMB'000*
(A) Details of the Group's properties under development and properties held for sale at 31 December 2019 are as follows:										
In Guangdong-Hong Kong-Macao Greater Bay Area:										
1. Guangzhou Skyfame Byland, Haizhu District, Guangzhou	Residential & commercial	Completed	2017	320,000	21,000	100%	**1,493,000** *(Note 1)*	**1,493,000**	453,931	453,931
2. Shenzhen Dachitdat Project, Guangming District, Shenzhen	Residential & commercial	Construction will commence	2022	168,000	120,000	100%	**1,630,000** *(Note 1)*	**1,630,000**	1,086,977 *(Note 3)*	1,086,977 *(Note 3)*
3. Zhongshan Skyfame Rainbow, West District, Zhongshan	Residential & ancillary commercial	Construction in progress	2020	105,000	89,000	51%	**1,158,000** *(Note 1)*	**590,600**	970,726	495,070
In Southeast Region:										
4. Nanning Skyfame Garden, Wuxiang New District, Nanning	Residential & ancillary commercial	Completed	2016 – 2018	1,211,000	39,000	80%	**573,000** *(Note 1)*	**458,400**	182,608	146,086
5. Nanning Skyfame ASEAN Maker Town, Wuxiang New District, Nanning	Composite development	Completed/ Construction in progress	2018 – 2023	1,316,000	577,000	100%	**3,921,000** *(Note 1)*	**3,921,000**	1,634,763	1,634,763
6. Guilin Skyfame Wellness Valley, Licheng Town, Lipu City, Guilin	Villas, residential & serviced apartments	Construction in progress	2021 – 2023	233,000	230,000	100%	**257,000** *(Note 1)*	**257,000**	151,181 *(Note 3)*	151,181 *(Note 3)*
7. Xuzhou Skyfame Time City, Quanshan District, Xuzhou	Residential & ancillary commercial	Completed/ Construction in progress	2019 – 2020	473,000	170,000	70%	**545,000** *(Note 1)*	**381,500**	337,785	236,450
8. Xuzhou Skyfame Elegance Garden, Quanshan District, Xuzhou	Residential & ancillary commercial	Construction in progress	2021	207,000	158,000	78%	**725,000** *(Note 1)*	**565,500**	723,919	564,657
9. Xuzhou Sino-Skyfame Smart City, Quanshan District, Xuzhou	Composite development	Construction in progress	2022 – 2023	524,000	409,000	100%	**574,000** *(Note 1)*	**574,000**	573,534	573,534
10. Nanchang Skyfame Phoenix's Shade, Anyi County, Nanchang	Villa, residential & commercial	Completed	2013	119,000	100,000	65.5%	**511,000** *(Note 1)*	**334,700**	267,877	175,459
In Southwest Region:										
11. Chongqing Skyfame Smart City, Danzishi, Nanan District, Chongqing	Composite development	Phase 1, completed	2017 – 2018	313,000	79,000	100%	**1,388,000** *(Note 1)*	**1,388,000**	1,378,895	1,378,895
		Phase 2, construction in progress	2021 – 2022	877,000	471,000	100%	**4,104,000** *(Note 1)*	**4,104,000**	3,602,772	3,602,772
12. Chongqing Skyfame Linxi Residence, Bishan District, Chongqing	Residential & ancillary commercial	Construction will commence	2021 – 2022	458,000	369,000	100%	**737,000** *(Note 1)*	**737,000**	654,225	654,225
13. Kunming Anning Linxi Valley, Phase 1, Anning, Kunming	Villa, residential & ancillary commercial	Construction in progress	2021	295,000	255,000	40%	**545,000** *(Note 1)*	**218,000**	675,147 *(Note 4)*	270,059 *(Note 4)*
14. Kunming Skyfame Smart City, Anning, Kunming	Residential & ancillary commercial	Construction will commence	2021 – 2022	517,000	398,000	90%	**432,000** *(Note 1)*	**388,800**	299,218 *(Note 3)*	269,296 *(Note 3)*
				7,136,000	3,485,000		**18,593,000**	**17,041,500**	12,993,558	11,693,355

PARTICULARS OF PROPERTIES UNDER DEVELOPMENT, PROPERTIES HELD FOR SALE AND INVESTMENT PROPERTIES

(B) Details of the Group's investment properties at 31 December 2019 are as follows:

Location	Usage	Status	Actual/ Expected completion year	Saleable GFA *(sq.m.)*	Effective equity interest % held	Market value in existing state *RMB'000*	Market value attributable to the Group *RMB'000*
1. Apartments on Chongqing Skyfame Smart City, Danzishi, Nanan District, Chongqing	Serviced apartment	Construction in progress	2022	248,800	100%	**1,297,000** *(Note 1)*	**1,297,000**
2. Retail units in Nanning Skyfame ASEAN Maker Town, Wuxiang New District, Nanning	Retail	Completed/ Construction in progress	2016-2021	50,173	100%	**527,000** *(Note 1)*	**527,000**
3. Hotel (block A1), Skyfame Byland, Haizhu District, Guangzhou	Hotel	Completed	–	9,890	100%	**528,000** *(Note 1)*	**528,000**
4. 800 Car parking spaces, Skyfame Byland, Haizhu District, Guangzhou	Car parking	Completed	–	10,414	100%	**536,000** *(Note 1)*	**536,000**
5. Commercial podium, Tianyu Garden Phase 2, Tianhe District, Guangzhou	Office/ Retail	Completed	–	17,343	100%	**444,000** *(Note 1)*	**444,000**
6. Office premises, Huancheng HNA Plaza, Tianhe District, Guangzhou	Office	Completed	–	1,498	100%	**55,100** *(Note 1)*	**55,100**
7. Office premises, Capital Centre, Wan Chai, Hong Kong	Office	Completed	–	577 *(6,216 sq.ft.)*	100%	**125,191** *(Note 2)*	**125,191**
				338,695		**3,512,291**	**3,512,291**

Notes:

1. The properties under development/held for sales and investment properties were revalued on an open market value basis by an independent firm of professional valuers, Cushman & Wakefield International Properties Advisers (Guangzhou) Co., Ltd., Chartered Surveyors, as at 31 December 2019. Valuation of properties under development is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development plans, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.

2. The properties were revalued on an open market value basis by an independent firm of professional valuers, CBRE Limited, Chartered Surveyors, as at 31 December 2019.

3. We had not completed the necessary procedures in acquisition of the lands of these projects and had not yet obtained the land use rights certificates as at 31 December 2019.

4. Carrying book value includes a minimum profit of RMB180 million to be distributed to the shareholder of the project which is guaranteed by the Group pursuant to a contractual arrangement.

5. Projects which the Group had not obtained direct rights in development but participated in the projects as joint venture partners or project manager are not included in the above listing.