



South China Holdings Company Limited
南華集團控股有限公司

Incorporated in the Cayman Islands with limited liability
Stock Code : 00413



2020
ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (Chairman)

Ms. Cheung Choi Ngor

(Vice Chairman and Co-Chief Executive Officer)

Mr. Richard Howard Gorges (Vice Chairman)

Mr. Ng Yuk Yeung Paul

(Executive Vice Chairman and
Co-Chief Executive Officer)

Non-executive Directors

Ms. Ng Yuk Mui Jessica

Mr. Ng Yuk Fung Peter

Mr. David Michael Norman

Ms. Li Yuen Yu Alice

Independent Non-executive Directors

Mr. Chiu Sin Chun

Mrs. Tse Wong Siu Yin Elizabeth

Mr. Kam Yiu Shing Tony

Ms. Pong Scarlett Oi Lan, BBS, J.P.

AUDIT COMMITTEE

Mr. Kam Yiu Shing Tony (Committee Chairman)

Mr. Chiu Sin Chun

Mr. David Michael Norman

Mrs. Tse Wong Siu Yin Elizabeth

REMUNERATION AND NOMINATION COMMITTEE

Mrs. Tse Wong Siu Yin Elizabeth

(Committee Chairman)

Mr. Chiu Sin Chun

Mr. David Michael Norman

Mr. Kam Yiu Shing Tony

Ms. Li Yuen Yu Alice

COMPANY SECRETARY

Mr. Watt Ka Po James

AUDITOR

KPMG

Public Interest Entity Auditor registered in accordance with
the Financial Reporting Council Ordinance

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Hang Seng Bank Limited

Nanyang Commercial Bank, Limited

China Construction Bank (Asia) Corporation Limited

Chong Hing Bank Limited

DBS Bank (Hong Kong) Limited

REGISTERED OFFICE

P.O. Box 31119

Grand Pavilion

Hibiscus Way

802 West Bay Road

Grand Cayman, KY1-1205

Cayman Islands

PRINCIPAL PLACE OF BUSINESS

28th Floor

Bank of China Tower

1 Garden Road, Central

Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

Suites 3301-04, 33rd Floor

Two Chinachem Exchange Square

338 King's Road

North Point

Hong Kong

STOCK CODE

00413

WEBSITE

<http://www.scholding.com>

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Holdings Company Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020.

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK\$4,086 million (2019: HK\$4,410 million) for the year ended 31 December 2020 (the "Year"), representing a 7% decrease as compared with 2019. Profit for the year was HK\$65 million (2019: HK\$556 million). The profit for the year ended 31 December 2019 was mainly attributable to the significant fair value gain on the investment portion of a property project in Shenyang, China. However, no such fair value gain was recognised for the Year and therefore, the profit for the Year would inevitably experience a significant decrease. Both revenue and profit for the year are the financial key performance indicators of the Group.

Basic earnings per share attributable to equity shareholders of the Company for the Year was HK0.5 cents (2019: HK4.6 cents).

DIVIDENDS

The Company had not declared or paid any dividend during the Year (2019: Nil) and the board of the directors (the "Board" or the "Director") of the Company did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development and agriculture and forestry.

Trading and Manufacturing

The trading and manufacturing segment mainly comprises (i) OEM production of toys products, and (ii) trading of footwear products. The segment recorded a 23% decrease in revenue to HK\$3,224 million (2019: HK\$4,176 million) and a 66% decrease in operating profit to HK\$88.4 million for the Year (2019: HK\$256.9 million).

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(i) OEM toys production

The OEM toys operation generated revenue of HK\$3,111 million for the Year, representing a 19% decrease as compared to 2019.

The COVID-19 pandemic has been regarded as a global health crisis which gravely affected the world economy since World War II. Sharp increase in the unemployment rate in the United States of America ("USA") resulted in the sudden slowdown of our customer orders from USA in the first half of the Year.

Since July 2020, many companies had continued to resume their operations and rehired employees following COVID-19 lockdowns in USA. On the other hand, scientists in different countries have succeeded in developing safe and effective vaccines. It is anticipated that the economies and the market consumptions will bounce back after the vaccination, which in turn our toys orders from key customers will be reinforced in the USA.

Upon confirmation of the outbreak of the pandemic, various proactive actions were taken to (i) give the Group a competitive edge over its competitors by prompt resumption of production capability in Mainland China upon fulfillment of governmental measures in relation to public health protection right after Lunar New Year holiday for grasping new orders; and (ii) further lower down costs and expenses by means of enhancement through big data analytic systems and simplification of operation workflows.

The Group will continue to provide one-stop integral solutions to customers, and thereby gain continued loyalty and reinforcing long-term business relationship with customers. In fact, many products manufactured by us for our customers were awarded industry-acclaimed recognitions and awards.

During the Year, Renminbi has appreciated for around 8% which has exerted certain pressure on increasing production cost. Such pressure has been escalated on the manufacturing sector by the rising labour and material costs. By comparing with other developing countries such as India and other ASEAN countries, the production facilities in Mainland China are relatively competitive and mature. Thus, many overseas companies are willing to shift their production to Mainland China. Such increase in labour demand plus the serious problem of labour shortage led to increase in labour cost. Further, the petroleum production was disturbed owing to the outbreak of pandemic during the Year. The decrease in raw materials' supply also caused the raising price of its by-products such as plastics. Therefore, the Group has been facing a great challenge of cost control during the Year.

The Group regards that there is a "consolidation out" period under the COVID-19 pandemic during which competitors would be knocked out if they failed to react to the severe market sentiment effectively and efficiently, which in turn will lead to our increase in market share and enhance the relationships with customers. We seek to continue to provide high quality services and timely delivery of products to our customers.

Our production facility in Vietnam has been in operation since December 2019 which has expanded the production capacity of different products and customer mix.

Chairman's Statement and Management Discussion and Analysis

(ii) Trading of footwear products

Revenue from the footwear trading operation decreased to HK\$91 million (2019: HK\$306 million) during the Year, mainly attributable to decrease in sales orders from customers focusing in workboots products and the United States market. Despite the significant drop in revenue during the Year, the Group managed to maintain a breakeven position. In order to lessen the impact on business arising from the Sino-US trade war, the Group sources suitable production facilities for footwear outside Mainland China, for example Vietnam.

Property Investment and Development

Revenue from the property investment and development segment significantly increased by 286% to HK\$849 million during the Year. The operating profit, including a fair value gain on investment properties, amounted to HK\$318.6 million during the Year. By excluding the fair value gain on investment properties, this segment generated an operating profit of HK\$164.7 million (2019: HK\$75.2 million), an increase of 119% as compared to 2019.

The Group has a property investment portfolio with total gross floor area (“GFA”) of approximately 630,000 sq.m. in Mainland China and 280,000 sq.ft. (approximately 26,000 sq.m.) in Hong Kong. The investment properties in Mainland China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

The Chinese government has effectively controlled the spread of COVID-19 and her economy has been resuming at a faster rate than that of other nations. During the Year, rental reliefs were granted to certain affected tenants in both Hong Kong and Mainland China as a gesture of goodwill for enabling them to sustain their businesses. Overall, rental income derived from our leasing portfolio in Hong Kong, Nanjing, Shenyang and Tianjin was stable during the Year. Rental income of the Group amounted to HK\$216.0 million for the Year, slightly decreased as compared to HK\$220.1 million in 2019.

Apart from leasing, the Group continues to focus on development of our property project in Shenyang, namely Central Square, which is located in one of the prime residential areas where it is right above the mass transit railway. The project has a total GFA of over 500,000 sq.m. and is a mixed-use project with a heavy emphasis in city living and convenience to the residents.

The first phase of Central Square, having GFA of approximately 170,000 sq.m., has been completed with two residential towers and one serviced apartment tower for sales as well as a retail podium for leasing. Approximately 44% of saleable areas of residential towers and serviced apartment have been sold up to date. Given Central Square is located in a prime residential area, management is cautiously optimistic on its sales and rental contributions in 2021 and onwards. In addition, the development of second phase in future will enhance the value and returns of the first phase.

Chairman's Statement and Management Discussion and Analysis

Agriculture and Forestry

Revenue from the agriculture and forestry segment decreased by 5% to HK\$13.4 million and operating loss has reduced to HK\$27.1 million during the Year. The bearer plants balance decreased from HK\$36.3 million as at 31 December 2019 to HK\$30.8 million as at 31 December 2020; in terms of Renminbi, the functional currency of the relevant subsidiaries, the bearer plants balance decreased by 20% mainly due to the combined effect of write-off and depreciation of the bearer plants.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had a current ratio of 1.0 and a gearing ratio of 34% (31 December 2019: 1.4 and 27%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK\$2,263 million by the Group's equity of HK\$6,684 million. The Group's operation and investments continued to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

CAPITAL STRUCTURE

Except for the redemption of the redeemable convertible preference shares as detailed in note 32(a) to the financial statements, there was no material change in the Group's capital structure.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 9 April 2020, South China Industries (BVI) Limited, a wholly-owned subsidiary of the Company and South China Assets Holdings Limited ("SCAH"), an associate of the Company's connected person, Mr. Ng Hung Sang, entered into a joint venture agreement for the purpose of formation of a joint venture company in which the Company and SCAH hold 40% and 60% respectively. The joint venture company is an investment holding company which carries out production and sale of face masks and related products for capturing tremendous demand for face masks against COVID-19 worldwide.

On 21 May 2020, South China Industries (China) Limited ("SCI China"), an indirect wholly-owned subsidiary of the Company and Proper Mark International Limited ("Proper Mark"), an indirect wholly-owned subsidiary of SCAH entered into a sale and purchase agreement pursuant to which SCI China conditionally agreed to dispose of and Proper Mark conditionally agreed to purchase 100% of the entire issued share capital of Silver Giant Limited ("Silver Giant"), an indirect wholly-owned subsidiary of the

Chairman's Statement and Management Discussion and Analysis

Company, at a total consideration of HK\$17,500,000. Silver Giant indirectly wholly holds a development site at Tianjin Xiazhuang Street (天津市下朱莊街) in which industrial complexes and ancillary offices can be developed for lease and sale. On 15 July 2020, all conditions precedent in respect of the disposal were fulfilled and completion subsequently took place. A gain on disposal of subsidiaries amounted to HK\$18,416,000 has been recognised in the consolidated statement of profit or loss during the Year.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

During the year ended 31 December 2020, the pledge over certain properties under development and completed properties for sale under a bank loan facility granted to an indirectly wholly-owned subsidiary of the Company has been released and discharged.

Save as aforesaid, there was no other material change in the Group's pledge of assets and contingent liabilities.

EMPLOYEES

As at 31 December 2020, the total number of employees of the Group was approximately 17,363 (2019: approximately 17,521). Employees' costs (including directors' emoluments) amounted to approximately HK\$1,201 million for the year ended 31 December 2020 (2019: approximately HK\$1,395 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programs are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible with the market. Individual employees may also receive a discretionary bonus at the end of each year based on his/her performance. Employees may also be granted share options and share awards under the share option scheme and the employee's share award scheme adopted by the Company. Details of the share option scheme and the share award scheme are set out in notes 33 and 32(c) to the financial statements respectively.

PROSPECTS

The world economy of 2021 is expected to be full of challenges and uncertainties, in particular the recent flare up in coronavirus cases threatened to further derail the economy of a number of nations, but the situation is expected to be improved upon the launch of coronavirus vaccines. Apart from the pandemic, the Sino-US trade war and Renminbi appreciation have also posed uncertainties to the business environment.

Management has been highly cautious under the current market situation, taking extra precautions to safeguard our assets and the safety of all of our employees. Meanwhile, the Group has been implementing cost reduction measures, consolidating and optimizing resources to achieve higher efficiency and reduce overheads in order to maintain competitiveness and ensure business continuity during the difficult market environment for the foreseeable short to medium term. The Group will strive to maintain steady rental income from leasing both in Hong Kong and Mainland China. In the long run, nonetheless, the Group will continue to explore business opportunities in Hong Kong and Mainland China and continue to drive revenues, in order to generate returns and create value to our shareholders.

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Trading and Manufacturing

OEM toys production

Given the market uncertainties, the Group has reinforced the business relationships with its current key customers and solicited new orders from customers. On the other hand, the Group has implemented re-engineering exercises, including simplification and consolidation of operation procedures and human resources, for achieving higher efficiency and cost effectiveness which in turn are expected to enhance the Group's competitiveness and sustainability in the difficult market environment.

The long-standing customer loyalty and world-class engineering capability of our OEM toys operation has contributed to the Group's solid performance in 2020 and is expected to build trust and solicit orders from customers in 2021. The Group will strive to secure orders from its long-term loyal customers as well as new customers captured by the Group from other competitors who are knocked out in this critical period.

To lower down the production costs for increasing the Group's competitive edge over its rivals and to lessen the impact from the Sino-US trade war, the Group will continue to shift its production capacity from Shenzhen and Dongguan to Guangxi and Vietnam. During 2021, two more factories will be set up in Guangxi and more production orders will be handled by the factory in Vietnam.

Given the uncertainties posed by the pandemic and Sino-US trade war, anticipation and responsiveness will be our edge to manage the risks under the market volatility.

Property Investment and Development

Property Investment

The implementation of commercialization and transformation of various properties in Mainland China will be carried on, including but not limited to the mall in Shenyang, namely Avenue of Stars ("AOS"), which is currently one of the most popular fur-themed shopping malls in Shenyang, for the purposes of improving occupancy rate and rental contribution. The plan is to transform AOS into a mall anchored by different types of retailers and department stores. In addition to AOS, the Group is strived to increase the occupancy rate of the retail podium in the Central Square by identifying and soliciting prospective tenants, and it is expected that more rental income will be generated therefrom 2021.

During the Year, the Group granted rental relief to certain tenants both in Hong Kong and Mainland China as a gesture of goodwill, and these reliefs will not have a significant financial impact on the Group. However, it is expected that tenants will continue to demand rental reliefs if the market conditions remain severe. The Group has adopted an approach by offering rental restructuring or relief on a temporary basis to tenants upon requests.

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Property Development

Given the faster resumption of economy in Mainland China from the devastation of the pandemic, the Group is cautiously optimistic on the sales of its Central Square in Shenyang in 2021 and onwards as Central Square is located in one of the prime residential areas and has the advantages of direct accessibility to the subway and a robust pedestrian street anchored by restaurants and retail stores.

The second phase of Central Square which is separated by a pedestrian street and opposite to the first phase, is in the process of re-settling a few non-residential units. It is also a mixed development project, and the positioning will be thematically in line with the first phase.

The Group will continue to study conversion of some other land banks from industrial to commercial in Nanjing and Tianjin for the purpose of increasing both the land value and return from development of such land after conversion. The Group's strategy in development of large scale property project remains unchanged.

Agriculture and Forestry

The Group currently has long-term leases of over 517,000 mu (approximately 345 million sq.m.) of woodland, farmland, fishpond and lake space in various major provinces in Mainland China, and is focusing on the plantation of fruits and crops such as apples, winter dates, lychee, peaches, pears and corns; and breeding of livestock such as pigs for sale. The Group will continue to explore plantation opportunities of high profit margin species and focus on improving sales distribution channels, utilization of resources and cost control for improving the operating results of this segment.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists out the key risks and uncertainties facing by the Group. It is a non-exhaustive list and there may be other risks and uncertainties additional to the key risk areas outlined below.

Risks relating to Trading and Manufacturing

Macroeconomic environment

The Group designs and manufactures a wide variety of toys, shoes and other leather products. Our customers sell such products worldwide to the end customers. The Group's financial performance, therefore, hinges on the level of discretionary consumer spending in the markets in which our products are eventually sold. Recessions, credit crises and other economic downturns can result in decrease in consumers' disposable income and lower consumption confidence. These factors can reduce orders from our customers.

Cost increase

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Mainland China or compliance with existing or future regulatory requirements could impact the profit margins realised by the Group on the sale of its products. In addition, the Group could be the subject of future product liability lawsuits or product recalls, which could harm our business.

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Risks relating to Property Investment and Development

Risks associated with the property market in Mainland China

A significant part of the Group's property portfolio is located in Mainland China and is therefore subject to the risks associated with Mainland China's property market. The Group's operations in Mainland China may also be exposed to the risks of policy change, Renminbi exchange rate change, interest rate change, demand-supply imbalance, and the overall economic conditions, which may pose an adverse impact on the Group's business, financial condition or results of operations.

Risks associated with the property market in Hong Kong

The state of Hong Kong's economy and property market, legislative and regulatory changes, government policies and political conditions also have an effect on the Group's revenue derived from the Group's property portfolio in Hong Kong. The government may introduce property cooling measures from time to time. Rental levels in Hong Kong are subject to competition arising from supply in the primary sector.

Risks relating to Agriculture and Forestry

Risk associated with natural disasters or adverse weather conditions

The Group's agriculture and forestry operations are susceptible to natural disasters and adverse weather conditions such as droughts, floods and earthquakes, and environmental hazards. The occurrence of any of the above events in or in close proximity to our cultivation area may cause a reduction or delay in our production output, which may adversely affect the Group's business and operating performance.

The Group will conduct regular reviews and focus on mitigating the risks exposure of each business unit.

UPDATE ON LITIGATION PROCEEDINGS

(i) Against Nanjing Skytech Co., Limited and Others

Infringement of copyrights case

Reference is made to the announcement made by the Company dated 5 December 2016 in relation to the litigation in the PRC concerning infringement of copyrights of certain computer software that belong to Nanjing South China Skytech Technology Co., Limited (南京南華擎天資訊科技有限公司) ("South China Skytech").

On 31 January 2000, Janful Limited, an indirect wholly-owned subsidiary of the Company, and Nanjing Skytech Co., Limited (南京擎天科技有限公司) ("Nanjing Skytech") entered into a joint venture agreement to set up South China Skytech to engage, mainly, in software development, research, sales and after-sales service, system integration and other related electronic business.

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In or about 2003, business of South China Skytech further deteriorated and suffered serious loss. Upon investigations, it was found that Nanjing Skytech illegally transferred all the computer software belonging to South China Skytech (“Computer Software”) for its own use and registered the ownership of the copyrights of the Computer Software under its own name or under the name of Nanjing Skytech Software Technology Co., Limited (南京擎天軟件科技有限公司) (“Skytech Software”), rendering South China Skytech unable to continue its business. On the other hand, the assets and profits of Nanjing Skytech continued to increase and eventually Sinosoft Technology Group Limited (中國擎天軟件科技集團有限公司) (“Sinosoft”), the parent company of Nanjing Skytech, was listed on the Stock Exchange of Hong Kong in 2013 (stock code: 1297).

South China Skytech commenced legal proceedings in Jiangsu High People's Court (“Jiangsu High Court”) against, inter alia, Nanjing Skytech seeking the Jiangsu High Court to determine that the ownership of the copyrights of a total of 31 Computer Software do belong to South China Skytech; and that Nanjing Skytech do pay South China Skytech damages in the sum of RMB210.4 million (to be assessed) for infringement of copyrights.

On 28 November 2016, the Jiangsu High Court delivered its first instance judgment on the Computer Software copyrights ownership. The Jiangsu High Court determined that during the period from March 2000 to March 2003, Nanjing Skytech basically had no employees. Not only that, before 2002, Nanjing Skytech had no fixed assets and therefore it did not have the necessary means to develop the Software. The development of the Computer Software was mainly relied on South China Skytech's manpower and physical technology capability. The Jiangsu High Court also determined that Nanjing Skytech and Skytech Software had exploited South China Skytech's physical technology capability to develop the Computer Software and registered the ownership of the copyrights of the Computer Software under their respective names. Such actions did not comply with the basic principles of copyright laws. The ownership of the copyrights of a total of 13 Computer Software was held belong to South China Skytech.

The Company wishes to give an update that all parties in the said infringement of copyrights case have appealed to the Supreme People's Court of China. The Supreme People's Court of China issued a ruling on 26 October 2018 which revoked the first- instance judgment and sent the case back to the Jiangsu High Court for retrial.

After holding a pre-trial conference on 31 July 2019, the Jiangsu High Court conducted a hearing in relation to the retrial of the case on 22 October 2019. Nanjing Skytech challenged the presiding judge at the beginning of the trial. The Jiangsu High Court rejected the request of challenge for untenable reason, and held that during more than two-and-a-half months of the pre-trial proceedings prior to the establishment of the trial, the two parties have completed numerous written exchanges of cross-examination and arguments, and Nanjing Skytech had never challenged the presiding judge, but did so at the time of the trial, which was an open violation of good faith lawsuit. Currently, the Company is awaiting the retrial date to be notified by the Jiangsu High Court.

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The Company considers that Nanjing Skytech has seriously violated the principle of good faith, and was actually a shell company, basically with no employee, no office base and no capital. It had no means whatsoever to develop any computer software. Therefore, the Company considers that the remaining 18 Computer Software were also developed using the manpower and physical technology capabilities of South China Skytech and therefore the ownership of the copyrights of the remaining 18 Computer Software should also belong to South China Skytech. The Company will explore every possible course of action to claim for the ownership of the remaining 31 Computer Software.

In addition, it is noted that Sinosoft had disclosed in its prospectus dated 27 June 2013 of its alleged ownership of certain computer software. The Company considers that most of these computer software were also subsequently developed from the Computer Software belonging to South China Skytech. The Company will explore every possible course of action to claim against Nanjing Skytech and/or Sinosoft for infringement of copyrights by these computer software and to seek an injunction prohibiting Nanjing Skytech and/or Sinosoft to continue to sell and/or use these computer software.

Liability dispute of damaging the interests of the Company case

Reference is made to the announcement of the Company dated 20 July 2016 in relation to the final judgment made by the Jiangsu High Court against Nanjing Skytech, Ms. Xin Yingmei, Mr. Wang Xiaogang and Mr. Zhang Hong (the "Defendants") who had breached the non-competition obligation under PRC Company Law and were liable to pay all the gain therefrom to South China Skytech as follows:

1. Ms. Xin Yingmei, Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall pay RMB22,533,377.09 to South China Skytech;
2. Ms. Xin Yingmei shall pay RMB4,392,329.95 to South China Skytech. Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment;
3. Mr. Wang Xiaogang shall pay RMB691,859.56 to South China Skytech. Ms. Xin Yingmei, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment; and
4. Mr. Zhang Hong shall pay RMB288,274.85 to South China Skytech. Ms. Xin Yingmei, Mr. Wang Xiaogang and Nanjing Skytech shall be jointly liable to the payment.

The Jiangsu Immediate People's Court had frozen a bank account held by Nanjing Skytech with a total sum of approximately RMB28 million in February 2017. As all parties have appealed to the Supreme People's Court of China for retrial, the Supreme Court remitted the case back to the Jiangsu High Court for retrial on 8 April 2019. Jiangsu High Court accepted the case on 13 June 2019. The case was heard by the Jiangsu High Court on 21 May 2020 and is awaiting judgement.

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Liability dispute of damaging the interests of shareholders case

To protect its interest, Janful Limited, as the controlling shareholder of South China Skytech, filed a lawsuit against Ms. Xin Yingmei, Mr. Wang Xiaogang and Mr. Zhang Hong on the ground of damaging the interests of shareholders, demanding compensation of approximately RMB53.4 million (to be assessed). The court accepted the case on 15 January 2021.

(ii) Development right of a piece of land situate at Tianjin Binhai New District

In April 1993, World Right Investments Limited (環威投資有限公司) (“World Right”), an indirect wholly-owned subsidiary of the Company, and Tianjin Tanggu Property Development Company Limited (天津塘沽房地產開發股份有限公司) (currently known as Binhai Investment Group Holding Company Limited (濱海投資集團股份有限公司) (“Binhai Investment Group”)) formed a joint venture company in the PRC known as Tianjin South China Property Development Company Limited (天津南華房地產開發有限公司) (“South China Property”). World Right holds 51% equity interest in South China Property.

In June 1993, World Right and Binhai Investment Group entered into a joint development agreement (the “Development Agreement”). It was agreed under the Development Agreement, inter alia, that World Right and Binhai Investment Group shall jointly develop a piece of land situate at Tianjin Binhai New District with an area of about 500,000 sq.m. (the “Involved Land”) and World Right shall pay RMB10.4 million in cash to increase the capital investment in South China Property. World Right duly paid the capital investment of RMB10.4 million which had been used for the formation of the Involved Land. However, Binhai Investment Group failed to perform the Development Agreement, did not recognise that World Right and Binhai Investment Group had joint right to develop the Involved Land, and maliciously transferred the Involved Land to Tianjin Cheng Tou Binhai Property Company Limited (天津城投濱海房地產經營有限公司) (“Cheng Tou Binhai”), a company invested in and established by it and the government.

In 2013, World Right commenced legal proceedings in Tianjin High People's Court (“Tianjin High Court”) against Binhai Investment Group claiming for specific performance of the Development Agreement. Following the first trial, second trial and retrial of the case, the Supreme People's Court made the final judgment in August 2020, rejecting the claims of World Right, and noting that World Right may claim its rights against Binhai Investment Group for breach of contract in another case. Accordingly, after consulting the counsel team, World Right filed the litigation for breach of contract in January 2021, demanding that Binhai Investment Group shall assume the liability for damages in the amount of approximately RMB166 million (to be assessed), and that Cheng Tou Binhai shall assume joint and several liability thereof. The case was scheduled to be heard on 26 March 2021.

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In light of the above development of the case, South China Property, following the advice of the counsel team, withdrew the malicious collaboration lawsuit filed in October 2018 and decided not to appeal the tort dispute lawsuit filed in January 2019.

According to the analysis of the counsel team, the crux of the case lies in the approval procedures and implementation of the expropriation and transfer of the Involved Land at the time. World Right and South China Property are applying to the government authorities for information disclosure to find the facts of the case and protect the legal rights and interests of World Right and South China Property.

ENVIRONMENTAL POLICIES

We are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require our PRC establishments to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant Chinese regulators.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, which have significant impact on the Group. Updates on the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees. The Group has also adopted share option schemes and share award scheme to recognize and reward the contribution of the employees to the growth and development of the Group.

Customers

The Group has the mission to provide excellent customer service whilst maintaining long term profitability, business and asset growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer service towards market penetration and expansion.

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Service vendors

Sound relationships with key service vendors of the Group are important in the supply chain, premises management and meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long term business benefits. The key service vendors comprise system and equipment vendors, external consultants which provide professional services, suppliers of office goods/merchandise and other business partners which provide value-added services to the Group.

Shareholders

One of the corporate goals of the Group is to enhance corporate value to shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding shareholders taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated services.

Ng Hung Sang
Chairman

Hong Kong, 23 March 2021

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 71, is an Executive Director, the Chairman and a member of the Executive Committee of the Company. He is actively involved in the overall corporate policies, strategic planning and business development of the Group. He is also an executive director and the chairman of South China Financial Holdings Limited, being listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and South China Assets Holdings Limited, being listed on GEM of the Stock Exchange. He also holds several directorships in certain subsidiaries of the Group. He holds a Master's degree in Marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a Director of the Company on 24 June 1992. He is the father of Ms. Ng Yuk Mui Jessica, a Non-executive Director of the Company, Mr. Ng Yuk Fung Peter, a Non-executive Director of the Company and Mr. Ng Yuk Yeung Paul, an Executive Director, the Executive Vice Chairman and the Co-Chief Executive Officer of the Company. He is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Ms. Cheung Choi Ngor, aged 67, is an Executive Director, the Vice Chairman, the Co-Chief Executive Officer and a member of the Executive Committee of the Company. She is also an executive director and a vice chairman of South China Financial Holdings Limited, being listed on the Main Board of the Stock Exchange and an executive director of South China Assets Holdings Limited, being listed on GEM of the Stock Exchange. She also holds several directorships in certain subsidiaries of the Group. She holds a Master's degree in Business Administration from University of Illinois in the United States of America. She was a member of the 10th, 11th and 12th National Committee of the Chinese People's Political Consultative Conference. She was appointed as a Director of the Company on 24 June 1992. She was re-designated as the Co-Chief Executive Officer of the Company with effect from 16 May 2018. She is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Richard Howard Gorges, aged 77, is an Executive Director, the Vice Chairman and a member of the Executive Committee of the Company. He is also an executive director of South China Assets Holdings Limited, being listed on GEM of the Stock Exchange. He also holds several directorships in certain subsidiaries of the Group. He holds a Master's degree in law from Cambridge University in the United Kingdom. He was appointed as a Director of the Company on 24 June 1992. He is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Ng Yuk Yeung Paul, aged 39, is an Executive Director, the Executive Vice Chairman, the Co-Chief Executive Officer and a member of the Executive Committee of the Company. He is also a non-executive director of South China Assets Holdings Limited, being listed on GEM of the Stock Exchange. He also holds several directorships in certain subsidiaries of the Group. He graduated in Law from Corpus Christi College, University of Cambridge (the "University") in the United Kingdom and is a Scholar of the University. He is an associate member of the Chartered Institute of Management Accountants and a member of the 13th National Committee of the Chinese People's Political Consultative Conference and is a standing member of the 11th and 12th Liaoning Provincial Committee of the Chinese People's Political Consultative Conference. He was the winner of the Young Industrialist Awards of Hong Kong 2017. He has been engaged in financial services, property development, OEM toys manufacturing, tourism and media businesses for more than fifteen years. He was appointed as a Director of the Company on 1 January 2016. He was appointed as the Co-Chief Executive Officer of the Company with effect from 16 May 2018. He is the son of Mr. Ng Hung Sang, an Executive Director, the Chairman and a controlling shareholder of the Company, and is the younger brother of Ms. Ng Yuk Mui Jessica, a Non-executive Director of the Company and Mr. Ng Yuk Fung Peter, a Non-executive Director of the Company.

NON-EXECUTIVE DIRECTORS

Ms. Ng Yuk Mui Jessica, aged 42, is a Non-executive Director of the Company. She is also an executive director, an executive vice chairman and the chief executive officer of South China Financial Holdings Limited and a non-executive director of i-CABLE Communications Limited, all of which being listed on the Main Board of the Stock Exchange and an executive director and an executive vice chairman of South China Assets Holdings Limited, being listed on GEM of the Stock Exchange. She is also the executive vice chairman of South China Media Limited. She holds a Bachelor's degree in Law from King's College London, University of London in the United Kingdom, and was admitted to the Hong Kong Bar in 2006. She is an associate member of the Chartered Institute of Management Accountants and a member of the 12th Hebei Provincial Committee of the Chinese People's Political Consultative Conference. She was appointed as an Executive Director of the Company on 17 June 2002 and re-designated as a Non-executive Director of the Company with effect from 1 July 2005. She is the daughter of Mr. Ng Hung Sang, an Executive Director, the Chairman and a controlling shareholder of the Company, and is the elder sister of Mr. Ng Yuk Fung Peter, a Non-executive Director of the Company and Mr. Ng Yuk Yeung Paul, an Executive Director, the Executive Vice Chairman and the Co-Chief Executive Officer of the Company.

Mr. Ng Yuk Fung Peter, aged 40, is a Non-executive Director of the Company. He holds a Bachelor's degree in Law from King's College London, University of London in the United Kingdom and is an associate member of the Chartered Institute of Management Accountants. He is also a member of Nanjing Municipal Committee of the Chinese People's Political Consultative Conference. He was appointed as an Executive Director of the Company on 17 June 2002 and re-designated as a Non-executive Director of the Company with effect from 16 May 2018. He is the son of Mr. Ng Hung Sang, an Executive Director, the Chairman and a controlling shareholder of the Company, and is the elder brother of Mr. Ng Yuk Yeung Paul, an Executive Director, an Executive Vice Chairman and the Co-Chief Executive Officer of the Company, and is the younger brother of Ms. Ng Yuk Mui Jessica, a Non-executive Director of the Company.

Directors' Biographical Details

Mr. David Michael Norman, aged 64, is a Non-executive Director, a member of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company. He is also an independent non-executive director of Guoco Group Limited, being listed on the Main Board of the Stock Exchange. He is a solicitor. He studied philosophy and psychology at Oxford University in the United Kingdom and was admitted as a solicitor in the United Kingdom and Hong Kong in 1981 and 1984 respectively. He was appointed as a Director of the Company on 9 December 2014.

Ms. Li Yuen Yu Alice, aged 51, is a Non-executive Director and a member of the Remuneration and Nomination Committee of the Company. She is also a director of Cheng & Cheng Limited, Certified Public Accountants in Hong Kong. She received her Accounting degree from Monash University, Australia in 1994 and was admitted as a Certified Public Accountant in Australia and in Hong Kong in 1997 and 1998 respectively. She is a fellow member of the Taxation Institute of Hong Kong. She was appointed as a Director of the Company on 28 September 2004. She had been re-designated from an Independent Non-executive director to a Non-executive Director and ceased to be the chairman and a member of the Audit Committee of the Company with effect from 21 December 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Sin Chun, aged 73, is an Independent Non-executive Director, a member of the Audit Committee and the Remuneration and Nomination Committee of the Company. He has more than 30 years' experience in the newspaper and media industry. He was appointed as a Director of the Company on 20 August 2001.

Mrs. Tse Wong Siu Yin Elizabeth, aged 63, is an Independent Non-executive Director, the chairman of the Remuneration and Nomination Committee and a member of the Audit Committee of the Company. She is also an independent non-executive director of South China Financial Holdings Limited, being listed on the Main Board of the Stock Exchange. She is the chairman of the Hong Kong Flower Retailers Association, the convenor of Youth Skills Competition in Floristry of Vocational Training Council, the vice-convenor of the Environmental Services Industry of Employees Retraining Board and a member of the judge panel of Hong Kong Flower Show. She received an award of the Hundred Outstanding Women Entrepreneur in China in 2009. She holds a Bachelor's degree in Science from the University of Western Ontario in Canada. She was appointed as a Director of the Company on 19 October 2004.

Directors' Biographical Details

Mr. Kam Yiu Shing Tony, aged 59, is an Independent Non-executive Director of the Company, was appointed as the chairman of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company in December 2017 and April 2019 respectively. He has been qualified as an accountant since 1989 and admitted as a certified public accountant (practising) since 1993. He holds a master's degree in business and administration from Monash University, Australia. He is also a fellow of the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants, an associate of the Institute of Chartered Accountants in England and Wales and the Taxation Institute of Hong Kong, and at the same time registered as a Certified Tax Adviser. He was the President of the Society of Chinese Accountants and Auditors in 2016. He was appointed as a Director of the Company on 1 November 2017.

Ms. Pong Scarlett Oi Lan, BBS, J.P., aged 61, is an Independent Non-executive Director of the Company. Ms. Pong is the Chairman of Health Quotient HQ International Institute Limited and the Immediate Past President of The Pharmaceutical Society of Hong Kong. She was an elected District Councilor and currently, CEO, Health Management Division, Shatin Inhabitants Association (a charitable organization). She is also an independent non-executive director of South China Assets Holdings Limited, being listed on GEM of the Stock Exchange. She also actively serves the public sector and is currently the Visiting Associate Professor at Hong Kong Nang Yan College of Higher Education, and a Convenor of Working Group on Collaboration and Promotion under Women's Commission. She is currently an Honorary Patron of Hong Kong Seeing Eye Dog Services. In addition, she is a member of the Building Committee under the Hong Kong Housing Authority, a member of the Steering Committee on Prevention and Control of Non-communicable diseases under the Food and Health Bureau, and a member of the Committee on Promotion of Organ Donation. She was a part-time lecturer of Master of Science in Women's Health Studies & Postgraduate Diploma in Women's Health Studies, The Chinese University of Hong Kong. She has been the President of The Practising Pharmacists Association of Hong Kong for eight years and the President of the Outstanding Young Persons' Association. She completed her executive program at Harvard Business School in the United States of America and also obtained a graduate diploma in business administration at Monash University in Australia and a Bachelor's degree in pharmaceutical sciences from the University of Saskatchewan in Canada. She holds a Master of Arts from Macquarie University in Australia in 2018. She is being appointed in a number of government boards and committees such as the Council Member of Hong Kong Baptist University, Grantham Scholarships Fund Committee, Part-time Member of the Central Policy Unit (2008–2009), Chairman of ACAN Sub-committee on Preventive Educations and Publicity (2007–2012). She received awards of the Ten Outstanding Young Persons' Selection in 1998, the Hundred Outstanding Women Entrepreneur in China in 2007, was appointed as a Justice of the Peace (J.P.) by the Government of the Hong Kong Special Administrative Region in July 2010 and received an award of Bronze Bauhinia Star in 2017. She also received awards of Pioneers in Healthy Cities, Alliance for Healthy Cities, Western Pacific Region. She was appointed as a Director of the Company on 15 September 2020.

Directors' Report

The directors (the “Directors”) of South China Holdings Company Limited (the “Company”) are pleased to present their annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the trading and manufacturing of toys, shoes, electronic toys and leather products, property investment and development, agriculture as well as forestry. The principal activities of the principal subsidiaries are shown in note 43 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Group during the year under review, a discussion and an analysis of these activities as required by Schedule 5 of the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, are provided in the section headed “Chairman's Statement and Management Discussion and Analysis” on pages 3 to 15 of this annual report. These discussions form part of this Directors' Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The board of Directors (the “Board”) has overall responsibility for the Group's environmental, social and governance (“ESG”) strategy and reporting. The Board is responsible for the Group's ESG risk management and internal control systems to ensure that the ESG strategies and reporting requirements are met.

In addition, discussion on the Group's environmental policies and performance are contained in the ESG Report on pages 52 to 69 of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 and the financial position of the Group at that date are set out in the financial statements on pages 77 to 194 of this annual report.

No interim dividend was paid by the Company (2019: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy (the “Dividend Policy”), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the “Shareholders”) to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

Objectives

The Dividend Policy sets out the guidelines for the Board of the Company to determine (i) whether dividends are to be declared and paid; and (ii) the amount of dividend to be paid to the Shareholders.

It is the policy of the Company to distribute its net profits by way of dividends to the Shareholders after retaining adequate reserves for future growth as a return to the Shareholders' investment.

Basic Criteria

In deciding to propose a dividend and in determining the dividend amount, the Board shall take into account of the actual and expected financial results of the Group, business performance and strategies, financial and economic factors, capital commitments, liquidity position and any other factors that the Board considers appropriate.

Subject to the conditions and factors set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board considers appropriate.

Payment of dividend by the Company is also subject to any criteria and restrictions under the Cayman Islands laws and the Company's Articles of Association (the "Articles").

Form of Dividend

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

Approval of Dividend

The Board may from time to time determine and pay to the Company's shareholders such interim dividends as it considers appropriate.

The Board may recommend the payment of final dividends which are required to be approved by the Shareholders in general meetings.

Approval of the Dividend Policy

The Dividend Policy has been reviewed by the audit committee (the "Audit Committee") of the Company and approved by the Board. The Dividend Policy shall be reviewed by the Audit Committee and any subsequent amendment of the Dividend Policy shall be submitted to the Board for approval.

Directors' Report

CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to HK\$2,450,000 (2019: HK\$1,137,000).

DISTRIBUTABLE RESERVES

At 31 December 2020, the Company had reserves available for distribution to the Shareholders amounted to HK\$1,125,932,000 (2019: HK\$1,416,298,000).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on pages 195 and 196 of this annual report.

SHARE CAPITAL AND EQUITY-LINKED AGREEMENT

In addition to the below mentioned transactions, details of movements in the ordinary shares, share options, share awards and redeemable convertible preference shares of the Company during the year under review are set out in notes 32 and 33 to the financial statements. Save as the issued 117,350,631 redeemable convertible preference shares (the "CPSs"), if fully converted, 234,701,262 ordinary shares will be issuable with proceeds receivable of HK\$93.88 million, details are disclosed in note 32 to the financial statements and the share options in the section headed "Share Option Schemes" below, there was no other equity-linked agreement subsisting at the end of the year nor entered into by the Company during the year under review.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the year ended 31 December 2020 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	40.6%	N/A
Five largest customers in aggregate	64.7%	N/A
The largest supplier	N/A	8.4%
Five largest suppliers in aggregate	N/A	26.4%

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

DIRECTORS

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

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
 Ms. Cheung Choi Ngor (*Vice Chairman and Co-Chief Executive Officer*)
 Mr. Richard Howard Gorges (*Vice Chairman*)
 Mr. Ng Yuk Yeung Paul (*Executive Vice Chairman and Co-Chief Executive Officer*)

Non-executive Directors

Ms. Ng Yuk Mui Jessica
 Mr. Ng Yuk Fung Peter
 Mr. David Michael Norman
 Ms. Li Yuen Yu Alice

Independent Non-executive Directors

Mr. Chiu Sin Chun
 Mrs. Tse Wong Siu Yin Elizabeth
 Mr. Kam Yiu Shing Tony
 Mr. Yip Dicky Peter, J.P. (*retired on 16 June 2020*)
 Ms. Pong Scarlett Oi Lan, BBS, J.P. (*appointed on 15 September 2020*)

Directors' Report

In accordance with Article 99 of the Articles, Ms. Pong Scarlett Oi Lan, BBS, J.P., who was appointed as an Independent Non-executive Director on 15 September 2020, will retire from office at the forthcoming annual general meeting and, being eligible, offer herself for re-election at the forthcoming annual general meeting.

In accordance with Article 116 of the Articles, Mr. David Michael Norman, Ms. Li Yuen Yu Alice, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Kam Yiu Shing Tony will retire from office by retirement and rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Save as disclosed, all other remaining Directors continue in office.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual confirmation of independence from all Independent Non-executive Directors in accordance with Rule 3.13 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules"). The Board is of the view that all Independent Non-executive Directors are independent during their servicing period.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Directors' Biographical Details" on pages 16 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

The remuneration payable to Executive Directors are determined by the Remuneration and Nomination Committee with reference to the prevailing market practice, the Company's remuneration policy, the respective Directors' duties and responsibilities and their contributions to the Group. The Board considers and, where it thinks fit, approves the remuneration of the Non-executive Directors as recommended by the Remuneration and Nomination Committee based on the abovementioned factors. No Director shall be involved in the decision of his own remuneration.

Details of the remuneration of the Directors for the year ended 31 December 2020 are set out in note 8 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, 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 corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in ordinary shares of the Company

Name of Director(s)	Number of ordinary shares held				Approximate percentage of shareholding to total issued ordinary shares (Note 2)
	Personal interests (Note 1)	Family interests	Corporate interests	Total number of shares held	
Mr. Ng Hung Sang ("Mr. Ng")	651,899,514	613,214,065 (Note 3)	6,828,729,326 (Note 4)	8,093,842,905	61.22%
Ms. Cheung Choi Ngor ("Ms. Cheung")	51,000,000	–	–	51,000,000	0.39%
Mr. Ng Yuk Yeung Paul ("Mr. Paul Ng")	171,989,238	–	–	171,989,238	1.30%
Ms. Ng Yuk Mui Jessica ("Ms. Jessica Ng")	170,700,000	–	–	170,700,000	1.29%
Mr. Ng Yuk Fung Peter	653,428,810	–	–	653,428,810	4.94%

Directors' Report

Long positions in ordinary shares of associated corporation

Name	Name of associated corporation	Number of ordinary shares held by controlled corporation	Approximate percentage of shareholding to total issued ordinary shares
Mr. Ng	Prime Prospects Limited ("Prime Prospects")(Note 5)	30	30%

Notes:

1. The shares are registered under the names of the directors who are the beneficial shareholders.
2. These percentages are calculated on the basis of 13,221,302,172 ordinary shares in issue as at 31 December 2020.
3. The spouse of Mr. Ng is the beneficial shareholder.
4. The 6,828,729,326 shares of the Company held by Mr. Ng through controlled corporations included 2,124,792,202 shares held by Fung Shing Group Limited ("Fung Shing"), 2,020,984,246 shares held by Parkfield Holdings Limited ("Parkfield"), 89,410,210 shares held by Ronastar Investments Limited ("Ronastar"), 1,075,765,537 shares held by Earntrade Investments Limited ("Earntrade"), 1,273,122,098 shares held by Bannock Investment Limited ("Bannock"), 212,405,565 shares held by Crystal Hub Limited ("Crystal Hub") and 32,249,468 shares held by Green Orient Investments Limited ("Green Orient"). Fung Shing, Parkfield and Ronastar all are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges ("Mr. Gorges") and 20% by Ms. Cheung. Crystal Hub is a direct wholly-owned subsidiary of South China Assets Holdings Limited ("SCAH"), which, in turn, is 64.92% beneficially owned by Mr. Ng. Green Orient is an indirect wholly-owned subsidiary of the Company. As such, Mr. Ng was deemed to have interest in the said 212,405,565 shares held by Crystal Hub, 32,249,468 shares held by Green Orient and 2,348,887,635 shares held by Bannock and Earntrade.
5. Prime Prospects is a 70% owned subsidiary of the Company.

Apart from the foregoing, none of the Directors and chief executives of the Company or any of their spouses or children under eighteen years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code, at 31 December 2020.

SHARE OPTION SCHEME

The Company adopted a share option scheme in June 2012 (“2012 Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants, who contribute to the success of the Group’s operations, and retaining such participants for their continuing support to the Group. The share options granted under the above scheme are unlisted. Further details of the 2012 Share Option Scheme are disclosed in note 33 to the financial statements.

No share option has been granted under the 2012 Share Option Scheme during the year ended 31 December 2020. During the year ended 31 December 2020, 2,000,000 share options have lapsed due to the resignation of certain employees. The movements in the number of share options under the 2012 Share Option Scheme during the year ended 31 December 2020 are as follows:

Name or category of participant	Number of share options			Date of grant of share options (DD/MM/YYYY) (Note 1)	Exercise period of share options (DD/MM/YYYY)	Number of ordinary shares issuable upon the exercise of share options	Exercise price per share HK\$ (Note 2)
	Outstanding as at 1 January 2020	Lapsed during the year	Outstanding as at 31 December 2020				
Employees							
In aggregate	5,500,000	(666,666)	4,833,334	10/07/2015	10/07/2016–09/07/2025	12,280,532	0.51
	5,500,000	(666,667)	4,833,333	10/07/2015	10/07/2017–09/07/2025	12,280,533	0.51
	5,500,000	(666,667)	4,833,333	10/07/2015	10/07/2018–09/07/2025	12,280,535	0.51
Total	16,500,000	(2,000,000)	14,500,000			36,841,600	

Notes:

- (1) All share options granted are subject to a vesting period and exercisable in the following manner:

From the date of grant of share options	Exercisable percentage
Within 12 months	Nil
13th month–24th month	not more than 33 ¹ / ₃ %
25th month–36th month	not more than 66 ² / ₃ %
37th month–120th month	100%

- (2) The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alternation in the capital structure of the Company.

Directors' Report

EMPLOYEES' SHARE AWARD SCHEME

On 18 March 2011, the Company adopted the employees' share award scheme (the "Share Award Scheme") whereby the Company may grant share awards to selected employees in recognition of their contributions to the Group and as an incentive to retain them to support the operations and ongoing development of the Group and attract suitable personnel for the Group's further development. Pursuant to the terms and conditions of the Share Award Scheme, the Company shall settle a sum up to and not exceeding HK\$60 million for the purchase of shares in the Company and/or SCAH from the market. Such shares shall form part of the capital of the trust set up for the Share Award Scheme. The Board may, from time to time, select employees for participation in the Share Award Scheme and cause to be paid an amount to the trustee from the Company's resources for the purpose of purchase of shares as referred to in the above. Details of the Share Award Scheme are set out in note 32(c) to the financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or the chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for any equity or debt securities of the Company or any other body corporate nor had exercised any such right.

RETIREMENT SCHEMES

The Group operates a defined benefit occupational retirement scheme and a mandatory provident fund scheme. The employees employed by the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. Particulars of these retirement schemes are set out in note 2.4(z)(i) to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Details of the transactions during the year between the Group and connected persons (as defined in the Listing Rules) in which a Director has beneficial interest are set out in the section headed "Continuing Connected Transactions" of this annual report and related party transactions as disclosed in note 39 to the financial statements.

Save as disclosed above, no transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or any connected entity thereof had a material interest, whether directly or indirectly, subsisted at the end or at any time during the year.

MANAGEMENT CONTRACT

The Company did not enter into any contract by which a person undertakes the management and administration of the whole or any substantial part of the business of the Company and there was no such contract subsisted at any time during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, the interests and short positions of every person, other than a Director or Chief Executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Name	Number of ordinary shares held			Total number of ordinary shares held	Approximate percentage of shareholding to total issued ordinary shares (Note 1)
	Beneficial interests	Family interests	Corporate interests		
Eartrade	1,075,765,537	–	1,273,122,098 (Note 2)	2,348,887,635	17.77%
Bannock	1,273,122,098 (Note 2)	–	–	1,273,122,098	9.63%
Fung Shing	2,124,792,202	–	–	2,124,792,202	16.07%
Parkfield	2,020,984,246	–	–	2,020,984,246	15.29%
Ms. Ng Lai King Pamela ("Ms. Ng")	613,214,065	7,480,628,840 (Note 3)	–	8,093,842,905	61.22%

Notes:

- These percentages are calculated on the basis of 13,221,302,172 ordinary shares in issue as at 31 December 2020.
- Bannock is a wholly-owned subsidiary of Eartrade. 2,348,887,635 shares of the Company held by Eartrade included 1,273,122,098 shares held by Bannock directly.
- Ms. Ng, who held 613,214,065 shares of the Company directly, is the spouse of Mr. Ng, the Chairman and an Executive Director. By virtue of the SFO, Ms. Ng was deemed to be interested in 651,899,514 shares and 6,828,729,326 shares held by Mr. Ng directly and indirectly through controlled corporations, respectively, as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above.

Apart from the foregoing, as at 31 December 2020, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Company and SCAH, a company listed on GEM of the Stock Exchange, have certain common directors. The principal activities of SCAH include property investment and development which is one of the principal activities of the Group.

Mr. Ng, Ms. Cheung and Mr. Gorges, all being Executive Directors, are also the executive directors of SCAH.

Mr. Paul Ng is an Executive Director and a non-executive director of SCAH.

Ms. Jessica Ng is a Non-executive Director and an executive director of SCAH.

Ms. Pong Scarlett Oi Lan, BBS, J.P. is an Independent Non-executive Director and an independent non-executive director of SCAH.

Mr. Ng is also the chairman of the board and controlling shareholder of SCAH. Mr. Gorges and Ms. Cheung are the directors and substantial shareholders of a controlled corporation of Mr. Ng which holds 10.29% direct interest in SCAH and 9.74% indirect interest in SCAH through its direct wholly-owned subsidiary. Mr. Ng together with his associates aggregately hold 64.92% interest in SCAH.

The Group mainly focuses on medium to large scale property investment and development projects while SCAH seeks to undertake property projects management services which are expanded scope of property development in a small to medium size and diversify into the financial services businesses.

The abovementioned common directors declare their interests in competing business and abstain from voting in transactions in which the Company and SCAH compete or are likely to compete with each other and, therefore, do not control the Board as far as a transaction in relation to competing business is concerned. As such, the Board is independent from the board of SCAH, which consists of eight members to the best of the knowledge of the Directors and the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of SCAH. Given the difference in business focus as referred to in the preceding paragraph, the competition between the businesses of the Company and SCAH is considered to be relatively remote.

INDEMNITY OF DIRECTORS

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings in which judgment is given in his favour, or in which he is acquitted. The Company has taken out directors' and officers' liability insurance to protect the Directors against potential costs and liabilities arising from the claims brought against them, if any.

SUFFICIENCY OF PUBLIC FLOAT

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

CONTINUING CONNECTED TRANSACTIONS

The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which the relevant announcements, if required under Chapter 14A of the Listing Rules, had been made by the Company.

- (1) On 29 March 2019, a tenancy agreement was entered into by First City Limited, an indirect wholly-owned subsidiary of the Company, as the landlord with Hong Kong Four Seas Tours Limited, a company indirectly wholly-owned by Mr. Ng, as the tenant for the premises at 1st Floor, On Lok Yuen Building, Nos.25, 27 and 27A Des Voeux Road Central, Hong Kong was renewed at a monthly rental of HK\$139,728.00 (exclusive of management fee, government rates and utility charges) for two years from 1 April 2019 to 31 March 2021. Details of the above transaction were disclosed in the announcement of the Company dated 29 March 2019.
- (2) On 29 March 2019, a tenancy agreement was entered into by Glorious Dragon Investments Limited, an indirect wholly-owned subsidiary of the Company, as the landlord with Four Seas Tours Limited, a company indirectly non-wholly owned by Mr. Ng, as the tenant for the premises at 2nd Floor, On Lok Yuen Building, Nos.25, 27 and 27A Des Voeux Road Central, Hong Kong was renewed at a monthly rental of HK\$136,320.00 (exclusive of management fee, government rates and utility charges) for two years from 1 April 2019 to 31 March 2021. Details of the above transaction were disclosed in the announcement of the Company dated 29 March 2019.
- (3) On 3 December 2019, a tenancy agreement was entered into by Copthorne Holdings Corp. (“Copthorne”), an indirect wholly-owned subsidiary of the Company, as the landlord with South China Media Management Limited (“SCM Management”), a company indirectly wholly-owned by Mr. Ng, as the tenant for the premises at Units A and B, 3rd Floor, Wah Shing Centre, No.5 Fung Yip Street, Chai Wan, Hong Kong at a monthly rental HK\$96,811.20 (exclusive of management fee, government rates and utility charges) for three years from 1 January 2020 to 31 December 2022. On 8 December 2020, Copthorne and SCM Management entered into a surrender agreement, pursuant to which both parties agreed on the early termination of the tenancy agreement dated 3 December 2019 and surrender of the relevant premises with effect from 24 December 2020. Details of the above transactions were disclosed in the announcements of the Company dated 3 December 2019 and 8 December 2020 respectively.

Directors' Report

- (4) On 6 October 2020, an engagement agreement was entered into between 天津南華譽基房地產開發有限公司 (Tianjin South China Yuji Real Estate Development Limited)* (“Tianjin Yuji”), an indirect wholly-owned subsidiary of the Company and 滄州南華房地產開發有限公司 (Cangzhou South China Real Estate Development Limited)* (“Cangzhou Real Estate”), an indirect wholly-owned subsidiary of SCAH in respect of the engagement of Cangzhou Real Estate to provide comprehensive management services (including but not limited to design and planning) of a property development project located in Sicundian town (泗村店鎮) of Wuqing district (武清區) in Tianjin, the PRC, having an area of approximately 58,000 sq.m. for residential development, which is close to Beijing, the PRC on behalf of Tianjin Yuji for a term of twenty-four (24) months. Details of the above transaction were disclosed in the joint announcement of the Company dated 6 October 2020.
- (5) On 31 December 2020, (i) an engagement agreement (the “Engagement Agreement”) was entered into between 南京電機有限公司 (Nanjing Electrical Limited*) (“Nanjing Electrical”), an indirect wholly-owned subsidiary of the Company and Cangzhou Real Estate in respect of the engagement of Cangzhou Real Estate to provide pre-development management services for a property development project located in 雨花西路262號 (262 Rain Flower West Road*) in Nanjing, the PRC, having an area of approximately 9,499.2 sq.m. for commercial, offices and residential development (“the Project”) on behalf of Nanjing Electrical for a total fee of RMB12 million (equivalent to approximately HK\$14.12 million) for a term of twelve (12) months from the date of the Engagement Agreement, i.e. the date on which all conditions precedent set out in the Engagement Agreement are fulfilled (or such other longer period to be mutually agreed between Nanjing Electrical and Cangzhou Real Estate, but the term shall not be more than eighteen (18) months in total); and (ii) an engagement agreement was entered into between Nanjing Electrical and Cangzhou Real Estate, in respect of the engagement of Cangzhou Real Estate to provide project development management services (including but not limited to design, planning and construction) for the Project on behalf of Nanjing Electrical for a total fee of RMB50.4 million (equivalent to approximately HK\$59.29 million) for a fixed term of thirty-six (36) months from the date of obtaining the land certificate. Details of the above transactions were disclosed in the joint announcement of the Company dated 31 December 2020.

* Denotes English translation of a Chinese name and is provided for identification purpose only.

As at 31 December 2020, Mr. Ng, the Chairman, Executive Director and controlling shareholder of the Company, through interests in controlled corporations owned approximately 61.22% and 64.92% in the Company and SCAH respectively.

One of the principal activities of the Group is engaged in property investment and development and the above rental agreements and engagement agreements provided the Group with stable income.

The above continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and

- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

The Company's auditors was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditors has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

Certain related party transactions set out in note 39 to the financial statements constitute connected transactions or continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied with.

CORPORATE GOVERNANCE

The corporate governance principles and practices are set out in the Corporate Governance Report on pages 34 to 51 of this annual report.

AUDITOR

The financial statements have been audited by KPMG, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ng Hung Sang
Chairman

Hong Kong, 23 March 2021

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize accountability and transparency to the Shareholders. Periodic review will be made to the corporate governance practices to comply with the regulatory requirements.

CORPORATE GOVERNANCE CODE

The Company had complied with all the applicable code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the year ended 31 December 2020 except that Ms. Ng Yuk Mui Jessica, Mr. Ng Yuk Fung Peter, Ms. Li Yuen Yu Alice, three of the Non-executive Directors and Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony, two of the Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 16 June 2020, which deviated from the code provisions A.6.7 and E.1.2 of the CG Code as they had other important business engagements.

SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the directors’ securities transactions. In addition, the Board has established similar guidelines for relevant employees who are likely to possess inside information in relation to the Group or its securities.

Specific enquiries have been made of all Directors who confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31 December 2020.

CORPORATE GOVERNANCE FUNCTIONS

The Board delegated the responsibilities of the corporate governance functions to the audit committee of the Company (the “Audit Committee”) for compliance with the requirements of the CG Code. Under the terms of reference of the Audit Committee, it is responsible for carrying out at least the following:

- (a) to develop and review the Company’s policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management;
- (c) to review and monitor the Company’s policies and practices in compliance with legal and regulatory requirements;

- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and the Directors; and
- (e) to review the Company's compliance with the CG Code and disclose in this Corporate Governance Report.

During the year ended 31 December 2020 and up to the date of this annual report, the Audit Committee has reviewed and performed the aforesaid corporate governance functions.

BOARD OF DIRECTORS

The Board is responsible for the overall leadership and control of the Group, and is collectively responsible for promoting the Group's success by directing and supervising its affairs. In addition, the Board should take decisions objectively in the best interests of the Group. Day-to-day management of the business of the Group including implementation of strategies has been delegated to the executive committee of the Company (the "Executive Committee") which comprises all Executive Directors. The Executive Committee reports its work and business decisions to the Board periodically. In addition to the Executive Committee, the Audit Committee and the remuneration and nomination committee of the Company (the "Remuneration and Nomination Committee") have been established with their respective specific written terms of reference.

The chairman of the Board (the "Chairman") has encouraged all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the Group. The Chairman has also encouraged Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that the Board decisions fairly reflect the Board's consensus.

Directors have given sufficient time and attention to the Group's affairs for the year ended 31 December 2020.

The Company has arranged appropriate directors' and officers' liability insurance cover in respect of legal action against the Directors.

During the year under review, the Board was provided with (i) sufficient explanation and information to enable it to make an informed assessment of financial and other information put before it for approval, and (ii) monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail.

Corporate Governance Report

BOARD COMPOSITION

The composition of the Board during the year ended 31 December 2020 and up to the date of this annual report is as follows:

Executive Directors

Mr. Ng Hung Sang (*Chairman*)

Ms. Cheung Choi Ngor (*Vice Chairman and Co-Chief Executive Officer*)

Mr. Richard Howard Gorges (*Vice Chairman*)

Mr. Ng Yuk Yeung Paul (*Executive Vice Chairman and Co-Chief Executive Officer*)

Non-executive Directors

Ms. Ng Yuk Mui Jessica

Mr. Ng Yuk Fung Peter

Mr. David Michael Norman

Ms. Li Yuen Yu Alice

Independent Non-executive Directors

Mr. Chiu Sin Chun

Mrs. Tse Wong Siu Yin Elizabeth

Mr. Kam Yiu Shing Tony

Mr. Yip Dicky Peter, J.P. (*Note 1*)

Ms. Pong Scarlett Oi Lan, BBS, J.P. (*Note 2*)

Notes:

1. Mr. Yip Dicky Peter, J.P. retired as an Independent Non-executive Director with effect from 16 June 2020.
2. Ms. Pong Scarlett Oi Lan, BBS, J.P. has been appointed as an Independent Non-executive Director with effect from 15 September 2020.

The biographical details of the Directors, and the relevant relationships amongst them, if any, are set out in the section headed “Directors’ Biographical Details” on pages 16 to 19 in this annual report. The Company has maintained on the websites of the Stock Exchange (www.hkexnews.com.hk) and the Company (www.scholding.com) an updated list of Directors identifying their roles and functions and whether they are independent non-executive directors. Independent non-executive directors are also identified as such in all corporate communications that disclose the names of directors of the Company.

The Board composition is reviewed regularly to ensure that it has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the businesses of the Group. A balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors) is maintained to enable the Board to exercise independent judgement effectively.

Chairman and Chief Executive

Mr. Ng served as the Chairman and is responsible for providing leadership and management of the Board. Ms. Cheung Choi Ngor (“Ms. Cheung”), the Vice Chairman and Co-Chief Executive Officer, and Mr. Ng Yuk Yeung Paul (“Mr. Paul Ng”), the Executive Vice Chairman and Co-Chief Executive Officer, both have taken up the role of chief executive officer, who are responsible for the day-to-day management of the business of the Group.

The roles of chairman and chief executive are separate and are clearly defined. Such roles are performed by different individuals with a view to reinforcing independence and accountability. Key and important decisions are fully discussed at the board meetings.

The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, clear, complete and reliable information in a timely manner.

Board Diversity Policy

The Company is committed to equality of opportunity and does not discriminate on the grounds of race, gender, age, disability, nationality or any other factors. It also recognizes and embraces the benefits of diversity in Board members. The Board has approved and adopted a board diversity policy (the “Board Diversity Policy”) in August 2013. Under the Board Diversity Policy, a range of diverse perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service are taken into account when considering the nomination of candidates for directorship, and all Board appointments are based on meritocracy.

Candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board and the ultimate decision is based on merit and contribution that the selected candidates will bring to the Board. The Remuneration and Nomination Committee monitors the implementation of the Board Diversity Policy and review the same as appropriate. The Remuneration and Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The appointment of Directors is recommended by the Remuneration and Nomination Committee and approved by the Board based on the formal written procedures and policy for the appointment of new directors. When selecting potential candidates for directorship, their skills, experience, expertise, devotion of time and conflicts of interests are the key factors to consider.

Corporate Governance Report

Board and Board Committee Meetings

The Board meets at least four (4) times a year. At least fourteen (14) days' notice is given to all Directors for each regular Board meeting. All Directors are given the opportunity to include matters for discussion in the agenda. Agenda accompanying board papers are sent to all Directors at least three (3) days before each regular Board meeting. Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles of Association of the Company (the "Articles").

The Company Secretary ensures that the procedures and all applicable rules and regulations are complied with. Minutes of Board meetings and meetings of Board committees have recorded in sufficient detail the matters considered and decisions reached, including any concerns raised or dissenting views expressed by the Directors. The draft minutes of Board meetings are circulated to all Directors for comments within a reasonable time after each Board meeting is held.

Minutes of each Board meeting and meeting of Board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Director.

If a matter to be considered by the Board involves conflict of interests of any substantial or controlling shareholder of the Company or a Director and if the Board considers that the matter is material, it would be dealt with by a physical meeting rather than a written resolution of the Directors.

The Board ensures that there are sufficient Independent Non-executive Directors (who, and whose close associates, have no material interests in the transaction) participating in discussing and voting on the resolution for the transaction at the Board meeting.

Attendance Records

Four (4) Board meetings, three (3) Audit Committee meetings, two (2) Remuneration and Nomination Committee meetings and one (1) annual general meeting (“AGM”) were held during the year ended 31 December 2020. The attendance records of all Directors for these meetings are set out below:

Name of Directors	Number of Meetings attended/Eligible to attend			
	Board Meeting	Audit Committee Meeting	Remuneration and Nomination Committee Meeting	Annual General Meeting
Executive Directors				
Mr. Ng Hung Sang	1/4	N/A	N/A	1/1
Ms. Cheung Choi Ngor	4/4	N/A	N/A	1/1
Mr. Richard Howard Gorges	4/4	N/A	N/A	1/1
Mr. Ng Yuk Yeung Paul	3/4	N/A	N/A	1/1
Non-executive Directors				
Ms. Ng Yuk Mui Jessica	4/4	N/A	N/A	0/1
Mr. Ng Yuk Fung Peter	0/4	N/A	N/A	0/1
Mr. David Michael Norman	4/4	3/3	2/2	1/1
Ms. Li Yuen Yu Alice	4/4	N/A	2/2	0/1
Independent Non-executive Directors				
Mr. Chiu Sin Chun	4/4	3/3	2/2	0/1
Mrs. Tse Wong Siu Yin Elizabeth	4/4	3/3	2/2	1/1
Mr. Kam Yiu Shing Tony	4/4	3/3	2/2	0/1
Mr. Yip Dicky Peter, J.P. (Note 1)	1/1	1/1	1/1	1/1
Ms. Pong Scarlett Oi Lan, BBS, J.P. (Note 2)	1/1	N/A	N/A	N/A

Notes:

1. Mr. Yip Dicky Peter, J.P. retired as an Independent Non-executive Director with effect from 16 June 2020.
2. Ms. Pong Scarlett Oi Lan, BBS, J.P. was appointed as an Independent Non-executive Director with effect from 15 September 2020.

Corporate Governance Report

Access to Information

The Directors may seek independent professional advice in appropriate circumstance, at the Company's expense, while performing their responsibilities. The Company will, upon request, provide separate independent professional advice to Directors to assist them to discharge their duties to the Company.

The Board or Board committee is supplied with relevant information by the Company's senior management pertaining to matters to be brought before the Board or Board committee for the decision as well as reports relating to the operational and financial performance of the Group before the Board or Board committee meeting. All such information supplied is complete and reliable. In the event that a Director does not rely purely on the information provided voluntarily by the Company's senior management, such Director has the right to access to the Company's senior management separately and independently to make further enquiries where necessary.

Directors are entitled to have access to Board papers and related materials in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. A prompt and full response to a Director's enquiries is given if possible.

Appointment and re-election of Directors

All Directors (including Non-executive Directors) are subject to retirement by rotation once every three (3) years in accordance with the Articles.

Pursuant to the Articles, all newly appointed Directors (including Non-executive Directors) shall hold office only until the next following AGM after his appointment (in the case of filling a casual vacancy) or until the next following AGM (in the case of an addition to the Board), and shall be eligible for re-election at that meeting.

Independent Non-executive Directors

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed at least three (3) Independent Non-executive Directors, who represent at least one-third of the Board, with at least one (1) of them possessing appropriate professional qualifications or related financial management expertise. The views of the Independent Non-executive Directors carry weight in the Board's decisions, and their participation helps the Board exercise independent judgment, make decisions and act objectively in the interests of the Company and the Shareholders as a whole.

Following the retirement of Mr. Yip Dicky Peter, J.P. as an Independent Non-executive Director and his ceasing to be a member of each of the Audit Committee and Remuneration and Nomination Committee on 16 June 2020, the number of Independent Non-executive Directors fell below one-third of the Board as required under Rule 3.10A of the Listing Rules. On 15 September 2020, the Board appointed Ms. Pong Scarlett Oi Lan, BBS, J.P. as an Independent Non-Executive Director. Following the appointment of Ms. Pong Scarlett Oi Lan, BBS, J.P., the Company has fully complied with the requirement under Rule 3.10A of the Listing Rules.

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

During the year under review, the Chairman met once with the Independent Non-executive Directors without the presence of other Directors.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for overseeing and maintaining a sound and effective risk management and internal control systems and reviewing the effectiveness of the same. The Board assesses the effectiveness of the risk management and internal control systems through the ongoing reviews performed by the Audit Committee, executive management and both internal and external auditors. Taking into account the views of the Audit Committee, the Internal Audit Department formulates an audit plan periodically and reports its findings and recommendations to the Audit Committee which, in turn, reports to the Board on the effectiveness of the risk management and internal control systems. The audit plan covers key financial, operational and compliance controls of the major business units on a rotational basis. The scope and time budgeted for an audit assignment normally depend on the assessed risk level. The Audit Committee meets with the internal auditor and external auditor at least twice a year. During the year under review, the Internal Audit Department reviewed the credit management process of the toy manufacturing business, leasing business in Hong Kong and the new leasing system for mainland China leasing activities. The results, including the assessment of the adequacy and effectiveness of controls, were addressed in the internal audit reports to the Audit Committee and the Board for their review and approval.

The risk management and internal control systems aim at safeguarding assets from inappropriate use, ensuring the maintenance of proper accounting records, compliance with the applicable rules and regulations and confinement of the risks to the Group's acceptable level. The management is primarily responsible for the design, implementation and maintenance of the risk management and internal control systems which are designed to provide reasonable but not absolute assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems.

The Internal Audit Department will also conduct ad hoc review in light of the concerns expressed by the management or the Audit Committee from time to time, if any.

With the support of the relevant business units, the Board identifies and assesses key existing or emerging risks to which the Group is facing, and formulates strategies and measures to mitigate the relevant risk exposures. A risk register is prepared to facilitate the management of key risks of the Group. For each key risk identified, the risk register records the risk exposure estimation, current risk mitigation measures and further management actions to be taken to better control of the risks. The Board has reviewed the Group's risk management and internal control systems for the year ended 31 December 2020. The review included considering the risk register and risk management and internal control evaluations conducted by the Audit Committee, the management and the internal and external auditors.

Corporate Governance Report

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the Listing Rules and the overriding principle that inside information should be announced as soon as reasonably practical when it is the subject of a decision. The procedures and internal controls for handling and dissemination of inside information are as follows:

1. The Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the “Guidelines on Disclosure of Inside Information” published by the Securities and Futures Commission of Hong Kong in June 2012 and the provisions set forth in the Policy on Disclosure of Inside Information of the Company.
2. The Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company’s website.
3. The Group has strictly prohibited the unauthorized use of confidential or inside information.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board should present a balanced, clear and understandable assessment in the annual and interim reports of the Company and other financial disclosures required under the Listing Rules, and report to regulators as well as information required to be disclosed pursuant to applicable statutory requirements.

The Board has acknowledged its responsibility for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2020. In preparing the financial statements for the year, the Company’s senior management provided sufficient explanation and information to the Board for making an informed assessment of financial and other information put before it for approval. In addition, the Board should prepare the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

The statement by the external auditor of the Company about its reporting responsibilities in the financial statements of the Group is set out in the Independent Auditor’s Report on pages 70 to 76 of this annual report.

AUDITOR’S REMUNERATION

The fees paid/payable to the external auditor of the Company for the year ended 31 December 2020 in respect of the audit and non-audit services provided to the Company and its subsidiaries amounted to approximately HK\$3,687,000 and HK\$1,107,000 respectively. Such non-audit services were rendered to the Group for tax consultancy services and to review and report on the continuing connected transactions.

AUDIT COMMITTEE

The Board has established an Audit Committee with written terms of reference that complies with the CG Code, which has been published on the respective websites of the Stock Exchange and the Company. The Audit Committee currently has four members comprising three Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (Chairman of the Audit Committee), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin Elizabeth and one Non-executive Director, namely Mr. David Michael Norman. Mr. Yip Dicky Peter, J.P. ceased to be a member of the Audit Committee on 16 June 2020.

The principal roles and functions of the Audit Committee include but are not limited to the following:

1. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. to develop and implement policy on engaging an external auditor to supply non-audit services;
4. to monitor the integrity of the Company's financial statements and the annual report and accounts and half-year reports, and to review significant financial reporting judgments contained in them, and the members of the Audit Committee should liaise with the Board and the Company's senior management and the Audit Committee must meet with the Company's external auditor at least twice a year;
5. to review the Company's financial controls, and unless expressly addressed by the Board itself, to review the Company's risk management and internal control systems;
6. to discuss the risk management and internal control systems with the Company's senior management to ensure that the Company's senior management has performed its duty to have effective systems;
7. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the response of the Company's senior management to these findings;
8. to ensure co-ordination between the Internal Audit Department and the external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
9. to review the Group's financial and accounting policies and practices;
10. to review the external auditor's management letter, any material queries raised by the auditor to the Company about accounting records, financial accounts or control systems and the Company's response;

Corporate Governance Report

11. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; and
12. to review the Company's compliance with the CG Code and disclosures in the Corporate Governance Report.

During the year under review, the Audit Committee met twice with the Company's senior management and the external auditor, where relevant, to review the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, and performed the following major works:

1. Reviewed the whistleblowing policy and system for employees and parties dealing with the Company to raise complaints, in confidence, to the Audit Committee about improprieties or irregularities relating to the Company and/or the Directors, the Company's senior management, employees or advisers.
2. Reviewed the appointment and remuneration of KPMG, the external auditor of the Company and its non-audit services provided to the Group.
3. Reviewed the audit plans, scopes, methods and reporting formats proposed by KPMG.
4. Reviewed the internal and external audit reports, and the response of the Company's senior management to the reported findings.
5. Reviewed the interim and annual financial statements, reports, and results announcement of the Group for the year under review prior to publication.
6. Reviewed the internal audit reports on risk management and internal control system.
7. Reviewed the Company's policies and practices on corporate governance.
8. After due deliberation, recommended the appropriate outcomes of the above reviews for the Board's approval.

There were two (2) private sessions between the Audit Committee and the external auditor without the presence of management in the Audit Committee meetings held in 2020.

REMUNERATION AND NOMINATION COMMITTEE

The Board has established the Remuneration and Nomination Committee with written terms of reference that comply with the CG Code, which has been published on the respective websites of the Stock Exchange and the Company. The Remuneration and Nomination Committee currently has five members comprising three Independent Non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth (Chairman of the Remuneration and Nomination Committee), Mr. Chiu Sin Chun and Mr. Kam Yiu Shing Tony and two Non-executive Directors, namely Mr. David Michael Norman and Ms. Li Yuen Yu Alice. Mr. Yip Dicky Peter, J.P. ceased to be a member of the Remuneration and Nomination Committee on 16 June 2020.

The principal roles and functions of the Remuneration and Nomination Committee include but are not limited to the following:

Remuneration function

1. to make recommendations to the Board on the Company's policy and structure for all Directors' and the Company's senior management's (if any) remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. to review and approve the Company senior management's remuneration proposals with reference to the Board's corporate goals and objective;
3. to make recommendations to the Board on the remuneration packages of individual Executive Directors and the Company's senior management (if any). This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
4. to make recommendations to the Board on the remuneration of Non-executive Directors;
5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
6. to review and approve compensation payable to Executive Directors and senior management (if any) for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and otherwise fair and not excessive;
7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
8. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Nomination function

9. to review the structure, size and diversity of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
10. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
11. to assess the independence of the Independent Non-executive Directors;
12. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive; and

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13. to monitor the implementation of the Board Diversity Policy, review the Board Diversity Policy, as appropriate and make relevant recommendations to the Board for consideration and approval.

During the year under review, the Remuneration and Nomination Committee had performed the following major works:

1. Made recommendations to the Board on the remuneration packages of individual Executive Directors.
2. Reviewed the remuneration of Non-executive Directors (including Independent Non-executive Directors).
3. Reviewed the Group's remuneration policy.
4. Reviewed the structure, size and diversity of the Board.
5. Reviewed the confirmation of independence by the Independent Non-executive Directors.
6. Reviewed the re-election of the retiring Directors at the AGM held on 16 June 2020.
7. Recommendation to the Board on the appointment of the nominated Independent Non-executive Director.
8. After due deliberation, recommended the appropriate outcomes of the above reviews for the Board's approval.

The Remuneration and Nomination Committee reviews the remuneration package annually, taking into consideration of market practice, competitive market position and individual performance.

The Remuneration and Nomination Committee has adopted the model described in code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of Executive Directors and the Company's senior management.

The remuneration of each of the Non-executive Directors and Independent Non-executive Directors is determined by the Board under the recommendation of the Remuneration and Nomination Committee by reference to such Director's duties and responsibilities in the Group, time involvement and the prevailing market conditions.

NOMINATION POLICY

Objectives

The nomination policy (the “Nomination Policy”) aims to provide the key selection criteria and principles for the Remuneration and Nomination Committee to identify and evaluate a candidate for recommendation to the Board for selection and appointment of a director of the Company, whether as an additional director or for replacement or otherwise.

Selection Criteria

The Remuneration and Nomination Committee shall consider a number of the factors in assessing the suitability of a proposed candidate to the Board, including but not limited to the following:

- (a) reputation for integrity;
- (b) balance of skill, experience, expertise and personal qualities that will be the best complement of the relevant business sectors of the Company and the overall effectiveness of the Board;
- (c) capability to devote adequate time for participation in meetings of the Board and all committees as delegated by the Board and attention to the Company’s businesses, and commitment to the role;
- (d) diversity in all aspects, including but not limited to gender, age, cultural, educational and professional background, skills, knowledge and experience;
- (e) compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive director; and
- (f) any other relevant factors as may be determined by the Remuneration and Nomination Committee or the Board from time to time.

Nomination Procedures

1. If the Board determines that an additional or replacement director is required, the Board will notify the Remuneration and Nomination Committee the criteria and deploy various channels (including but not limited to referral from the current directors and shareholders) to source directorship candidates.
2. The Remuneration and Nomination Committee may propose to the Board a candidate recommended or offered for nomination by a shareholder of the Company for election to the Board and the appointment or re-appointment of Directors and succession plan for Directors are subject to the final approval of the Board.

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3. On making recommendation, the Remuneration and Nomination Committee may submit the candidate's personal profile and a proposal to the Board for consideration. The proposal must clearly indicate the nominating intention; and the candidate's consent to be nominated and biographical details that are required to be disclosed under the Listing Rules, including the information and/or confirmation required under Rule 13.51(2) of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time.
4. The Board shall observe its Board Diversity Policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, taking into account professional experience and qualifications, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board might consider relevant and applicable from time to time towards achieving diversity of the Board.
5. Any eligible shareholder of the Company who desires to nominate a person to stand for election as a Director at a general meeting must lodge a written nomination of the candidate together with such person's consent to be nominated and biographical details to the attention of the Board within the lodgment period as more particularly set out in the circular to the shareholders of the Company.
6. Where a retiring Director, being eligible, offers himself/herself for re-election, the Board shall consider and, if considered appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

Monitoring and Review and Amendment of the Nomination Policy

1. The Remuneration and Nomination Committee will from time to time review the Nomination Policy and monitor its implementation to ensure its effectiveness and compliance with regulatory requirements and good corporate governance practice.
2. The Nomination Policy has been approved by the Board. Any subsequent amendment of the Nomination Policy shall be reviewed by the Remuneration and Nomination Committee and approved by the Board.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director should receive a formal, comprehensive and tailored induction on appointment for ensuring that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a Director under applicable statute and common law, the Listing Rules, legal and other regulatory requirements as well as the Company's business and governance policies.

All Directors are provided with regular updates on the performance and financial position of the Group to enable the Board as a whole and each Director to discharge their duties. In addition, updates on the latest developments regarding the Listing Rules and other applicable regulatory requirements are provided to each Director to ensure compliance and enhance his awareness of good corporate governance practices.

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills for ensuring that their contribution to the Board remains informed and relevant. According to the training records maintained by the Company, the types of training received by the Directors during the year ended 31 December 2020 are summarized as follows:

	Types of training	
	Attending seminars/ E-training/ conferences and/ or similar events	Reading Materials and Updates
Executive Directors		
Mr. Ng Hung Sang	✓	✓
Ms. Cheung Choi Ngor	✓	✓
Mr. Richard Howard Gorges	✓	✓
Mr. Ng Yuk Yeung Paul	✓	✓
Non-executive Directors		
Ms. Ng Yuk Mui Jessica	✓	✓
Mr. Ng Yuk Fung Peter	✓	✓
Mr. David Michael Norman	✓	✓
Ms. Li Yuen Yu Alice	✓	✓
Independent Non-executive Directors		
Mr. Chiu Sin Chun	✓	✓
Mrs. Tse Wong Siu Yin Elizabeth	✓	✓
Mr. Kam Yiu Shing Tony	✓	✓
Mr. Yip Dicky Peter, J.P. (Note 1)	✓	✓
Ms. Pong Scarlett Oi Lan, BBS, J.P. (Note 2)	✓	✓

Notes:

1. Mr. Yip Dicky Peter, J.P. retired as an Independent Non-executive Director with effect from 16 June 2020.
2. Ms. Pong Scarlett Oi Lan, BBS, J.P. was appointed as an Independent Non-executive Director with effect from 15 September 2020.

COMPANY SECRETARY

Mr. Watt Ka Po James (“Mr. Watt”) has been appointed as the company secretary of the Company (the “Company Secretary”) pursuant to Rule 3.28 of the Listing Rules. Mr. Watt is an employee of the Company who has day-to-day knowledge of the Group’s affairs.

The Board has acknowledged that a company secretary plays a key role in advising the Company on corporate governance and other regulatory compliance matters. For discharging the aforesaid matters effectively and professionally, the Company Secretary must keep up-to-date with regulatory and legal developments relevant to the Company by means of continuous training and professional development. In addition, the Company Secretary has been regarded as a crucial conduit of communications between the Board and the senior management; the Company and the Shareholders; and the Company and the regulators.

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Mr. Watt has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training during the year under review.

COMMUNICATION WITH SHAREHOLDERS

The Company uses general meeting, annual report, interim report, announcement, circular and its website as communication tools to keep the Shareholders informed of the matters of significance and latest development of the Group.

Shareholders are provided with contact details of the Company to enable them to make enquiries with respect to the Company's affairs. Shareholders can also send their enquiries to the Company through these channels or contact Union Registrars Limited, the branch share registrar of the Company, in case of enquiries about shareholdings.

AGM is one of the channels on which the Directors meet with the Shareholders whose views can be addressed to the Board directly. At the AGM, separate resolution will be proposed by the chairman in respect of each substantially separate issue, and voting on each resolution will be conducted by poll. The chairman of the AGM ensures that an explanation is provided of the detailed procedures for conducting voting by poll and answers any questions from the Shareholders. The notice of AGM is distributed to the Shareholders at least twenty (20) clear business days prior to the AGM. The accompanying circular sets out the details of each proposed resolution and other relevant information as required under the Listing Rules. Voting results are posted on the websites of the Stock Exchange and the Company respectively on the day of the AGM.

Executive Directors, members of the Audit Committee and the Remuneration and Nomination Committee and the external auditor will be available to attend the AGM to answer questions from the Shareholders and to gain and develop a balanced understanding of the views of the Shareholders.

The Company has adopted a dividend policy, details of which are disclosed in the section headed "Dividend Policy" in the Directors' Report of this annual report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary General Meeting ("EGM") should be convened upon the requisition of any two or more the Shareholders holding, at the date of deposit of the requisition, an aggregate of not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. The EGM shall be held within three (3) months after the deposit of such requisition. If within twenty-one (21) days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them may convene such meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board should be reimbursed to the requisitionist(s) by the Company.

Procedures for Shareholders to send enquiries to the Board

The Shareholders may send their enquiries, in written form, to the Board by addressing them to the Company Secretary at the Company's principal place of business in Hong Kong at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

Procedures for putting forward proposals at a shareholders' meeting

There is no provision allowing the Shareholders to make proposals or move resolutions at the AGMs under the Articles or the laws of the Cayman Islands. The Shareholders who wish to make proposals or move a resolution may, however, convene an EGM in accordance with the section headed "Procedures for Shareholders to Convene an Extraordinary General Meeting" set out above.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, there was no significant change in the constitutional documents of the Company. The latest version of the Articles is available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

The Company keeps on promoting good investor relations and enhancing communication with the Shareholders and potential investors of the Company. The latest data and information of the Group are timely updated on the Company's website at www.scholding.com.

Environmental, Social and Governance Report

The Group hereby presents this environmental, social and governance (“ESG”) report for the year ended 31 December 2020 in accordance with the requirements set out in Appendix 27 (Environmental, Social and Governance Reporting Guide) of the Listing Rules.

During the year under review, the Group continued to focus on four key areas: (a) Environment; (b) Employment and Labour Practices; (c) Operation Practices; and (d) Community Investment, and to strive to balance the impacts of environmental protection and social responsibility in the Group’s strategic plans for the purpose of driving sustainable value for the Group’s stakeholders and the communities in which the operations of the Group are located. There were no significant changes in the Group’s businesses, operation locations, share capital structure and supply chain structure during the year under review.

The Board of Directors of the Company (the “Board”) takes ultimate responsibility for sustainable development at the Group. The Board is tasked with formulating policies and strategies and also ensuring ESG risks are integrated into the Group’s risk management mechanisms and long-term business plans. This ESG Report was approved by the Board on 23 March 2021.

According to the financial results of the Group during the financial year of 2020, revenue from trading and manufacturing business accounted for approximately 78.9% of the Group’s total revenue (2019: approximately 94.7%), in which revenue from toys manufacturing business (as an OEM) accounted for approximately 76.1% of the Group’s total revenue (2019: approximately 87.1%). As for the toys segment, Wahheng Toys (Shenzhen) Co., Ltd. (“Wahheng”), remaining as the centralized operation headquarters in the People’s Republic of China (“PRC”), focusing on customer relationship management, production planning, shipping, procurement, financial service and other management functions. Everwin Toys (Dongguan) Co., Ltd. (“Everwin”), the flagship factory which continuously ranked first in terms of number of employees, revenue and factory area among other toys factories of the Group in the PRC. Given the significant revenue contribution by both Wahheng and Everwin to the Group, the scope of this ESG Report mainly covers Wahheng, Everwin and the Group’s headquarters in Hong Kong. There is no significant change in the scope of this ESG Report from that of the 2019 ESG Report.

During the year under review, the Group’s philosophy of “Healthy Life, Safe Environment and Bright Future” remained unchanged and requiring each of its major subsidiaries, especially Wahheng and Everwin, to strictly comply with relevant national and local laws, regulations, rules and procedures concerning environmental protection, employment and labour practices and operation practices. In addition, both Wahheng and Everwin are the members of ICTI Ethical Toy Program (“IETP”) and have strictly adhered to the Code of Business Practices of IETP by committing to factory operations in a lawful, safe and healthful manner. Wahheng and Everwin uphold the following standards all the time to support the rights and the well-being of factory workers:

- Audit Process – transparent and auditors are allowed to conduct worker interviews without interference;
- Business Ethics – no improper influence to the process and outcome of audit;
- Discrimination – no discrimination in recruitment, workplace or dismissal;
- Disciplinary Practices – employees are treated with dignity and respect;

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- Employee Representation – the right of freedom of association and collective bargaining are recognized and respected;
- Employment Practices – compliance with applicable employment regulations;
- Environment and Chemical Safety – compliance with environmental regulations and provision of training for handling chemicals;
- Modern Day Slavery – no forced, involuntary or prison labour;
- Safety – workplace conditions are safe and protective tools are provided;
- Underage Labour – no child labour;
- Wages – legal, fair and accurate pay without delay; and
- Working Hours – not excessive, adequate rest and break are provided.

Wahheng and Everwin are continuously and proactively looking for and apply suitable advanced techniques in relevant stages of the production process. By introducing highly efficient equipment and simplifying operation procedures for the purpose of reduction of consumption in fuels, electricity and water such that resources could be used more effectively and in turn would be helpful for environmental protection.

The material aspects under the four key areas: 1. Environment; 2. Employment and Labour Practices; 3. Operation Practices; and 4. Community Investment are set out as follows:

1. ENVIRONMENT

1.1 Emission

Environmental protection plays a crucial role in a corporation's sustainability. It is the strategy of the Group to keep reducing the environmental impact from its operations, and to promote environmental protection within the Group, its marketplace and the communities in which the Group's operations are located. Notwithstanding toys manufacturing industry is considered as light industry which usually does not consume much energy and causes severe air and water pollution, the Group keeps minimizing the environmental impacts from its operations by the following means:

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(a) Control of emission of greenhouse gases (“GHG”)

For strict compliance with IETP’s Code of Business Practices and by reference to such relevant laws and regulations as 《中華人民共和國大氣污染防治法》 (Atmospheric Pollution Prevention and Control Law of the PRC*), 《廣東省地方標準大氣污染物排放限值》 (Emission Limits of Atmospheric Pollutants of Local Standard of Guangdong Province*) and 《工業企業廠界環境噪聲排放標準》 (Emission Standard of Environmental Noise for Industrial Enterprise and Factory Sectors*), the Group has formulated and implemented certain policies and controlling procedures such as 《環境保護控制程序》 (Environmental Protection Control Procedures*), 《健康安全環保政策》 (Health and Safety Environmental Protection Policy*), 《溫室氣體量化與報告程序》 (Greenhouse Gas Quantitative Reporting Procedures*) and 《溫室氣體管理文件與記錄管理程序》 (Greenhouse Gas Qualitative Management Procedures and Greenhouse Gas Documentation and Record Management Procedures*), for controlling the emission of GHG, noise, light intensity, workplace temperature, water consumption and etc., and all such policies and controlling procedures were in force during the year under review.

For compliance with the relevant laws and regulations, the Group has continuously engaged in an independent third party whose qualifications are accredited by the local authorities in the PRC, to conduct regular tests on air quality, industrial emission, generator emission, noise and illumination levels in the workplaces for the purpose of ensuring all such data have complied with the national and local standards.

The Group is proactively reducing its wastage. Employees are encouraged to (a) use environmental-friendly public transportation, e.g. MTR and trams for local travelling in Hong Kong, and use public transportation (especially underground rail) and car-pool for local travelling in the PRC; (b) use video/ audio conferences for business meetings to reduce the frequency of business travel by air so as to reduce direct and indirect emissions of GHG; and (c) use electronic messages, especially internal communications, for the purpose of reduction of paper consumption and which in turn will be helpful for reduction of indirect emission of GHG.

Paper consumption is another main source of indirect GHG emissions. The Group has implemented a number of internal administrative measures to reduce paper consumption, e.g. e-leave system (application and approval of leave), e-pay slip (salary payment notification), e-internal communications, e-reports, printing on duplex mode, paperless storage and regular waste paper collection for recycling, etc. In addition, the Group has encouraged customers and suppliers to communicate by electronic means. For giving greater efforts in reduction of GHG emissions, the Group has arranged an independent recycling paper collector to collect used papers from the offices of the headquarter in Hong Kong at regular intervals.

In 2020, the Company was certified as “Hong Kong Green Organization” by the Environmental Campaign Committee, the Environmental Protection Department for the second consecutive year.

Environmental, Social and Governance Report

Emission summary:

Indicators	2020 Tonnes	2019 Tonnes
Total GHG emissions ¹	16,733	21,051
Total GHG emissions per facility:		
– Wahheng	4,932	6,846
– Everwin	11,201	14,274
– Hong Kong Headquarters	300	536
– Reduced by used papers recycling	(34)	(71)
Direct emissions:		
– Company cars ²	280	313
– Diesel and liquefied petroleum gas ³	208	190
– Refrigerants	65	70
Indirect emissions:		
– Electricity	15,536	20,511
– Business travel ⁴	25	153
– Paper consumption	30	190

1 GHG mainly includes carbon dioxide

2 It is based on kilometers travelled and liters of gasoline and diesel consumed

3 It was consumed by water heaters and stoves

4 It is based on the International Civil Aviation Organization Carbon Emissions Calculator

(b) Control of production of hazardous and non-hazardous wastes

Both Wahheng and Everwin produce certain wastes. By reference to such relevant laws and regulations as 《中華人民共和國固體廢物污染環境防治法》 (Solid Waste Environmental Pollution Prevention and Control Law of the PRC*), 《廣東省固體廢物污染環境防治條例》 (Solid Waste Environmental Pollution Prevention and Control Regulation of Guangdong Province*) and 《三廢處理管理程序》 (Three Wastes Treatment Management Procedures*) has been implemented for regular identification, evaluation and proper treatment of the wastes. In addition, the Group has engaged an independent third party whose qualifications are accredited by the local authorities in the PRC, to collect those wastes in Wahheng and Everwin for the purpose of effective control of waste treatment and avoidance of environmental pollution by reckless disposal. In the Hong Kong headquarter, areas are designated for the disposal of electronic equipment and waste papers. Collections of scrapped electronic equipment and waste papers are usually taken place at a regular interval by independent third parties for ensuring proper treatment and recycling respectively.

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Waste summary:

Indicators	2020	2019
Total water discharged ¹ (m ³)	379,509	383,017
Hazardous wastes ² collected for treatment/recycling per facility:		
– Wahheng (kg)	18,360	14,546
– Everwin (kg)	20,200	17,200
Non-hazardous wastes ³ collected for treatment/recycling per facility:		
– Wahheng ⁴ (kg)	30,650	70,090
– Everwin (kg)	636,465	569,604
Electronic equipment (pieces)		
– Wahheng	40	252
– Everwin	42	132
– Hong Kong headquarters	113	82

- 1 It is based on the volume of water consumed as per the water bills for the facilities of Wahheng and Everwin. Water consumption in the Hong Kong headquarters was not taken into account as it did not involve high water consumption.
- 2 Includes waste oil, waste water, oil wiping towels, and empty barrels and cans for solvents.
- 3 Includes waste wooden pallets, waste plastic bags, waste papers, waste paper products and general office garbage. All non-hazardous wastes are directly handled by the property management of the buildings in which the offices of Hong Kong headquarters are situated so that no data in this aspect.
- 4 The reduction of the amount of non-hazardous wastes due to the adoption of tighter control on the production scrap rate.

1.2 Use of Resources

Fuel (unleaded petrol and diesel) consumption and electricity consumption are respectively the main source of direct and indirect energy consumption. Both fuel and electricity consumptions are the main sources of GHG emissions. Each of Wahheng and Everwin has its 節能減排小組 (Energy Conservation and Emission Reduction Team*) which is responsible for carrying out periodical analysis of the effectiveness of resources management and consumption level for identification of any deficiency and any practicable way of reduction of energy consumption and prevention of unnecessary energy wastage for the purpose of enhancement of environmental protection. Moreover, both Wahheng and Everwin continuously adhere to 《能源資源節約管理程序制度》 (Regulations for Energy Resources Conservation Management Procedures*) as well as to implement certain measures of energy conservation as recommended by an accredited third-party.

The e-notice of “Save Our World and Build our Green Office” – saving water, energy and paper at work has continuously been in force in Hong Kong headquarters. In addition, another e-notice of “Environmental Initiative and Cost Saving” have been addressed to all staff in Hong Kong headquarters to maintain the air-conditioned room temperature of the office at 25 degrees Celsius for saving energy. Moreover, employees are encouraged to turn off lighting and office equipment when leaving their workplaces, especially off-duty.

Energy consumption summary:

Indicators	2020	2019
Total energy consumption (KWh)	25,439,060	27,539,937
Total energy consumption per facility:		
– Wahheng	8,088,637	8,833,485
– Everwin	17,044,680	18,471,929
– Hong Kong headquarters	305,743	512,030
Direct energy consumption (KWh):	1,070,321	1,406,072
– Unleaded petrol:		
– Wahheng	382,006	585,582
– Everwin	119,030	141,820
– Hong Kong headquarters	61,559	66,788
– Diesel:		
– Wahheng	256,920	305,070
– Everwin	215,290	207,661
– Hong Kong headquarters	30,697	45,951
– Liquefied Petroleum gas/gas oil:		
– Wahheng	0	0
– Everwin	0	0
– Hong Kong headquarters	4,820	53,200

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Indicators	2020	2019
Indirect emissions (KWh):	24,555,346	26,040,256
– Electricity		
– Wahheng	7,449,711	7,937,633
– Everwin	16,710,360	17,447,800
– Hong Kong headquarters	395,275	654,823

The Group is committed to conserve clean water. Both Wahheng and Everwin are using water properly provided by the municipal government in the places where they are located. It is the Group's objective to control water pollution by proper waste water treatment. Waste water is mainly generated from machine cooling and cleaning in Wahheng and Everwin. The Hong Kong headquarters is operating in several leased office premises of which both water supply and discharge are controlled by the respective building management which does not provide any data in relation to volume of water consumed and discharged. The management fee of each of the leased premises paid to the respective building management includes fee for water supply and discharge. Energy Conservation and Emission Reduction Team in each of Wahheng and Everwin continuously implemented different measures to reduce water consumption, and the Group achieved reduction in total water consumption during the year under review as follows:

Water consumption summary:

Indicators	2020	2019
Total water consumption (m ³)	366,191	372,771
Total water consumption per facility (m ³):		
– Wahheng	120,669	108,442
– Everwin	244,940	264,151
Expenses on water consumption per facility (RMB):		
– Wahheng	598,518	537,872
– Everwin	1,214,902	1,310,189

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The Group aims at operating its toy manufacturing business with maximum resource efficiency by minimizing unnecessary waste of materials in the production process. Being a responsible OEM, the Group is committed to comply with all specifications of all products stipulated in all contracts signed with its customers, including the nature and quality of all materials for each of the designated products (including the packaging materials for such products). Given the role of OEM, the materials (including packaging materials) used for manufacturing toys are contractually specified by its renowned multinational customers from the USA, Canada and Australia.

1.3 Environmental and Natural Resources

Environmental protection is a continuous process, including management of energy and water consumption, and waste production. Apart from the aforesaid policies, guidelines, procedures, and engagement of an independent organization for carrying out an energy audit on an annual basis, the Group from time to time to promotes the awareness of “Energy Conservation, Start by Us” and “Energy Conservation Starting from Each Drop of Water and Each Unit of Electricity”. In addition, both Wahheng and Everwin have always observed the guidance of the facility’s temperature as per the guidance document under IETP’s Code of Business Practice. During the year under review, such environmental protection measures as using energy saving fluorescent tubes and LED light tubes in some applicable office areas were still in force and would be monitored and reviewed regularly pursuant to the environmental requirements. The Group continues to review and monitor its energy consumption performance, and identify energy saving measures to optimize energy use.

2. EMPLOYMENT AND LABOUR PRACTICES

2.1 Employment

“People Oriented” is the Group’s persistent notion. In conformity with the principle of harmonious sustainable development, the Group continuously invests its available resources in providing a supportive, comfortable and healthy workplace for employees, and in fostering a caring community in the working environment. The Group cares for all employees, which has been endorsed by its compliance with the standards of IETP by its production facilities as both Wahheng and Everwin have been certified by IETP CARE (Caring, Awareness, Responsible, Ethical) Process for its compliance since 2004.

The Group recognizes that attracting competent talents is important for its sustainable growth, so it is committed to provide a fair and competitive remuneration package in form of salary and fringe benefits, e.g. personal and life insurance, paid leave and education sponsorship, etc. apart from those mandatory employment-related benefits. It is the policy that the salary of employees working in the headquarters in Hong Kong will be reviewed on an annual basis in December, and the eligible employees will be subject to performance appraisal evaluation to be carried out by the respective department heads and then endorsed by such employees, and all such evaluations are subject to the final approval by the relevant executive director or to whom that the director delegates.

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The Group Human Resources Department will provide a guideline of the salary range of each category in light of the current market rate to each department head for reference to ensure that the salary range for each job category in the headquarters in Hong Kong remains competitive. And, each of Wahheng and Everwin's annual budget for various operating expenses has taken into account of the wages trend for the workers in Guangdong province of the PRC. In addition, the Group is committed to comply with the code provisions contained in the Corporate Governance Code set out in Appendix 14 of the Listing Rules, regarding of remuneration of directors and senior management.

In order to provide a framework and guidance for ensuring (a) fairness in recruitment; (b) maximization of the diversity of applicants; and (c) high caliber candidates are attracted and selected by taking into account of equal opportunities, anti-discrimination, non-harassment and prohibition of child and forced labour, such policies as "Recruitment Policy", "Equal Opportunities and Anti-Discrimination Policy" and "Code of Conduct" have been in force.

For (a) providing a basic understanding of the Group's background, organization structures and business objectives; (b) safeguarding the agreed employment terms and conditions, e.g. working hours, probation period, rest periods, termination of employment, other fringe benefits; and (c) adherence to the relevant policies, systems and procedures, etc., an orientation training will be provided for all newcomers by the Group Human Resources Department, and the Staff Handbook and the aforesaid policies are available in the Group's intranet folder (paperless for upholding the environmental protection) for reference at any time by the employees. As the members of IETP, Wahheng and Everwin are always in strict compliance with the relevant requirements as set out in IETP's Code of Business Practices. Furthermore, the PRC Staff Handbook for local Chinese employees of both Wahheng and Everwin is prepared in accordance with the relevant provisions in the Employment Contract Law of the PRC.

The Group explicitly opposes any discrimination on the grounds of age, gender, marital status, pregnancy, family status, race, nationality, religion and disability, and from time to time observes the provisions of such relevant laws as Employment Ordinance, Cap. 52, Employees' Compensation Ordinance, Cap. 282, Sex Discrimination Ordinance, Cap. 480, Disability Discrimination Ordinance, Cap. 487 and Race Discrimination Ordinance, Cap. 602 in Hong Kong, and of 《中華人民共和國勞動合同法》 (Employment Contract Law of the PRC*) and 《中華人民共和國勞動法》 (Labor Law of the PRC*) in the PRC.

The Group (covered Wahheng, Everwin and the Group's headquarters in Hong Kong) had 6,647 employees as at 31 December 2020 of which 2,809 male and 3,838 female. Indicators of employment type of each gender, employees' age group of each gender, geographical region of employment of each gender and employee turnover rate during the years of 2019 and 2020 are as follows:

Environmental, Social and Governance Report

(a) Employment type and gender

Number of employees	2020		2019	
	Male	Female	Male	Female
Management and Department Head	69	15	62	13
Managerial	93	33	160	46
Supervisory	186	100	186	101
General Staff	2,461	3,690	2,619	3,035

(b) Employees' age group and gender

Number of employees	2020		2019	
	Male	Female	Male	Female
18 ~ below 30	547	1,036	625	580
30 ~ below 50	1,765	1,759	2,069	2,494
50 and over	497	1,043	333	121

(c) Geographical region of employment and gender

Number of employees	2020		2019	
	Male	Female	Male	Female
Hong Kong	91	67	198	98
PRC	2,718	3,771	2,829	3,097

(d) Employee turnover rate¹

	2020	2019
Percentage of employees	44%	50%

¹ Due to the seasonality, demand for workers by Wahheng and Everwin varies substantially, therefore, turnover rate for workers in the PRC has not been taken into account.

2.2 Health and Safety

The Group is committed to provide employees a safety and healthy working environment by reference to such occupational safety and health publications issued by the Occupational Safety and Health Council as Office Lighting, Design of Office Station, Office Stretching Exercises, Work Stress, Work Postures, Correct Use of Display Screen Equipment and OSH Guides for Computer Workstation, which are applicable to the offices of the Hong Kong headquarter. In view of the Group's manufacturing facilities in the PRC, both 《環境健康安全程序》(Environmental Health and Safety Management Procedures*) and 《危害能源控制程序》(Hazardous Energy Control Procedures*) are continuously adhered, and the Environmental Health and Safety Team keeps functioning by means of on-site communications and regular meetings for managing the environmental health and safety projects, regular assessment of the effectiveness, practicality and comprehensiveness of environmental, health and safety procedures, and timely update of all such procedures for the purposes of avoidance of accidents and continuous improvement in environment, health and safety. In order to prevent, control and eliminate occupational hazards and to raise the employees' awareness of occupational safety, both 《職業健康管理制度》(Occupational Health Management System*) and 《職業病管理制度》(Occupational Disease Management System*) formulated in accordance with 《中華人民共和國職業病防治法》(Prevention and Treatment of Occupational Diseases Law of PRC*) and 《使用有毒物品場所勞動保護條例》(Labour Protection for Workplace Using Toxic Substance Regulation*) are continuously adhered by providing, among other things, such protective gears as safety helmets, safety shoes, ear plugs and gas masks to workers, and medical check-ups for staff who are having high exposure to occupational disease are provided at pre-employment, under-employment (on an annual basis) and post-employment stages. It is the policy that staff having occupational contraindication or suspected occupational disease would be transferred out from their original posts for diagnosis and treatments for protection of the health of workforce and production safety by reference to the advice from occupational safety and health authority.

The Group Human Resources Department oversees the occupational health and safety matters. All occupational health and safety-related accidents must be reported to the Group Human Resources Department as and when necessary. Staff has been notified that any potential or suspected occupational health and safety-related issues may be notified to the Group Human Resources Department by means of email to the designated email address. The Group Human Resources Department will carry out an investigation and remedial actions as and when necessary.

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During the year under review, the Group did not have any work-related fatalities. Number of reportable injuries, reportable occupational diseases and lost days due to work-related injury and occupational diseases are as follows:

Number of cases and lost days	2020	2019
Number of reportable injuries ¹	135	140
Number of reportable occupational diseases ²	1	3
Number of lost days due to reportable injuries	657	1,344
Number of lost days due to reportable occupational diseases	15	522

1 Any work-related injury resulting in incapacity, which is required to notify the Commissioner for Labour pursuant to the Employees' Compensation Ordinance in Hong Kong or to notify 社會保險行政部門 (social insurance administrative authorities*) pursuant to 工傷保險條例 (industrial injury insurance regulations*) in the PRC.

2 Any occupational disease resulting in incapacity, which is required to notify the Commissioner for Labour pursuant to the Employees' Compensation Ordinance in Hong Kong or to notify 社會保險行政部門 (social insurance administrative authorities*) pursuant to 工傷保險條例 (industrial injury insurance regulations*) in the PRC.

Due to the impact of the outbreak of novel coronavirus in Hong Kong, the Company launched a business continuity plan in early February 2020, under which about 50% of employees were arranged to work from home on alternate basis for the purpose of reducing the risk of infection amongst employees. For enhancing the sanitary of working environment for employees, the following measures are continuing in force until the coronavirus situation tapers off:

- (i) Public areas and common areas of the office are clean and disinfected in a frequent manner during office hours;
- (ii) Employees are required to have a 14-day quarantine period by working from home if any infection happens in the same building of their respective residence;
- (iii) Hand sanitizers are provided at the office entrances for all employees;
- (iv) Employees are required to have a quarantine period upon return to Hong Kong from overseas countries; and
- (v) Employees are all required to put on face masks in the office, and face masks will be provided upon request.

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In addition, for strengthening the health of thousands of labour in our production plants in Mainland China, it has comprehensive enhancement in sanitary measures in all plants, including the provision of face masks, hand sanitizers and disposable protective gloves, plant and dormitory areas are cleaned and disinfected in a frequent manner, each labour is required to keep a distance with each other during meal time for the avoidance of congestion and labours are strongly advised to stay away from congested areas during the holiday. Overseas clients have been advised to postpone their visits or routine plant inspection for minimizing the risk of infection. The Company is committed to treating its employees with care and ensuring a clean and hygienic working environment.

2.3 Development and Training

For sustainable development of the Group and its employees, the Employees Training and Development Policy continued playing a key role during the year under review. The Group has arranged in-house training courses, e.g. induction orientation and on-the-job training, and other training courses and seminars conducted by third party providers in light of the employees' job requirements and the business objectives of the Group.

Performance appraisal evaluation is an interactive exercise between an employee and his/her department head, which involves appraising an employee's past performance and identifying the employee's areas for improvement and enhancement for fulfilment of the agreed objectives. The Group encourages and supports employees to improve and enhance their knowledge and skills that are attributable to the achievement of the agreed objectives by granting study and examination leave.

Both Wahheng and Everwin have their respective 《員工培訓控制程序》 (Staff Training Control Procedures*) in accordance to their unique conditions and demands. The Human Resources Department will conduct a training survey in the fourth quarter of each financial year for planning the training programmes in the forthcoming year. It cover a wide range of topics, including pre-employment induction orientation, management, professional, technique, quality control and safety, which are provided by means of both internal and external sources for the purpose of enhancement of employees' professionalism and occupational skills.

Number of employees trained by employment type and gender during the years of 2020 and 2019 are as follows:

Number of employees	2020		2019	
	Male	Female	Male	Female
Management and Department Head	25	6	2	0
Managerial	67	19	220	109
Supervisory	158	71	267	346
General Staff	2,433	3,670	13,589	10,177

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Average training hours completed per employee by employment type and gender during the years of 2020 and 2019 are as follows:

Average training hours per employee (hours)	2020		2019	
	Male	Female	Male	Female
Management and Department Head	4	4	5	5
Managerial	5	5	5	5
Supervisory	4	5	5	5
General Staff	2	2	4	4

The Group's Wah Shing Academy had provided various training courses substantially during the year under review. In review of COVID-19 situation, the relevant programmes were taken online.

2.4 Labour Standards

The Group strictly complies with the Employment Ordinance and 《中華人民共和國勞動合同法》 (Employment Contract Law of the PRC*) in respect of employment in Hong Kong and the PRC respectively. As per the Recruitment Policy, employment of child and forced labour is strictly prohibited. In addition, all such illegal means as retention of identity cards or passports, intimidation, coercion and undue pressure are strictly prohibited. It is the policy that all employees in the Hong Kong headquarters are aged 18 or above. In the PRC, both Wahheng and Everwin have implemented their own 《限制童工入廠辦法》 (Minor Labour Hiring Control Practice*) which explicitly prohibits from hiring any labour aged under 16. It is a standard procedure in the screening stage being adopted in Hong Kong and the PRC that all interviewees are required to present their identity cards for inspection for ascertaining their identities, ages and validity of employment status. No employment offer will be made to any candidates whose ages are below 18 in Hong Kong and below 16 in the PRC. In the event that any irregularities in ages, identities and/or validities of employment status is subsequently found, employment with all such concerned candidates will be immediately terminated, and the Group will report such incident to the relevant authorities as soon as possible. In the case of any child labour is ascertained by Wahheng or Everwin, such labour will be repatriated to their homes after a medical check-up.

No child labour was hired or subsequently found in both 2020 and 2019.

3. OPERATION PRACTICES

3.1 Supply Chain Management

As the supply chain management is crucial to the Group's sustainable operations, the Group from time to time to manages the quality of its suppliers by means of its 《供應商管理控制程序》 (Supplier Management and Control Procedures*). Apart from the assessment of all potential suppliers and new suppliers designated by customers in form of capability of supply of materials, qualities of materials and prices of materials by the assessment team of the procurement department of each of Wahheng and Everwin for the purpose of achieving fair, open and just selection of new suppliers, the procurement department of each of Wahheng and Everwin is responsible for fostering all current key suppliers (a) to comply with all applicable laws and regulations in respect of their employment and operations, including occupational health and safety, environmental protection, and statutory maintenance of relevant records of documentation; (b) not to engage any corruption and take any undue advantage to obtain or retain business; (c) to protect intellectual property rights and safeguard customers' personal information; (d) not to engage any child and forced labour; and (e) not to discriminate age, gender, marital status, pregnancy, family status, race, nationality, religion and disability in employment, for the purpose of managing the supply chain in a socially and environmentally responsible manner. In the event of any violation of such business integrity as corruption or extortion, the Group will take all appropriate actions for safeguarding its interest, including immediate termination of the contract with the supplier in default.

Number of key suppliers by geographical regions during the years of 2020 and 2019 is as follows:

Number of key suppliers	2020	2019
Hong Kong	192	215
PRC	313	301
Others	27	2

3.2 Product Responsibility

The Group continues adhering to the principle of “Quality First, Customer Foremost” by closely monitoring its production processes and attending to the customers' needs. The Group is also committed to the quality of its products that meets both of the local and international standards by maintaining a quality management system in accordance with the standards of ISO9001 Quality Management Systems. In addition, the manufacturing facilities in the PRC have obtained certifications from the International Certification Network (IQNet), China Quality Certification Centre (CQC) and Hong Kong Quality Assurance Agency (HKQAA). For continuing reinforcement of product quality, the Group conducts an annual review of the provisions of 《質量手冊》 (Quality Handbook*) for compliance with the international standards of ISO9001, which in turn strengthens the Group's competitiveness in the international market.

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Wahheng has its physics testing laboratory which has been certified by its customers. Everwin has its physics and chemistry testing laboratories, both of them have been certified by the China National Accreditation Service for Conformity Assessment (CNAS). These laboratories can provide professional examinations and reports in respect of reliability and safety measures covering product mechanical, physical and chemical aspects, and certain electronic aspects, for ensuring fulfilment of both quality and safety standards at the stages of research and development (R&D) and production set out by the Group's customers. Strong and reliable quality assurance helps the Group to gain recognition and credibility from its customers, which in turn further reinforces the Group's position in the international business market.

The procedures of product recall and customer complaints are set out in 《產品召回程序》 (Product Recall Procedures*) and 《處理客戶投訴程序》 (Customer Complaints Handling Procedures*) respectively for providing efficient after-sale services which are useful in maintaining customer satisfaction and helpful for lowering down the costs and losses if the recalls or complaints are remedied shortly.

The Group has maintained a product acceptance rate at almost 100% during the year under review. No product recall due to safety or health reasons and no significant complaint in respect of defects during the year under review.

The Group from time to time observes the provisions of Copyright Ordinance, Cap. 528 of the Laws of Hong Kong, and respects intellectual property rights. As per the Information Technology Policy, employees are not allowed to install any unauthorized or unlicensed software into their working computers provided by the Group. Use of any materials which are in violation of the relevant law is strictly prohibited.

Both Wahheng and Everwin have implemented 《敏感產品保密控制程序》 (Classified Products Confidentiality Control Procedures*) which sets out stringent requirements in relation to responsible departments and personnel, execution of confidentiality agreement, classification and criteria of restricted areas, security management, information management, destruction of classified products, divulgence handling, record keeping, etc., for upholding confidentiality in each stage of R&D, processing, testing and delivery.

The Group respects the privacy rights of its stakeholders, and a privacy policy statement is published on its website (www.scholding.com). All personal data collected, processed, used, disclosed and retained are subject to the Personal Data Privacy Policy which is prepared by reference to Personal Data (Privacy) Ordinance, Cap. 486 of the Laws of Hong Kong. Personal Information Collection Statement (PICS) will be provided for all candidates pertaining to employment, which sets out the purposes of personal data collection, disclosure, retention and storage. In addition, the Group is obliged to safeguard the personal data of its stakeholders and to use such data for specific purposes, e.g. verifying identity and checking creditability for provision of goods and services.

Environmental, Social and Governance Report

3.3 Anti-corruption

The Group is committed to conduct its business activities legally and ethically. Code of Conduct stipulates no bribes, kickbacks or advantages solicited from or given to any person for any purposes, the way of handling gifts and other benefits valued at more than HK\$500, and no violation of any applicable laws and ethical standards. The Group Internal Audit Department is responsible for reviewing and auditing the business activities.

Both Wahheng and Everwin have their own 《員工行為準則政策與程序》 (Employee Code of Conduct Policies and Procedures*) by reference to the provisions of Code of Conduct, which places emphasis on compliance with the relevant laws, e.g. Prevention of Bribery Ordinance, Cap. 201 of the Laws of Hong Kong, integrity maintenance and prohibition from the involvement of any bribes, kickbacks, etc. During the year under review, there was no confirmed incident in relation to corruption, and no supplier's contract was terminated or renewed due to corruption.

In addition, the Group encourages its stakeholders to report its employees' misconduct by reference to its Whistleblowing Policy and Procedures which are set out on the corporate website (www.scholding.com). Any complainant may raise his/her complaints against inappropriate and unlawful behavior or malpractice of any Group's employees (including its contractors and consultants) on a confidential base, directly to the Head of Group Internal Audit, without the fear of incrimination. The Head of Group Internal Audit will review and evaluate the complaints, and then determine the mode of investigation. If the alleged misconduct, malpractice or irregularity is confirmed, a report prepared by the Head of Group Internal Audit will then be circulated to the relevant department head and the Group Human Resources Department for the purpose of consideration and determination of any remedial and disciplinary actions to be taken. A summary of complaints received, results of such complaints and the actions taken will be made available to the Board on a biannual basis.

4. COMMUNITY INVESTMENT

As a responsible corporate citizen, the Group uses its expertise and resources to support the communities in which it operates in such a manner as helping people in need, organizing charitable events and donating funds raised by such events to local charities etc.

The Company has been consecutively conferred an award of the "Caring Company" logo by The Hong Kong Council of Social Services for four (4) years, marking the recognition of the Group's continuous contribution to the Hong Kong community.

During the year under review, the Group (i) supported a number of charitable organizations including but not limited to Tung Wah Group of Hospitals; and (ii) "Food and Disinfectant Distribution" for providing food and disinfectant to the disadvantaged and underprivileged. In addition, the Group encourages staff to participate in organ donation organized by Department for Health.

Environmental, Social and Governance Report

To do our part in the worldwide fight against COVID-19, the Group donated medical supplies and monetary contributions to front line workers in Hong Kong, Liaoning and Hubei province.

In addition to the direct support of the charitable organizations, the Company encourages its employees together with their families to support charities, Mrs. Ng Cheng Nga Yu Emmi (the spouse of Mr. Ng Yuk Yeung Paul, an executive director of the Company) is a director of Tung Wah Group of Hospitals, which is heavily involved in many charitable services and fund raising activities.

The Group is also a keen supporter of youth development in Hong Kong. In 2020, the Group worked closely with many worthwhile organisations such as CDIA (Child Development Initiative Alliance). In 2020, the Company sponsored various scholarship programmes of prestigious educational institutions in the United Kingdom.

The Group is a supporter of developing a healthy and green community, so it will not only continuously dedicates its efforts to protect the environment by controlling emissions of GHG, consumption of energy and water and waste production etc. but also participates in different events to contribute positivity to the communities in which it operates. In 2020, the Group continued to participate in different environmental activities to spread the message of environmental friendly.

* For reference only (the official name is in Chinese)

Independent Auditor's Report



Independent auditor's report to the shareholders of South China Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of South China Holdings Company Limited (“the Company”) and its subsidiaries (“the Group”) set out on pages 77 to 194, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 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 (“HKSA”) 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 are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (“the Code”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

KEY AUDIT MATTERS (Continued)

Valuation of investment properties	
Refer to note 13 to the consolidated financial statements and the accounting policies note 2.4(h).	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Group holds a portfolio of investment properties located in Hong Kong and in certain cities across Mainland China. The carrying value of these properties amounted to HK\$9,975 million as at 31 December 2020.</p> <p>Investment properties are stated at fair value. The fair values of the investment properties as at 31 December 2020 were assessed by the board of directors primarily based on valuations prepared by an independent professionally qualified property valuer which take into account current rents or hypothetical rents and the reversionary potential of the tenancies of each property or comparable sales evidence as available in the relevant markets, where appropriate. The net changes in fair value of investment properties recognised in the consolidated statement of profit or loss at an amount of HK\$154 million for the year ended 31 December 2020.</p> <p>We identified the valuation of the Group's investment properties as a key audit matter because these properties represent the majority of the Group's total assets and a small percentage error in the valuation of individual investment properties, when aggregated, could have a significant impact on the Group's profit before taxation for the year and because the valuations are inherently subjective and require significant judgement and estimates, particularly in selecting the appropriate valuation methodology and in determining market unit prices.</p>	<p>Our audit procedures to assess the valuation of the Group's investment properties included the following:</p> <ul style="list-style-type: none"> obtaining and inspecting the valuation reports prepared by the independent professionally qualified property valuer engaged by the Group and on which the directors' assessment of the fair values of investment properties was based; meeting the independent professionally qualified property valuer, without the presence of management, and discussing the valuation methodology adopted with reference to the requirements of the prevailing accounting standards, challenging the key estimates and assumptions adopted in the valuations and assessing the independent professionally qualified property valuer's qualifications, expertise and objectivity; and with the assistance of our internal property valuation specialists, comparing the key estimates and assumptions adopted in the valuation of investment properties, on a sample basis, including those relating to market unit prices, with available market data and government produced market statistics.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Assessing the net realisable value of properties under development/completed properties for sale	
Refer to notes 16 and 17 to the consolidated financial statements and the accounting policies note 2.4(u)(ii).	
The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 December 2020, the Group held properties under development/completed properties for sale in Mainland China, which were stated at the lower of cost and net realisable value at an aggregate amount of HK\$1,015 million. The calculation of the net realisable value of each property development project at the reporting date is performed by the Group's internal property experts.</p> <p>The calculation of the net realisable value of properties under development/completed properties for sale involves significant management judgement in preparing estimations of the costs to complete each property development project as well as in assessing the expected selling prices for each property (with reference to recent sales transactions in nearby locations and rates of new property sales).</p> <p>We identified the assessment of net realisable value of the Group's properties under development/completed properties for sale as a key audit matter because of the inherent risks involved in estimating future selling prices and the future costs to complete each property development project.</p>	<p>Our audit procedures to assess the net realisable value of properties under development/completed properties for sale included the following:</p> <ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of key internal controls over the preparation and monitoring of management budgets and forecasts of construction and other costs for each property development project; • conducting site visits to all property development sites and discussing with the Group's internal property experts the progress and development budgets reflected in the latest forecasts for each property development project; • assessing the valuation methodology adopted by the Group's internal property experts and comparing the key estimates adopted, including those relating to average net selling price, with available market data and the sales budget plans maintained by the directors;

KEY AUDIT MATTERS *(Continued)*

Assessing the net realisable value of properties under development/completed properties for sale (Continued)	
Refer to notes 16 and 17 to the consolidated financial statements and the accounting policies note 2.4(u)(ii). (Continued)	
The Key Audit Matter	How the matter was addressed in our audit
	<p>Our audit procedures to assess the net realisable value of properties under development/completed properties for sale included the following: (Continued)</p> <ul style="list-style-type: none"> meeting the Group's internal property experts to discuss and challenge the key estimates and assumptions adopted in their net realisable value assessments and to consider their qualifications and experience; re-performing calculations made by the Group's internal property experts in arriving at the year end assessments of net realisable value, on a sample basis, and comparing the estimated construction costs to complete each property development project with the Group's latest budgets and comparing the costs incurred to 31 December 2020 with budgets as at 31 December 2019 to assess the accuracy of management's forecasting and budgeting process; and performing sensitivity analysis to determine the extent of change in those estimates and assumptions that, either individually or collectively, would be required for the properties under development/completed properties for sale to be materially misstated and considering the likelihood of such a movement in those key estimates arising.

Independent Auditor's Report

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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.

As part of an audit in accordance with HKSA's, we exercise professional judgement 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.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 Ho Wai Ming.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Revenue	4	4,086,245	4,410,438
Cost of sales		(3,555,332)	(3,702,901)
Gross profit		530,913	707,537
Other income and gains, net	5	78,251	76,892
Net fair value gain on properties transfer and investment properties inclusive of investment properties presented as non-current assets classified as held for sale		153,842	864,831
Selling and distribution expenses		(86,304)	(66,562)
Administrative expenses		(368,126)	(539,989)
Profit from operations		308,576	1,042,709
Finance costs	7	(192,949)	(204,067)
Share of losses of associates		(611)	–
Share of (losses)/profits of joint ventures		(25)	151
Profit before tax	6	114,991	838,793
Income tax	10	(49,609)	(282,330)
Profit for the year		65,382	556,463
Attributable to:			
Equity shareholders of the Company		69,775	594,040
Non-controlling interests		(4,393)	(37,577)
		65,382	556,463
Earnings per share	11		
Basic		HK0.5 cents	HK4.6 cents
Diluted		HK0.5 cents	HK4.3 cents

The notes on pages 86 to 194 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	2020 \$'000	2019 \$'000
Profit for the year	65,382	556,463
<hr/>		
Other comprehensive income (after tax and reclassification adjustments)		
Item that may be reclassified to profit or loss in subsequent periods (nil of tax effect):		
Exchange differences on translation of financial statements of operations outside Hong Kong	434,267	(131,487)
<hr/>		
Other comprehensive income for the year	434,267	(131,487)
<hr/>		
Total comprehensive income for the year	499,649	424,976
<hr/>		
Attributable to:		
Equity shareholders of the Company	473,468	471,251
Non-controlling interests	26,181	(46,275)
<hr/>		
	499,649	424,976
<hr/>		

The notes on pages 86 to 194 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Note	As at 31 December 2020 \$'000	As at 31 December 2019 \$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	654,276	666,126
Investment properties	13	9,975,013	6,884,374
Construction in progress	14	159,463	136,737
Investments in associates		989	–
Investments in joint ventures		74	244
Bearer plants		30,821	36,253
Other non-current assets		143,053	151,550
Total non-current assets		10,963,689	7,875,284
CURRENT ASSETS			
Inventories	16	1,339,113	1,378,600
Properties under development	17	233,895	621,004
Trade receivables	18	629,276	454,486
Prepayments, deposits and other receivables	19	1,067,459	924,670
Financial assets measured at fair value through profit or loss		5,846	7,958
Amounts due from associates	20	6,773	–
Amounts due from related parties	26	22,970	–
Tax recoverables		871	692
Cash and bank balances	21	591,361	886,478
		3,897,564	4,273,888
Non-current assets classified as held for sale	22	–	2,494,940
Total current assets		3,897,564	6,768,828
CURRENT LIABILITIES			
Trade payables	23	958,358	778,146
Other payables and accruals	24	634,432	1,222,088
Interest-bearing bank borrowings	25	1,969,832	2,576,589
Lease liabilities	28	69,722	66,035
Amounts due to non-controlling shareholders of subsidiaries	29	10,314	9,438
Tax payables		100,999	80,952
Total current liabilities		3,743,657	4,733,248
NET CURRENT ASSETS		153,907	2,035,580
TOTAL ASSETS LESS CURRENT LIABILITIES		11,117,596	9,910,864

Consolidated Statement of Financial Position

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Note	As at 31 December 2020 \$'000	As at 31 December 2019 \$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	2,262,811	1,744,584
Lease liabilities	28	379,411	344,473
Amounts due to non-controlling shareholders of subsidiaries	29	7,941	7,941
Amounts due to related parties	27	557,639	311,191
Other non-current liabilities	30	67,028	69,060
Deferred tax liabilities	31	1,159,266	1,040,594
Total non-current liabilities		4,434,096	3,517,843
NET ASSETS			
		6,683,500	6,393,021
CAPITAL AND RESERVES			
Share capital	32(a)	134,560	139,789
Reserves	34(a)	6,221,189	5,951,662
Total equity attributable to equity shareholders of the Company		6,355,749	6,091,451
Non-controlling interests		327,751	301,570
TOTAL EQUITY		6,683,500	6,393,021

Approved and authorised for issue by the board of directors on 23 March 2021.

Cheung Choi Ngor
Director

Richard Howard Gorges
Director

The notes on pages 86 to 194 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

Attributable to equity shareholders of the Company																	
Note	Share capital		Share premium	Contributed surplus	Capital redemption reserve	Merger reserve	Land and buildings revaluation reserve	PRC statutory reserves	Treasury shares	Shares held for share award scheme	Employee share-based compensation reserve [#]	Goodwill reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	Ordinary shares	Redeemable convertible preference shares															
	\$'000	\$'000															
At 1 January 2019	132,213	7,814	1,701,135	508,172	223	(1,603,030)	68,355	10,965	(10,837)	(61,075)	8,496	(3,067)	(94,548)	4,964,886	5,629,702	347,845	5,977,547
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	594,040	594,040	(37,577)	556,463
Other comprehensive income for the year:																	
Exchange differences on translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	-	-	-	-	-	-	(122,789)	-	(122,789)	(8,698)	(131,487)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	(122,789)	594,040	471,251	(46,275)	424,976
Redemption of redeemable convertible preference shares	32	(238)	(9,264)	-	-	-	-	-	-	-	-	-	-	-	(9,502)	-	(9,502)
Transfer of employee share-based compensation reserve upon lapse of share options	-	-	-	-	-	-	-	-	-	-	(1,020)	-	-	1,020	-	-	-
At 31 December 2019	132,213	7,576	1,691,871	508,172	223	(1,603,030)	68,355	10,965	(10,837)	(61,075)	7,476	(3,067)	(217,337)	5,559,946	6,091,451	301,570	6,393,021

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company																	
		Share capital				Capital			Land and buildings		PRC		Shares held for share		Employee share-based		Non-controlling		Total
Note		Ordinary shares	redeemable convertible preference shares	Share premium	Contributed surplus	redemption reserve	Merger reserve	revaluation reserve	statutory reserves	Treasury shares	award scheme	compensation reserve [#]	Goodwill reserve	Exchange reserve	Retained profits	Total	interests	equity	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
	At 1 January 2020	132,213	7,576	1,691,871	508,172	223	(1,603,030)	68,355	10,965	(10,837)	(61,075)	7,476	(3,067)	(217,337)	5,559,946	6,091,451	301,570	6,393,021	
	Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	69,775	69,775	(4,393)	65,382	
	Other comprehensive income for the year:																		
	Exchange differences on translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	-	-	-	-	-	-	403,693	-	403,693	30,574	434,267	
	Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	403,693	69,775	473,468	26,181	499,649	
	Redemption of redeemable convertible preference shares	32	(5,229)	(203,941)	-	-	-	-	-	-	-	-	-	-	-	(209,170)	-	(209,170)	
	Transfer of employee share-based compensation reserve upon lapse of share options	-	-	-	-	-	-	-	-	-	-	(906)	-	-	906	-	-	-	
	At 31 December 2020	132,213	2,347	1,487,930	508,172	223	(1,603,030)	68,355	10,965	(10,837)	(61,075)	6,570	(3,067)	186,356	5,630,627	6,355,749	327,751	6,683,500	

Merger reserve arose from the Group reorganisation in 1992 and the business combinations under common control in respect of the acquisitions of certain fellow subsidiaries in 2007 and certain related companies ultimately controlled by the substantial shareholder of the Company in 2011 and 2013.

[#] Employee share-based compensation reserve comprises the share option reserve and the share award reserve.

The notes on pages 86 to 194 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Operating activities			
Profit before tax		114,991	838,793
Adjustments for:			
Finance costs	7	192,949	204,067
Share of losses of associates		611	–
Share of losses/(profits) of joint ventures		25	(151)
Interest income	5	(2,880)	(5,398)
Gain on disposal of items of property, plant and equipment	5	(627)	(1,030)
Loss on disposal of bearer plants	5	2,357	–
Gain on disposal of investment in an associate		–	(61)
Gain on disposal of construction in progress	5	–	(55,764)
Gain on disposal of financial assets measured at fair value through profit or loss	5	–	(249)
Gain on disposal of other non-current assets	5	(7,164)	–
Gain on disposal of subsidiaries	5	(18,416)	–
Gain on disposal of leased assets	12	(53)	–
Net fair value gain on properties transfer and investment properties inclusive of investment properties presented as non-current assets classified as held for sale		(153,842)	(864,831)
Fair value loss on financial assets measured at fair value through profit or loss		3,099	2,964
Fair value (gain)/loss on foreign exchange forward contracts	6	(4,766)	73
Impairment of items of property, plant and equipment	5	–	3,383
Impairment loss on amounts due from non-controlling shareholder of subsidiaries	6	–	28,350
Reversal of impairment loss on advances to associates (Reversal of impairment loss)/impairment loss on trade receivables, net	6	(5,675)	(100)
(Reversal of impairment loss)/impairment loss on other receivables	6	(869)	17,447
Impairment loss on goodwill	6	(869)	32,629
Impairment loss on goodwill	6	12,339	–
Write-back of trade payables	5	(6,023)	–
Write-back of other payables	5	(7,435)	–
Write-back of other non-current liabilities	6	(6,454)	(3,005)
(Reversal of provision)/provision for inventories, net	6	(4,248)	–
Write-off of property, plant and equipment	5	67	1,028
Write-off of bearer plants	5	4,105	86
Depreciation	6	137,947	11,390
COVID-19-related rent concessions received	5	(3,863)	142,936
COVID-19-related rent concessions received	5	(3,863)	–
Changes in working capital:			
Decrease in inventories		493,296	165,241
Increase in properties under development		(39,267)	(252,205)
(Increase)/decrease in trade receivables		(171,447)	127,494
Increase in prepayments, deposits and other receivables		(93,271)	(81,918)
Increase in trade payables		171,021	68,575
(Decrease)/increase in other payables and accruals		(517,464)	111,689
Increase in provision for severance payment		95	25

Consolidated Cash Flow Statement

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash generated from operations		89,138	491,458
Hong Kong Profits Tax refunded/(paid)		10,069	(875)
The People's Republic of China ("PRC") corporate income tax paid		(7,971)	(24,060)
Net cash generated from operating activities		91,236	466,523
Investing activities			
Purchases of items of property, plant and equipment		(23,688)	(44,755)
Additions to investment properties	13	(20,350)	–
Additions to construction in progress		(13,393)	(2,225)
Additions to bearer plants		(1,313)	(1,611)
Investments in associates		(1,600)	–
(Advance to)/repayment from associates		(6,773)	100
Interest received		2,880	5,398
Proceeds from disposal of items of property, plant and equipment		864	2,971
Proceeds from disposal of investment in an associate		–	81
Proceeds from disposal of construction in progress		–	66,888
Proceeds from disposal of subsidiaries		6,548	–
Proceeds from disposal of financial assets measured at fair value through profit or loss and other non-current assets		11,200	6,272
Dividend income from joint ventures		–	3,200
Net cash (used in)/generated from investing activities		(45,625)	36,319

Consolidated Cash Flow Statement

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Financing activities			
New bank loans	21	3,347,455	2,971,541
Repayment of bank loans	21	(3,505,081)	(3,187,347)
Increase/(decrease) in trust receipt loans	21	52,624	(98,083)
Interest and other borrowing costs paid	21	(171,089)	(204,274)
Increase in amounts due to related parties	21	314,000	191,171
Repayment of amounts due to related parties	21	(84,672)	(29,186)
Decrease/(increase) in pledged bank deposits		11,276	(775)
Redemption of redeemable convertible preference shares	32	(209,170)	(9,502)
Increase in amounts due to non-controlling shareholders of subsidiaries	21	280	1,168
Capital element of lease rentals paid	21	(64,988)	(69,941)
Interest element of lease rentals paid	21	(25,940)	(28,081)
Net cash used in financing activities		(335,305)	(463,309)
Net (decrease)/increase in cash and cash equivalents		(289,694)	39,533
Cash and cash equivalents at the beginning of the year		856,315	823,091
Effect of foreign exchange rate changes, net		8,370	(6,309)
Cash and cash equivalents at the end of the year		574,991	856,315
Analysis of balances of cash and cash equivalents			
Cash and bank balances	21	591,361	886,478
Less: Pledged bank deposits	25	(11,622)	(22,898)
Bank overdrafts	25	(4,748)	(7,265)
Cash and cash equivalents as stated in the consolidated cash flow statement		574,991	856,315

The notes on pages 86 to 194 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted limited company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

The Company is an investment holding company. The principal subsidiaries are engaged in the trading and manufacturing of toys, property investment and development, and agriculture and forestry.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below. These financial statements are presented in Hong Kong dollars and all figures are rounded to the nearest thousand (“\$’000”) unless otherwise indicated.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2.2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

2.1 STATEMENT OF COMPLIANCE (Continued)

Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s investments in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

- investment properties, including interests in freehold or leasehold land and buildings held as investment property where the Group is the registered owner of the property interest (see note 2.4(h));
- financial assets measured at fair value through profit or loss (“FVPL”); and
- derivative financial instruments.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2.4(i)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. There is no impact on the Group’s financial position and financial results upon initial application at 1 January 2020.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 12). There is no impact on the opening balance of equity at 1 January 2020.

Amendments to HKAS 1 and HKAS 8, *Definition of Material*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. There is no impact on the Group’s financial position and financial results upon initial application at 1 January 2020.

2.3 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 2.4(o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2.4(d)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2.4(b)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2.4(n)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Associates and joint ventures *(Continued)*

Investments in associates or joint ventures are accounted for in the consolidated financial statements under the equity method, unless they are classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2.4(c) and 2.4(n)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in Group's net investments in associate or joint venture (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see note 2.4 (n)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2.4(d)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Business combinations and goodwill

Business combinations, other than combinations of businesses under common control, are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred.

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

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2.4(w). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2.4(w).

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses (see note 2.4(n)(ii)). Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification.

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2.4(y)(e)).
- fair value through other comprehensive income (“FVOCI”) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Other investments in equity securities (Continued)

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2.4(y)(f).

(e) Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Fair value measurement *(Continued)*

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

- Level 1, based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2, based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3, based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

(f) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Related parties (Continued)

- (b) An entity is related to the Group if any of the following conditions applies: (Continued)
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(g) Property, plant and equipment (including bearer plants) and depreciation

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2.4(n)):

- interests in leasehold land and buildings where the Group is the registered owner of the property interest;
- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and
- items of plant and equipment, including bearer plants and right-of-use assets arising from leases of underlying plant and equipment (see note 2.4(k)).

Certain leasehold land and buildings are stated in the consolidated statement of financial position at amounts based on revaluations performed prior to 30 September 1995, less subsequent accumulated depreciation and amortisation and any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(g) Property, plant and equipment (including bearer plants) and depreciation** *(Continued)*

In accordance with the transitional provisions of paragraph 80A of HKAS 16, *Property, plant and equipment*, the Group's land and buildings which were carried at revalued amounts in the financial statements relating to periods ended before 30 September 1995 are not required to be revalued regularly. Accordingly, no revaluation of land and buildings is carried out subsequent to 30 September 1995. In previous years, the revaluation surplus arising on the revaluation of these assets was credited to the land and buildings revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2.4(aa)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

– Ownership interests in land and buildings held for own use	Over the shorter of the lease terms and 2% to 5%
– Other properties leased for own use	Over the unexpired periods of the leases
– Furniture and leasehold improvements	Over the shorter of the lease terms, where applicable, and 20%
– Machinery and equipment	10% to 25%
– Moulds and tools	20% to 25%
– Motor vehicles and vessels	20% to 25%
– Bearer plants	2% to 5%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2.4(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2.4(y)(d).

(i) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in the subsidiary after the sale.

Non-current assets and disposal groups (other than deferred tax assets, financial assets (other than investments in subsidiaries and associates) and investment properties) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Agricultural produce

Agricultural produce comprises winter date, lychee, pear, apple and other fruits on fruit trees.

Winter date, lychee, pear, apple and other fruits harvested from fruit trees are measured at their fair values less costs to sell at the time of harvest. The fair values of winter date, lychee, pear, apple and other fruits are determined based on market prices in the local area. Such measurement is the cost at that date when applying HKAS 2, *Inventories*.

A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises.

Fair value represents the estimated selling price that the Group can obtain from selling such inventories in the market on an arm's length basis.

(k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leased assets (Continued)

(i) As a lessee (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2.4(g) and 2.4(n)(ii)), except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2.4(h); and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2.4(u).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16, *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(ii) *As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2.4(y)(d).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2.4(k)(i), then the Group classifies the sub-lease as an operating lease.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2.4(n)(i)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The Group recognises a loss allowance for ECLs on the following items:

- financial assets measured at amortised cost (including cash and bank balances, trade receivables, financial assets included in prepayments, deposits and other receivables, advances to associate, amounts due from non-controlling shareholders of subsidiaries and amounts due from joint ventures); and
- lease receivables.

Other financial assets measured at fair value, including financial assets measured at FVPL, equity securities measured at FVPL and derivative financial instruments, are not subject to the ECL assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade receivables, financial assets included in prepayments, deposits and other receivables, advances to associate, amounts due from non-controlling shareholders of subsidiaries and amounts due from joint ventures: effective interest rate determined at initial recognition or an approximation thereof;
- lease receivables: discount rate used in the measurement of the lease receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowance for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and lease receivables *(Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 2.4(y)(e) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment including right-of-use assets (other than properties carried at revalued amounts);
- construction in progress;
- bearer plants;
- goodwill;
- certain non-current assets; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2.4(n)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(o) Trade and other payables

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.4(aa)).

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(q) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.4(y)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.4(l)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2.4(y)(e)).

(r) Derecognition of financial liabilities

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

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

(s) Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

(u) Inventories

(i) Trading and manufacturing of goods

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of interests in freehold and leasehold land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 2.4(aa)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Inventories (Continued)

(ii) Property development (Continued)

– Completed property for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the completed properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2.4(n)(i).

(w) Provisions and contingent liabilities

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

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

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

The Group carries a provision for severance payment in accordance with the relevant regulations in Mainland China. Compensation payable to employees upon termination of the employment contracts therewith are charged to the provision when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Income tax

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Income tax (Continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(y) Revenue and other income

Income is classified by the Group as revenue when it arises from sales of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

- (a) sales of goods – revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.
- (b) sales of properties – revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised on the basis that control over ownership of the property has been passed to the customer, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (see note 2.4(q)) included in other payables and accruals.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Revenue and other income (Continued)

- (c) service income and management fee income – revenue is recognised when services are rendered;
- (d) rental income receivable under operating leases – revenue is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned;
- (e) interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (f) dividend income from unlisted investments is recognised when the shareholders' right to receive payment has been established while dividend income from listed investments is recognised when the share price of the investment goes ex-dividend; and
- (g) government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(z) Employee benefits

- (i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Employee benefits (Continued)

(i) Short term employee benefits and contributions to defined contribution retirement plans (Continued)

The Group operates a defined contribution staff retirement scheme registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) for certain employees (including certain directors), the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees who joined the Group before 1 December 2000 had the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

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

(ii) Share-based payment transactions

– Share option scheme and share award scheme

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Employee benefits *(Continued)*

(ii) Share-based payment transactions *(Continued)*

– Share option scheme and share award scheme *(Continued)*

The cost of equity-settled transactions with employees for grants of the Company's own equity instruments is measured by reference to the fair value at the date at which they are granted. The fair value of share options and awarded shares granted to employees in an equity-settled share-based payment transaction is recognised as an employment cost with a corresponding increase in the employee share-based compensation reserve within equity. In respect of share options, the fair value is measured at grant date using a trinomial model, taking into account the terms and conditions upon which the options were granted (further details of which being set out in note 33 to the financial statements). In respect of awarded shares, the fair value is based on the closing price at the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options and awarded shares, the total estimated fair value of the share options and awarded shares is spread over the vesting period, taking into account the probability that the share options and awarded shares will vest. Where awarded shares are not the shares in the Company or its group entity, the grant of such shares does not constitute a share-based payment arrangement, and is accounted for as a financial liability.

During the vesting period, the number of share options and awarded shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options and awarded shares that are vested (with a corresponding adjustment to the employee share-based compensation reserve).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The equity amount for the share options is recognised in the employee share-based compensation reserve until either the option is exercised (whereupon it is transferred to share capital and the share premium account) or the option expires (whereupon it is released directly to retained profits).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Employee benefits (Continued)

(ii) Share-based payment transactions (Continued)

– Shares held for Share Award Scheme

Where the shares of the Company are acquired under the Share Award Scheme, the consideration paid, including any directly attributable incremental costs, is presented as “shares held for Share Award Scheme” and deducted from total equity.

When the awarded shares are transferred to the awardees upon vesting, the related weighted average costs of the awarded shares vested are credited to “shares held for Share Award Scheme” and the related employment costs of the awarded shares vested are debited to the employee share-based compensation reserve. The difference between the related weighted average cost and the related employment costs of the awarded shares is transferred to retained profits.

Where the shares held for Share Award Scheme are revoked and the revoked shares are disposed of, the related gain or loss from disposal of revoked shares is transferred to retained profits and not recognised in profit or loss.

Where cash or non-cash dividend distribution is declared in respect of the shares held for Share Award Scheme, such cash dividend or fair value of the non-cash dividend is transferred to retained profits with no gain or loss recognised in profit or loss.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Borrowing costs

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

(bb) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries and associates outside Hong Kong are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation outside Hong Kong, the component of other comprehensive income relating to that particular operation is recognised in profit or loss.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries outside Hong Kong which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(cc) Segment reporting

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

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

(dd) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for interest-bearing borrowings set out in note 2.4(p) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made the following significant accounting judgements and estimates:

(i) Estimation of fair value of investment properties and investment properties presented as non-current assets classified as held for sale

At the end of each reporting period, investment properties and investment properties presented as non-current assets classified as held for sale are stated at fair value based on the valuations performed by an independent professionally qualified valuer. Such valuations were based on certain assumptions and estimates, which are subject to uncertainty and might materially differ from the actual results. In making estimation, information from current prices in an active market for similar properties has been considered and assumptions that are mainly based on the existing market conditions have been applied. Further details, including the key assumptions used for fair value measurement of investment properties and investment properties presented as non-current assets classified as held for sale, are given in notes 13 and 22, respectively, to the financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(ii) Estimated net realisable value of properties under development/completed properties for sale

In determining whether provisions should be made to the Group's properties under development/completed properties for sale, the directors of the Company have taken into consideration the current market environment and the estimated market value (i.e. the estimated selling price) less estimated costs to sell and estimated costs to completion of the properties. A provision is made if the estimated net realisable value is less than the carrying amount. If the actual net realisable value of properties under development/completed properties for sale is less than expected as a result of a change in market condition and/or significant variation in the development cost, material provision for losses may result. No provision for losses was made for both the current and prior years.

(iii) Provision for expected credit losses of trade receivables

The Group uses a provision of matrix calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various debtors that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The information about the ECLs and trade receivables are disclosed in note 41(c). If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. The estimates could change significantly as a result of changes in customer preferences and competitor actions. Management reassesses these estimates at the end of each reporting period.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4 REVENUE AND SEGMENT REPORTING

(A) Revenue

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, sales of properties, the value of services rendered and gross rental income received and receivable from investment properties during the year.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2020 \$'000	2019 \$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Sale of merchandise from trading and manufacturing businesses	3,223,868	4,176,217
– Sale of completed properties	632,968	–
– Sale of agricultural produce	13,423	14,117
	3,870,259	4,190,334
Revenue from other sources		
– Gross rentals from investment properties	215,986	220,104
	4,086,245	4,410,438

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 4(B).

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

At 31 December 2020, the cumulative aggregate amount of revenue expected to be recognised in the consolidated statement of profit or loss in the future from pre-completion sales contracts entered into in relation to the Group's property development project in Mainland China pending transfer of control amounted to \$25,735,000 (2019: \$530,269,000) which will be recognised when the pre-sold properties are accepted by the customers. The Group will recognise the expected revenue in future on the basis that control over ownership of the property has been passed to the customer, which is expected to occur within the next twelve months.

4 REVENUE AND SEGMENT REPORTING (Continued)

(A) Revenue (Continued)

- (ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date (Continued)

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to its sale of merchandise from trading and manufacturing business and sale of agricultural produces to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date with performance obligation is part of a contract that has an original expected duration of one year or less.

(B) Segment reporting

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

- (i) the trading and manufacturing segment is engaged in trading and manufacturing of merchandises including toys, footwear products and leather products;
- (ii) the property investment and development segment is engaged in property investment and development;
- (iii) the agriculture and forestry segment is engaged in the cultivation of fruit trees and crops, rearing of livestock and aquatic products, forestation and sale of relevant agricultural products; and
- (iv) the others segment mainly comprises, principally, the Group's investment holding related management functions.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that share of profits and losses of associates and joint ventures and finance costs are excluded from such measurement.

Segment assets exclude investments in associates, investments in joint ventures and tax recoverable as these assets are managed on a group basis.

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4 REVENUE AND SEGMENT REPORTING (Continued)

(B) Segment reporting (Continued)

(a) Business segments

The following tables present revenue and profit for the Group's business segments for the years ended 31 December 2020 and 2019.

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Total	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Segment revenue										
External sales	3,223,868	4,176,217	848,954	220,104	13,423	14,117	-	-	4,086,245	4,410,438
Segment results	88,389	256,922	318,575	939,988	(27,131)	(54,793)	(71,257)	(99,408)	308,576	1,042,709
Reconciliation:										
— Share of losses of associates	(611)	-	-	-	-	-	-	-	(611)	-
— Share of (losses)/profits of joint ventures	-	-	-	-	-	-	(25)	151	(25)	151
— Finance costs									(192,949)	(204,067)
Profit before tax									114,991	838,793

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4 REVENUE AND SEGMENT REPORTING (Continued)

(B) Segment reporting (Continued)

(a) Business segments (Continued)

Note	Trading and manufacturing		Property investment and development		Agriculture and forestry		Others		Total	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Segment assets	2,237,092	2,052,513	12,060,961	12,042,784	308,193	334,789	253,073	213,090	14,859,319	14,643,176
Reconciliation:										
– Investments in associates	989	–	–	–	–	–	–	–	989	–
– Investments in joint ventures	–	–	–	–	–	–	74	244	74	244
– Tax recoverables	–	–	–	–	–	–	–	–	871	692
Total assets									14,861,253	14,644,112
Segment liabilities	3,215,682	3,138,394	2,818,759	3,379,667	265,224	271,302	617,823	340,182	6,917,488	7,129,545
Reconciliation:										
– Tax payables	–	–	–	–	–	–	–	–	100,999	80,952
– Deferred tax liabilities	–	–	–	–	–	–	–	–	1,159,266	1,040,594
Total liabilities									8,177,753	8,251,091
Other segment information:										
Capital expenditure	49,698	53,781	20,567	1,872	1,417	3,228	44	9,333	71,726	68,214
Depreciation	80,124	83,324	6,813	7,563	29,074	31,051	21,936	20,998	137,947	142,936
(Reversal of provision)/provision for inventories, net	6 (4,248)	1,028	–	–	–	–	–	–	(4,248)	1,028
(Reversal of impairment loss)/impairment loss on trade receivables, net	6 & 18 (748)	10,001	(4,927)	7,446	–	–	–	–	(5,675)	17,447
(Reversal of impairment loss)/impairment loss on other receivables	6 (35)	14,148	(834)	6,004	–	6,413	–	6,064	(869)	32,629
Impairment loss on goodwill	6 –	–	–	–	–	–	12,339	–	12,339	–
Write-off of bearer plants	5 –	–	–	–	4,105	11,390	–	–	4,105	11,390
Write-off of property, plant and equipment	67	33	–	–	–	53	–	–	67	86
Impairment loss on amounts due from non-controlling shareholders of subsidiaries	–	–	–	28,350	–	–	–	–	–	28,350
Write-back of other non-current liabilities	6 & 30 –	–	(6,454)	–	–	–	–	–	(6,454)	–

Capital expenditure consists of the amounts incurred for the additions to property, plant and equipment, investment properties, construction in progress, bearer plants and investments in associates, including the deposits and amounts prepaid for the above.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4 REVENUE AND SEGMENT REPORTING (Continued)

(B) Segment reporting (Continued)

(b) Geographical segments

(i) Revenue from external customers

	2020 \$'000	2019 \$'000
PRC including Hong Kong and Macau	1,064,007	398,331
The United States of America	1,912,969	2,327,848
Europe	777,708	1,123,546
Japan	12,494	72,665
Others	319,067	488,048
	4,086,245	4,410,438

The revenue information above is based on the destination to which goods and services are delivered.

(ii) Non-current assets

	2020 \$'000	2019 \$'000
Hong Kong	3,539,606	1,025,729
Mainland China	7,307,505	6,729,894
Others	5,584	5,437
	10,852,695	7,761,060

The non-current assets information above is based on the location of assets, and excludes certain other non-current assets, investments in associates and investments in joint ventures.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4 REVENUE AND SEGMENT REPORTING (Continued)

(B) Segment reporting (Continued)

(b) Geographical segments (Continued)

- (iii) Information about major customers with revenue derived from whom amounted to 10% of the Group's revenue or above

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

	2020	2019
	\$'000	\$'000
Customer A	1,659,084	2,152,059
Customer B	N/A¹	510,358

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5 OTHER INCOME AND GAINS, NET

An analysis of other income and gains, net is as follows:

	Note	2020 \$'000	2019 \$'000
Bank interest income		2,651	5,344
Other interest income		229	54
Write-back of trade payables		6,023	–
Write-back of other payables		7,435	3,005
Gain on disposal of construction in progress		–	55,764
Gain on disposal of items of property, plant and equipment		627	1,030
Loss on disposal of bearer plants		(2,357)	–
Gain on disposal of financial assets measured at FVPL		–	249
Gain on disposal of other non-current assets		7,164	–
Gain on disposal of subsidiaries		18,416	–
Write-off of property, plant and equipment		(67)	(86)
Write-off of bearer plants		(4,105)	(11,390)
Impairment of items of property, plant and equipment	12	–	(3,383)
Subsidy income from government (note)		15,307	1,757
Income from sale of scrap materials		2,325	3,145
COVID-19-related rent concessions received	12	3,863	–
Others		20,740	21,403
		78,251	76,892

Note: In 2020, the Group successfully applied for funding support of \$9,778,000 from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6 PROFIT BEFORE TAX

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

	Note	2020 \$'000	2019 \$'000
Cost of inventories sold		2,981,111	3,701,873
Cost of completed properties sold		578,469	–
Depreciation			
– owned property, plant and equipment		52,320	46,221
– bearer plants		2,309	2,871
– right-of-use assets	12	83,318	93,844
Auditors' remuneration			
– audit services		3,687	3,687
– non-audit services		1,107	57
		4,794	3,744
Employee benefits expenses (including directors' remuneration (note 8)):			
Contributions to defined contribution retirement schemes*		30,119	92,524
Salaries, wages and other benefits		1,170,585	1,302,912
		1,200,704	1,395,436
Less: Employee benefits expenses capitalised to properties under development:			
Contributions to defined contribution retirement scheme		(814)	(2,065)
Salaries, wages and other benefits		(12,126)	(23,458)
		1,187,764	1,369,913
Gross rental income from investment properties inclusive of investment properties presented as non-current assets classified as held for sale		(215,986)	(220,104)
Less: Direct operating expenses		26,229	26,674
Net rental income		(189,757)	(193,430)
(Reversal of impairment loss)/impairment loss on trade receivables, net	18	(5,675)	17,447
Impairment loss on amounts due from non-controlling shareholders of subsidiaries		–	28,350
Impairment loss on goodwill		12,339	–
(Reversal of provision)/provision for inventories, net**	16	(4,248)	1,028
Write-back of other non-current liabilities	30	(6,454)	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6 PROFIT BEFORE TAX (Continued)

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

	2020 \$'000	2019 \$'000
(Reversal of impairment loss)/impairment loss on other receivables	(869)	32,629
Fair value (gain)/loss on foreign exchange forward contracts***	(4,766)	73
Exchange loss, net	11,658	1,308

* At 31 December 2020 and 2019, the Group had no forfeited contributions available to reduce its contributions to the defined contribution retirement schemes in future years.

** The amount (included in cost of sales) represents the net charge recognised in respect of provision against inventories to write down the inventories to their estimated net realisable values.

*** Fair value gain on foreign exchange forward contracts of \$4,766,000 (2019: loss of \$73,000) was included in cost of sales.

7 FINANCE COSTS

An analysis of finance costs is as follows:

	2020 \$'000	2019 \$'000
Interest on bank loans, overdrafts and other borrowings	175,792	215,450
Interest on lease liabilities	25,940	28,081
Less: Amounts capitalised*	(8,783)	(39,464)
	192,949	204,067

* The borrowing costs have been capitalised at a weighted average rate of 3.97% (2019: 4.71%) per annum.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2020 \$'000	2019 \$'000
Fees	948	1,070
Other emoluments:		
– Salaries, allowances and benefits in kind	8,440	9,600
– Discretionary bonuses	–	–
– Retirement scheme contributions	316	318
	8,756	9,918
	9,704	10,988

(a) Independent non-executive directors

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

	2020 \$'000	2019 \$'000
Mr. Chiu Sin Chun	100	100
Mrs. Tse Wong Siu Yin Elizabeth	100	100
Mr. Yip Dicky Peter J.P. (Resigned on 16 June 2020)	129	280
Mr. Kam Yiu Shing Tony	100	100
Ms. Pong Scarlett Oi Lan, BBS, J.P. (Appointed on 15 September 2020)	29	–
	458	580

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

2020

	Fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Total remuneration \$'000
Executive directors:					
Mr. Ng Hung Sang	10	–	–	–	10
Ms. Cheung Choi Ngor	10	3,640	–	208	3,858
Mr. Richard Howard Gorges	10	1,650	–	90	1,750
Mr. Ng Yuk Yeung Paul	10	3,150	–	18	3,178
	40	8,440	–	316	8,796
Non-executive directors:					
Ms. Ng Yuk Mui Jessica	100	–	–	–	100
Mr. Ng Yuk Fung Peter	100	–	–	–	100
Mr. David Michael Norman	150	–	–	–	150
Ms. Li Yuen Yu Alice	100	–	–	–	100
	450	–	–	–	450
	490	8,440	–	316	9,246

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors (Continued)

2019

	Fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Total remuneration \$'000
Executive directors:					
Mr. Ng Hung Sang	10	–	–	–	10
Ms. Cheung Choi Ngor	10	4,200	–	210	4,420
Mr. Richard Howard Gorges	10	1,800	–	90	1,900
Mr. Ng Yuk Yeung Paul	10	3,600	–	18	3,628
	40	9,600	–	318	9,958
Non-executive directors:					
Ms. Ng Yuk Mui Jessica	100	–	–	–	100
Mr. Ng Yuk Fung Peter	100	–	–	–	100
Mr. David Michael Norman	150	–	–	–	150
Ms. Li Yuen Yu Alice	100	–	–	–	100
	450	–	–	–	450
	490	9,600	–	318	10,408

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2019: Nil).

The executive directors of the Company constitute senior management of the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2019: three) directors whose remuneration is set out in details in note 8 above. Details of the remuneration of the remaining three (2019: two) highest paid employees for the year are set out below:

	2020 \$'000	2019 \$'000
Salaries, allowances and benefits in kind	6,168	4,260
Discretionary bonuses	550	450
Retirement scheme contributions	54	36
Share awards	–	–
	6,772	4,746

The remuneration of the aforesaid remaining three (2019: two) highest paid employees fell within the following bands:

	Number of employees	
	2020	2019
\$2,000,001 to \$2,500,000	3	1
\$2,500,001 to \$3,000,000	–	1
	3	2

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10 INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in respective countries/jurisdictions in which the Group operates.

	2020	2019
	\$'000	\$'000
Current – Hong Kong		
Charge for the year	9,706	18,350
(Over)/under-provision in prior years (note)	(20,495)	38,836
Current – Mainland China		
Charge for the year	11,158	42,778
(Over)/under-provision in prior years	(103)	1,295
Deferred tax (note 31)	49,343	181,071
Total tax charge for the year	49,609	282,330

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10 INCOME TAX (Continued)

A reconciliation of the notional tax expense on the Group's profit before tax at the Hong Kong Profits Tax rate to the actual tax expense is as follows:

	2020 \$'000	2019 \$'000
Profit before tax	114,991	838,793
Notional tax at the Hong Kong Profits Tax rate of 16.5% (2019: 16.5%)	18,974	138,401
Effect of different tax rates of subsidiaries operating in Mainland China and Taiwan	7,319	74,319
Tax effect of share of losses of associates	105	–
Tax effect of share of profits of joint ventures	–	(25)
Tax effect of non-deductible expenses	63,554	43,676
Tax effect of non-taxable income	(25,074)	(29,158)
Tax effect of unused tax losses not recognised	5,474	21,898
Tax effect of prior years' unrecognised tax losses utilised	(187)	(7,586)
(Over)/under-provision in prior years	(20,598)	40,131
Others	42	674
Total tax charge for the year	49,609	282,330

Note: In prior years, the Inland Revenue Department ("IRD") initiated a tax audit on certain subsidiaries of the Group in relation to their trading and manufacturing arrangement. Pending resolution of the tax audit, the IRD has issued protective profits tax assessments ("PAs"). In this connection, the Group had lodged objections against these PAs and purchased tax reserve certificates in an aggregate amount of approximately \$61,569,000. A tax provision was recognised as at 31 December 2019 based on the latest development of the tax audit.

During the year ended 31 December 2020, the Group has filed a formal settlement proposal to the IRD and the IRD has accepted it and issued revised tax assessments. As a result, there was an over-provision credited to profit or loss in the year.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

11 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of \$69,775,000 (2019: \$594,040,000), and the weighted average number of ordinary shares of 12,982,892,000 (2019: 12,982,892,000) in issue (after deducting shares held for the Share Award Scheme and treasury shares).

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on vesting, and the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2020 \$'000	2019 \$'000
Earnings		
Profit attributable to equity shareholders of the Company used in the basic and diluted earnings per share calculation	69,775	594,040
	Number of shares	
	2020 '000	2019 '000
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	12,982,892	12,982,892
Effect of redeemable convertible preference shares	598,898	776,733
Effect of shares held for Share Award Scheme	206,161	206,161
Weighted average number of ordinary shares used in the diluted earnings per share calculation	13,787,951	13,965,786

The Company's share options have no dilution effect for the years ended 31 December 2020 and 2019 because the exercise price of the Company's share options was higher than the average market price of the shares for both years and the share options are therefore anti-dilutive.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12 PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in land and buildings held for own use \$'000	Other properties leased for own use \$'000	Furniture and leasehold improvements \$'000	Machinery and equipment \$'000	Moulds and tools \$'000	Motor vehicles and vessels \$'000	Total \$'000
Cost or valuation:							
At 1 January 2020	279,016	485,825	344,281	326,053	23,485	30,004	1,488,664
Exchange realignment	8,093	30,452	2,226	1,690	–	597	43,058
Additions	–	107,924	12,444	11,153	34	490	132,045
Transfer to investment properties (note 13)	(6,573)	–	–	–	–	–	(6,573)
Disposals and written off	(8,869)	(40,085)	(1,685)	(4,582)	(432)	(648)	(56,301)
At 31 December 2020	271,667	584,116	357,266	334,314	23,087	30,443	1,600,893
Analysis of cost or valuation:							
At cost	224,158	584,116	357,266	334,314	23,087	30,443	1,553,384
At 31 December 1988 valuation	31,112	–	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	–	10,973
	271,667	584,116	357,266	334,314	23,087	30,443	1,600,893
Accumulated depreciation and impairment:							
At 1 January 2020	137,090	83,804	296,265	259,387	19,881	26,111	822,538
Exchange realignment	1,884	7,742	1,613	1,107	–	545	12,891
Depreciation provided during the year (note 6)	8,047	81,268	15,722	27,449	1,397	1,755	135,638
Disposals and written off	(2,495)	(14,859)	(1,570)	(4,572)	(321)	(633)	(24,450)
At 31 December 2020	144,526	157,955	312,030	283,371	20,957	27,778	946,617
Net book value:							
At 31 December 2020	127,141	426,161	45,236	50,943	2,130	2,665	654,276

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Ownership interests in land and buildings held for own use \$'000	Other properties leased for own use \$'000	Furniture and leasehold improvements \$'000	Machinery and equipment \$'000	Moulds and tools \$'000	Motor vehicles and vessels \$'000	Total \$'000
Cost or valuation:							
At 1 January 2019	275,116	480,946	332,984	340,852	23,481	31,533	1,484,912
Exchange realignment	(2,985)	(9,153)	(704)	(1,265)	–	(254)	(14,361)
Additions	–	15,273	17,357	28,523	2,051	1,174	64,378
Transfer from investment properties (note 13)	6,885	–	–	–	–	–	6,885
Transfer from construction in progress (note 14)	–	–	1,359	–	–	–	1,359
Disposals and written off	–	(1,241)	(6,715)	(42,057)	(2,047)	(2,449)	(54,509)
At 31 December 2019	279,016	485,825	344,281	326,053	23,485	30,004	1,488,664
Analysis of cost or valuation:							
At cost	231,507	485,825	344,281	326,053	23,485	30,004	1,441,155
At 31 December 1988 valuation	31,112	–	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	–	10,973
	279,016	485,825	344,281	326,053	23,485	30,004	1,488,664
Accumulated depreciation and impairment:							
At 1 January 2019	128,741	–	285,203	271,932	20,657	26,793	733,326
Exchange realignment	(546)	(1,145)	(476)	(1,050)	–	(228)	(3,445)
Depreciation provided during the year (note 6)	8,895	84,949	15,996	27,019	1,267	1,939	140,065
Disposals and written off	–	–	(4,458)	(41,897)	(2,043)	(2,393)	(50,791)
Provision for impairment (note 5)	–	–	–	3,383	–	–	3,383
At 31 December 2019	137,090	83,804	296,265	259,387	19,881	26,111	822,538
Net book value:							
At 31 December 2019	141,926	402,021	48,016	66,666	3,604	3,893	666,126

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	2020 \$'000	2019 \$'000
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost, with remaining lease term of:	(i)		
– between 10 and 50 years in Hong Kong		12,122	13,103
– between 10 and 50 years in Mainland China		115,019	128,823
		127,141	141,926
Other properties leased for own use, carried at depreciated cost	(ii)	426,161	402,021
		553,302	543,947

(Expressed in Hong Kong dollars)

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)***Right-of-use assets** *(Continued)*

The analysis of expense/(income) items in relation to leases recognised in profit or loss is as follows:

	2020	2019
	\$'000	\$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings held for own use	2,050	8,895
Other properties leased for own use, carried at depreciated cost	81,268	84,949
	83,318	93,844
Interest on lease liabilities (note 7)	25,940	28,081
Expenses relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	–	17,217
Expenses relating to short-term leases	9,263	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	–	17
Gain on disposal of leased assets	(53)	–
COVID-19-related rent concessions received (note 5)	(3,863)	–

During the year, additions to right-of-use assets were \$107,924,000 (2019: \$15,273,000). This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 21 and 28 respectively.

As disclosed in note 2.2, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Right-of-use assets *(Continued)*

(i) *Ownership interests in leasehold land and buildings held for own use*

The Group holds land and buildings for its toys manufacturing business, where its manufacturing facilities and office premises are primarily located. Lump sum payments were made upfront to acquire the right to use of these land and buildings, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. The payments vary from time to time and are payable to the relevant government authorities.

The Group is in the process of applying the land use right certificates for certain leasehold land in Mainland China on which buildings with carrying amount of approximately \$28,854,000 (2019: \$37,554,000) as at 31 December 2020 were erected. The directors do not expect any legal obstacle in obtaining the relevant title certificates.

Certain of the Group's ownership interests in leasehold land and buildings were revalued on or before 31 December 1994. The land and buildings were revalued at open market value based on their existing use. Since 1995, no further revaluation of the Group's ownership interests in leasehold land and buildings has been carried out as the Group has relied on the exemption from the requirement to carry out future revaluation of its property, plant and equipment, which were stated at valuation at that time, granted under the transitional provisions in paragraph 80A of HKAS 16.

Had the ownership interests in leasehold land and buildings been carried at cost less accumulated depreciation and impairment losses, the net book value of the Group's ownership interests in leasehold land and buildings at 31 December 2020 would have been approximately \$111,845,000 (2019: \$125,966,000).

At 31 December 2020 and 2019, certain of the Group's property, plant and equipment, including the ownership interest in leasehold land and buildings were pledged to secure the banking facilities granted to the Group (note 25).

(Expressed in Hong Kong dollars)

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)***Right-of-use assets** *(Continued)*(ii) *Other properties leased for own use*

The Group leases several industrial buildings for its trading and manufacturing business, where its manufacturing facilities are primarily located. The Group has obtained the right to use other properties as its warehouses and office premises through tenancy agreements. The leases typically run for an initial period of 2 to 50 years. Lease payments are usually increased every 2 to 3 years to reflect market rentals.

The Group has obtained the right to use agricultural land for its agriculture and forestry business, where its bearer plants are primarily located, through tenancy agreements. The leases typically run for an initial period of 14 to 70 years.

Some leases include an option to terminate the lease during the period of the contract term. The Group assesses at lease commencement date whether it is reasonably certain not to exercise the termination options. If the Group is not reasonably certain not to exercise the termination options, the future lease payments during the periods with termination options exercisable are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	Lease liabilities recognised (discounted) \$'000	Potential future lease payments under termination options not included in lease liabilities (undiscounted) \$'000
Leasehold Land – the Mainland China		
– At 31 December 2020	206,398	759,899
– At 31 December 2019	220,571	767,690

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13 INVESTMENT PROPERTIES

(a) Investment properties

	Completed investment properties \$'000	Investment properties under development \$'000	Total \$'000
At 1 January 2020	5,493,521	1,390,853	6,884,374
Exchange realignment	318,929	96,005	414,934
Additions	–	20,350	20,350
Transfer upon completion	1,507,208	(1,507,208)	–
Transfer from non-current assets classified as held for sale (note 22)	2,492,540	–	2,492,540
Transfer from property, plant and equipment (note 12)	6,573	–	6,573
Net fair value gain on investment properties	156,242	–	156,242
At 31 December 2020	9,975,013	–	9,975,013
At 1 January 2019	7,726,642	–	7,726,642
Exchange realignment	(94,455)	(25,274)	(119,729)
Transfer from properties under development (note 17)	–	642,455	642,455
Transfer to non-current assets classified as held for sale (note 22)	(2,192,940)	–	(2,192,940)
Transfer to property, plant and equipment (note 12)	(6,885)	–	(6,885)
Net fair value gain on investment properties	61,159	–	61,159
Fair value gain upon transfer to investment properties from properties under development	–	773,672	773,672
At 31 December 2019	5,493,521	1,390,853	6,884,374

(Expressed in Hong Kong dollars)

13 INVESTMENT PROPERTIES (Continued)**(a) Investment properties** (Continued)

	2020	2019
	\$'000	\$'000
Ownership interests in leasehold investment properties (including under development), carried at fair value, with remaining lease term of:		
Hong Kong:		
– 50 years or more	535,460	526,480
– between 10 and 50 years	2,906,910	433,170
	3,442,370	959,650
Mainland China:		
– between 10 and 50 years	6,527,059	5,919,288
	9,969,429	6,878,938
Investment property carried at fair value in Taiwan with freehold land	5,584	5,436

The Group's investment properties were revalued on 31 December 2020 and 2019 by Ravia Global Appraisal Advisory Limited, an independent professionally qualified valuer, at \$9,975,013,000 (2019: \$6,884,374,000) in aggregate, on an open market, existing use basis. Such investment properties are leased or available for lease to third parties under operating leases. Details about such operating lease arrangements are included in note 37 to the financial statements.

At 31 December 2020 and 2019, certain investment properties of the Group were pledged and mortgaged to secure the banking facilities granted to the Group (note 25).

At 31 December 2020, certain investment properties of the Group with an aggregate value of \$124,032,000 (2019: \$114,557,000) were pledged to secure the employees resettlement reserve funds (included in provision for severance payments (note 30)) for certain subsidiaries of the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13 INVESTMENT PROPERTIES (Continued)

(a) Investment properties (Continued)

The Group is in the process of applying the land use right certificates in respect of certain investment properties of the Group located in Mainland China amounting to \$631,284,000 as at 31 December 2020 (2019: \$580,130,000). The directors do not expect any legal obstacle in obtaining the relevant title certificates.

At the end of each reporting period, the Group's management has discussion with the valuer on the valuation methodology and valuation results when the valuation is performed for financial reporting purposes. The investment properties comprised commercial and industrial properties.

Further particulars of the Group's investment properties are included on pages 197 to 203.

(b) Fair value hierarchy

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

	Fair value measurement as at 31 December 2020 using			Fair value at 31 December 2020 \$'000
	Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000	
Recurring fair value measurement for:				
Commercial properties	–	–	9,082,491	9,082,491
Industrial properties	–	–	892,522	892,522
	–	–	9,975,013	9,975,013

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13 INVESTMENT PROPERTIES (Continued)

(b) Fair value hierarchy (Continued)

	Fair value measurement as at 31 December 2019 using			Fair value at 31 December 2019 \$'000
	Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000	
Recurring fair value measurement for:				
Commercial properties	–	–	6,161,328	6,161,328
Industrial properties	–	–	723,046	723,046
	–	–	6,884,374	6,884,374

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 in investment properties and non-current assets classified as held for sale (2019: Nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13 INVESTMENT PROPERTIES (Continued)

(b) Fair value hierarchy (Continued)

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

	Commercial properties \$'000	Industrial properties \$'000
At 1 January 2020	6,161,328	723,046
Exchange realignment	391,869	23,065
Additions	20,350	–
Transfer from non-current assets classified as held for sale (note 22)	2,492,540	–
Transfer from property, plant and equipment (note 12)	6,573	–
Net fair value gain	9,831	146,411
At 31 December 2020	9,082,491	892,522
At 1 January 2019	7,008,017	718,625
Exchange realignment	(115,205)	(4,524)
Transfer to non-current assets classified as held for sale (note 22)	(2,192,940)	–
Transfer to property, plant and equipment (note 12)	(6,885)	–
Transfer from properties under development (note 17)	642,455	–
Net fair value gain	52,214	8,945
Fair value gain upon transfer to investment properties from properties under development	773,672	–
At 31 December 2019	6,161,328	723,046

(Expressed in Hong Kong dollars)

13 INVESTMENT PROPERTIES (Continued)**(b) Fair value hierarchy** (Continued)

Below is a summary of the valuation techniques and the key inputs used in the valuation of the Group's investment properties within Level 3 of the fair value hierarchy:

Properties	Valuation techniques	Unit price/Unit construction cost
Situated in Hong Kong		
– Commercial	Comparison approach	\$6,275–\$28,512 per square foot (2019: \$7,468–\$20,603 per square foot)
– Industrial	Comparison approach	\$3,861–\$4,907 per square foot (2019: \$3,327–\$5,800 per square foot)
Situated in Mainland China		
– Commercial	Comparison approach	RMB4,814–RMB52,000 per square metre (2019: RMB3,290–RMB50,600 per square metre)
– Industrial	Comparison approach	RMB1,600–RMB8,510 per square metre (2019: RMB1,580–RMB4,100 per square metre)
– Industrial	Depreciated replacement cost approach (“DRC”)	RMB850–RMB2,415 per square metre (2019: RMB1,000–RMB1,500 per square metre)
Situated in Taiwan		
– Commercial	Comparison approach	TWD38,700–TWD40,800 per square metre (2019: TWD38,700–TWD40,800 per square metre)

Under the comparison approach, the properties are valued on market basis assuming sales in their existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. Appropriate adjustments are then made to account for the differences between such properties and their respective comparables in terms of age, time, location, floor level and other relevant factors.

For certain properties in the Mainland China, due to the specific purpose for which most of the buildings and structures of the property have been constructed, there are no readily identifiable market comparables. Thus the buildings and structures have been valued on the basis of their depreciated replacement costs instead of direct comparison approach. The DRC is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the existing structures less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In practice, DRC approach may be used as a substitute for the market value of specialised property, due to the lack of market comparables available.

Fair values of investment properties will increase if there were increases in unit price or construction cost.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

14 CONSTRUCTION IN PROGRESS

	2020 \$'000	2019 \$'000
Carrying amount at 1 January	136,737	149,713
Exchange realignment	9,317	(2,718)
Additions	16,106	2,225
Transfer to property, plant and equipment (note 12)	–	(1,359)
Disposals	(2,697)	(11,124)
Carrying amount at 31 December	159,463	136,737

15 INVESTMENTS IN SUBSIDIARIES

The Company has set up a trust for the purpose of administering the Company's Employees' Share Award Scheme (the "Share Award Scheme") established by the Company in 2011. The Company is required to consolidate the trust as the Company has the power over the trust and can derive benefits from the contributions of employees who have been awarded the awarded shares through their employment with the Group.

Shares of certain indirect wholly-owned subsidiaries of the Company were pledged and mortgaged to secure the banking facilities granted to the Group (note 25).

Details of the principal subsidiaries are set out in note 43.

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2020	2019
Percentage of equity interest held by non-controlling equity holders:		
– 遼寧長盛置業有限公司	20%	20%
Loss for the year allocated to non-controlling interests:	\$'000	\$'000
– 遼寧長盛置業有限公司	(353)	(24,490)
Accumulated balances of non-controlling interests at the reporting dates:	\$'000	\$'000
– 遼寧長盛置業有限公司	326,823	296,770

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

15 INVESTMENTS IN SUBSIDIARIES (Continued)

The following table illustrates the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations.

	2020 遼寧長盛置業 有限公司 \$'000	2019 遼寧長盛置業 有限公司 \$'000
Revenue	8,247	13,196
Loss for the year	(1,764)	(122,451)
Other comprehensive income for the year	91,860	(40,050)
Total comprehensive income for the year	90,096	(162,501)
Current assets	147,718	145,382
Non-current assets	2,883,156	2,760,799
Current liabilities	(185,899)	(193,040)
Non-current liabilities	(522,792)	(481,054)
Net cash generated from/(used in) operating activities	174	(2,082)
Net cash generated from/(used in) investing activities	5	(7)
Net cash (used in)/generated from financing activities	(1,056)	1,487

As disclosed in the announcement of the Company dated 17 January 2013, the acquisition of the entire issued share capital of Splendor Sheen Limited was completed on 16 January 2013. The principal subsidiary of Splendor Sheen Limited is 遼寧長盛置業有限公司 (formerly 遼寧大發房地產有限責任公司) which is owned as to 80% by Splendor Sheen Limited and 20% by the non-controlling shareholders (the “Non-controlling Shareholders”).

Two agreements dated 27 December 2011 and 28 October 2012, respectively, were signed by the shareholders of 遼寧長盛置業有限公司. Pursuant to the aforesaid agreements, the parties thereto agreed to make additional pro-rata capital contribution to 遼寧長盛置業有限公司 with reference to respective parties’ equity ownership percentage in 遼寧長盛置業有限公司 in the aggregate amounts of RMB608,000,000 for the Group and RMB152,000,000 for the Non-controlling Shareholders. Up to 31 December 2020, the Group has injected approximately RMB607,349,000 (up to 31 December 2019: approximately RMB607,349,000), equivalent to approximately \$749,143,000 (up to 31 December 2019: equivalent to approximately \$749,143,000), in aggregate to 遼寧長盛置業有限公司 under the capital contribution obligation as referred to in the above. The Non-controlling Shareholders, however, have not made any payment for their respective additional capital contribution obligations up to 31 December 2020. As such, the abovementioned outstanding capital contributions from the Non-controlling Shareholders have not been recognised in equity as non-controlling interests in 遼寧長盛置業有限公司 of \$296,770,000 and \$326,823,000 as carried in the consolidated statement of financial position as at 31 December 2019 and 2020, respectively.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

16 INVENTORIES

	2020 \$'000	2019 \$'000
Trading and manufacturing		
Raw materials	205,209	177,837
Work in progress	179,112	176,906
Finished goods	206,593	144,674
	590,914	499,417
Provision against obsolete inventories	(32,779)	(40,837)
	558,135	458,580
Property development		
Completed properties for sale	780,978	920,020
	1,339,113	1,378,600

	2020 \$'000	2019 \$'000
Ownership interests in leasehold land included in completed properties for sale carried at the lower of cost and net realisable value, with remaining lease term of:		
Mainland China:		
– between 10 and 50 years	196,414	253,659

The movements in provision against obsolete inventories are as follows:

	2020 \$'000	2019 \$'000
At 1 January	40,837	62,926
Exchange realignment	265	(64)
(Reversal of provision)/provision recognised (note 6)	(4,248)	1,028
Reversal of write-down	(4,075)	(23,053)
At 31 December	32,779	40,837

The reversal of write-down arose due to utilisation upon sales as results of change in customer preferences.

As at 31 December 2019, certain inventories of the Group were pledged to secure the banking facilities granted to the Group (note 25). The security has been released and discharged during the year ended 31 December 2020.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

17 PROPERTIES UNDER DEVELOPMENT

	2020	2019
	\$'000	\$'000
Carrying amount at 1 January	621,004	1,898,847
Exchange realignment	14,257	(44,136)
Additions	39,267	306,023
Interest capitalised	8,783	39,464
Transfer to investment properties* (note 13)	–	(642,455)
Transfer to completed properties for sale	(449,416)	(936,739)
	<hr/>	<hr/>
Carrying amount at 31 December	233,895	621,004

* This represented the transfer of certain properties under development to investment properties under development as they were held for leasing purpose.

The Group's properties under development are situated in Mainland China, and include ownership interests in land with remaining lease term of:

	2020	2019
	\$'000	\$'000
Between 10 and 50 years	133,974	250,109

The amount of properties under development expected to be recovered after more than one year is approximately \$233,895,000 (2019: \$342,000,000).

As at 31 December 2019, certain properties under development of the Group were pledged to secure the banking facilities granted to the Group (note 25). The security has been released and discharged during the year ended 31 December 2020.

Further particulars of the Group's properties under development are included on page 204.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

18 TRADE RECEIVABLES

	2020 \$'000	2019 \$'000
Trade receivables	734,282	562,824
Loss allowance	(105,006)	(108,338)
	629,276	454,486

An ageing analysis of trade receivables net of loss allowance as at the end of the reporting period based on invoice date is as follows:

	2020 \$'000	2019 \$'000
Within 90 days	605,285	431,204
91 to 180 days	19,325	20,813
181 to 365 days	2,587	426
Over 365 days	2,079	2,043
	629,276	454,486

The movements in loss allowance for trade receivables are as follows:

	2020 \$'000	2019 \$'000
At 1 January	108,338	98,168
Exchange realignment	2,492	(60)
(Reversal of impairment loss)/impairment loss recognised (note 6)	(5,675)	17,447
Amount written off as uncollectible	(149)	(7,217)
At 31 December	105,006	108,338

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 41(c). The Group does not hold any collateral or other credit enhancements over these balances.

19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The amount of prepayments, deposits and other receivables expected to be recovered or recognised as expense after more than one year is \$780,016,000 (2019: \$644,297,000). All of the other prepayments, deposits and other receivables are expected to be recovered or recognised as expense within one year.

20 AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are unsecured, interest-free and recoverable on demand.

21 CASH AND BANK BALANCES

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to \$96,733,000 (2019: \$307,806,000). RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2020 and 2019, certain cash and bank balances of the Group were pledged to secure the banking facilities granted to the Group (note 25).

The table below details changes in the Group’s liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were or future cash flows will be, classified in Group’s consolidated cash flow statement as cash flows from financing activities.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

21 CASH AND BANK BALANCES (Continued)

	Bank loans \$'000 (Note 25)	Trust receipt loans \$'000 (Note 25)	Amounts due to non- controlling shareholders of subsidiaries \$'000 (Note 29)	Amounts due to related parties \$'000 (Note 27)	Lease liabilities \$'000 (Note 28)	Interest payables \$'000	Total \$'000
At 1 January 2020	4,064,828	249,080	9,438	311,191	410,508	20,963	5,066,008
Changes from financing cash flows							
Proceeds from new bank loans	3,347,455	–	–	–	–	–	3,347,455
Repayment of bank loans	(3,505,081)	–	–	–	–	–	(3,505,081)
Increase in trust receipts loans	–	52,624	–	–	–	–	52,624
Interest and other borrowing costs paid	–	–	–	(1,830)	–	(169,259)	(171,089)
Increase in amounts due to non-controlling shareholder of subsidiaries	–	–	280	–	–	–	280
Increase in amounts due to related parties	–	–	–	314,000	–	–	314,000
Repayment of amounts due to related parties	–	–	–	(84,672)	–	–	(84,672)
Capital element of lease rentals paid	–	–	–	–	(64,988)	–	(64,988)
Interest element of lease rentals paid	–	–	–	–	(25,940)	–	(25,940)
Total changes from financing cash flows	(157,626)	52,624	280	227,498	(90,928)	(169,259)	(137,411)
Exchange realignment	18,989	–	596	–	24,725	7	44,317
Other changes:							
Increase in lease liabilities from entering into new leases during the year	–	–	–	–	107,924	–	107,924
Decrease in lease liabilities from terminating leases during the year	–	–	–	–	(25,173)	–	(25,173)
COVID-19-related rent concession received (note 12)	–	–	–	–	(3,863)	–	(3,863)
Interest expenses (note 7)	–	–	–	18,950	25,940	148,059	192,949
Capitalised borrowing costs (note 7)	–	–	–	–	–	8,783	8,783
Total other changes	–	–	–	18,950	104,828	156,842	280,620
At 31 December 2020	3,926,191	301,704	10,314	557,639	449,133	8,553	5,253,534

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

21 CASH AND BANK BALANCES (Continued)

	Bank loans \$'000 (Note 25)	Trust receipt loans \$'000 (Note 25)	Amounts due to non- controlling shareholders of subsidiaries \$'000 (Note 29)	Amounts due to related parties \$'000 (Note 27)	Lease liabilities \$'000 (Note 28)	Interest payables \$'000	Total \$'000
At 1 January 2019	4,295,041	347,163	8,444	137,166	474,694	21,833	5,284,341
Changes from financing cash flows							
Proceeds from new bank loans	2,971,541	-	-	-	-	-	2,971,541
Repayment of bank loans	(3,187,347)	-	-	-	-	-	(3,187,347)
Decrease in trust receipts loans	-	(98,083)	-	-	-	-	(98,083)
Interest and other borrowing costs paid	-	-	-	-	-	(204,274)	(204,274)
Increase in amounts due to non-controlling shareholder of subsidiaries	-	-	1,168	-	-	-	1,168
Increase in amounts due to related parties	-	-	-	191,171	-	-	191,171
Repayment of amounts due to related parties	-	-	-	(29,186)	-	-	(29,186)
Capital element of lease rentals paid	-	-	-	-	(69,941)	-	(69,941)
Interest element of lease rentals paid	-	-	-	-	(28,081)	-	(28,081)
Total changes from financing cash flows	(215,806)	(98,083)	1,168	161,985	(98,022)	(204,274)	(453,032)
Exchange realignment	(14,407)	-	(174)	-	(7,827)	(6)	(22,414)
Other changes:							
Increase in lease liabilities from entering into new leases during the year	-	-	-	-	15,273	-	15,273
Decrease in lease liabilities from terminating leases during the year	-	-	-	-	(1,691)	-	(1,691)
Interest expenses (note 7)	-	-	-	12,040	28,081	163,946	204,067
Capitalised borrowing costs (note 7)	-	-	-	-	-	39,464	39,464
Total other changes	-	-	-	12,040	41,663	203,410	257,113
At 31 December 2019	4,064,828	249,080	9,438	311,191	410,508	20,963	5,066,008

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

21 CASH AND BANK BALANCES (Continued)

Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 \$'000	2019 \$'000
Within operating cash flows	9,263	17,234
Within financing cash flows	90,928	98,022
	100,191	115,256

These amounts relate to the following:

	2020 \$'000	2019 \$'000
Lease rentals paid	100,191	115,256

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

22 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

At 31 December 2019, the Group had committed to a plan to sell certain of its investment properties. In the opinion of the directors, the disposal of the assets was expected to be completed within twelve months from the financial year end date.

	2020 \$'000	2019 \$'000
Carrying amount at 1 January	2,494,940	272,000
Fair value (loss)/gain	(2,400)	30,000
Transfer (to)/from investment properties (note 13)	(2,492,540)	2,192,940
<hr/>		
Carrying amount at 31 December	–	2,494,940

The investment properties presented as non-current assets classified as held for sale were revalued on 31 December 2019 by Ravia Global Appraisal Advisory Limited, an independent professionally qualified valuer, at \$2,494,940,000 on an open market, existing use basis. Such investment properties were leased or available for lease to third parties under operating leases. Details about such operating lease arrangements are included in note 37 to the financial statements.

As at 31 December 2019, all non-current assets of the Group classified as held for sale were pledged and mortgaged to secure the banking facilities granted to the Group (note 25).

As at 31 December 2020, it is considered that the investment properties no longer fulfilled the requirements under relevant accounting standards in relation to non-current assets held for sale and accordingly, the amounts were reclassified to investment properties (see note 13).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

22 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties presented as non-current assets classified as held for sale:

	Fair value measurement as at 31 December 2019 using			Total \$'000	
	Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000		
	Recurring fair value measurement for:				
	Commercial properties	–	–		2,494,940

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 in investment properties and non-current assets classified as held for sale (2019: Nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

22 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

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

	Commercial properties \$'000
Carrying amount at 1 January 2020	2,494,940
Fair value loss	(2,400)
Transfer to investment properties (note 13)	(2,492,540)
Carrying amount at 31 December 2020	–
Carrying amount at 1 January 2019	272,000
Fair value gain	30,000
Transfer from investment properties (note 13)	2,192,940
Carrying amount at 31 December 2019	2,494,940

Below is the valuation technique and the key inputs used in the valuation of the Group's investment properties presented as non-current assets classified as held for sale:

Properties	Valuation technique	Unobservable inputs	Weighted average of unobservable input	
			2020	2019
Situated in Hong Kong – Commercial	Comparison approach	Prevailing unit rate	N/A	\$30,000 per square foot

Under the comparison approach, the properties are valued on market basis assuming sales in their existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. Appropriate adjustments are then made to account for the differences between such properties and their respective comparables in terms of age, time, location, floor level and other relevant factors.

Fair value of non-current assets classified as held for sale will increase if there were an increase in unit price.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

22 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

The Group's non-current assets classified as held for sale are situated in Hong Kong and are with remaining lease term of:

	2020 \$'000	2019 \$'000
Between 10 and 50 years	–	2,494,940

23 TRADE PAYABLES

	2020 \$'000	2019 \$'000
Trade payables	958,358	778,146

An ageing analysis of trade payables as at the end of the reporting period based on invoice date is as follows:

	2020 \$'000	2019 \$'000
Within 90 days	718,385	634,223
91 to 180 days	145,579	73,130
181 to 365 days	24,011	12,655
Over 365 days	70,383	58,138
	958,358	778,146

The trade payables are non-interest-bearing and expected to be settled within one year.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

24 OTHER PAYABLES AND ACCRUALS

	2020 \$'000	2019 \$'000
Contract liabilities		
Made-to-order manufacturing arrangements		
– Billing in advance of performance	56,037	110,262
Property development		
– Forward sales deposits and instalments received	25,961	521,903
	81,998	632,165
Other payables and accruals (Note)	552,434	589,923
	634,432	1,222,088

Note: Except for rental deposits of \$22,732,000 (2019: \$27,360,000), all other payables are non-interest-bearing and expected to be settled within one year.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– **Manufacturing arrangements**

When the Group receives a deposit on acceptance of manufacturing order, this will give rise to a contract liability at the start of a contract until the revenue of the contract is recognised. The Group typically receives deposits on acceptance of manufacturing orders. The deposit was negotiated on case by case basis with customers.

– **Property development**

The Group receives certain percentage of the contract value as a deposit from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability until the properties are completed and transferred to the customer. The rest of the consideration is typically paid when the property is accepted by the customer.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

24 OTHER PAYABLES AND ACCRUALS (Continued)

Movement in contract liabilities

	2020 \$'000	2019 \$'000
Balance at 1 January	632,165	534,719
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(628,300)	(156,424)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	58,386	110,262
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year in respect of properties still under construction at the end of the year	19,747	143,608
Balance at 31 December	81,998	632,165

As at 31 December 2020, the amount of billings in advance of performance and forward sales deposits and instalments received was expected to be recognised as revenue within one year (2019: within one year).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

25 INTEREST-BEARING BANK BORROWINGS

	Effective interest rate %	2020 \$'000	2019 \$'000
Current			
Bank overdrafts – unsecured	5	4,748	7,265
Bank loans – unsecured	2–5	278,435	106,468
Bank loans – secured	2–8	1,384,945	2,213,776
Trust receipt loans – unsecured	2–3	135,887	–
Trust receipt loans – secured	3–4	165,817	249,080
		1,969,832	2,576,589
Non-current			
Bank loans – unsecured	4	–	2,933
Bank loans – secured	3–8	2,262,811	1,741,651
		2,262,811	1,744,584
		4,232,643	4,321,173
Analysed into:			
Bank loans and overdrafts repayable:			
Within one year or on demand		1,969,832	2,576,589
In the second year		103,139	1,473,301
In the third to fifth years, inclusive		869,429	271,283
Over five years		1,290,243	–
		4,232,643	4,321,173

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

25 INTEREST-BEARING BANK BORROWINGS (Continued)

Notes:

- (a) At the end of the reporting period, the Group's bank borrowings of approximately \$3,813,573,000 (2019: \$4,204,507,000) were secured by:
- (i) pledges and mortgages over the Group's investment properties situated in Hong Kong and Mainland China (including investment properties under development), which had an aggregate carrying value of approximately \$7,800,176,000 (2019: \$5,338,898,000) (note 13) at the end of the reporting period;
 - (ii) pledges and mortgages over the Group's ownership interests in leasehold land and buildings, which had an aggregate carrying value of approximately \$43,132,000 (2019: \$46,977,000) (note 12) at the end of the reporting period;
 - (iii) pledges over certain bank deposits of the Group with an aggregate carrying value of approximately \$11,622,000 (2019: \$22,898,000) at the end of the reporting period; and
 - (iv) pledges and mortgages over the shares of certain indirect wholly-owned subsidiaries of the Group.
- (b) As at 31 December 2019, in addition to those disclosed above, the bank borrowings were also secured by:
- (i) pledges and mortgages over the Group's investment properties presented as non-current assets classified as held for sale, which had an aggregate carrying value of approximately \$2,129,000,000 (note 22) as at 31 December 2019;
 - (ii) pledges over the Group's completed properties for sale, which had an aggregate carrying value of approximately \$920,020,000 (note 16) as at 31 December 2019;
 - (iii) pledges and mortgages over the property under development in Shenyang, which had an aggregate carrying value of approximately \$418,387,000 (note 17) as at 31 December 2019.
- (c) At the end of the reporting period, except for the secured bank loans with an aggregate amount of \$428,878,000 (2019: \$429,280,000), which were denominated in Renminbi, all other borrowings were in Hong Kong dollars.

26 AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties are unsecured, interest-free and recoverable on demand.

27 AMOUNTS DUE TO RELATED PARTIES

Amounts due to related parties are unsecured, interest bearing at Hong Kong dollar prime rate per annum and not repayable within one year from the end of the reporting period.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

28 LEASE LIABILITIES

The lease liabilities were repayable as follows:

	2020	2019
	\$'000	\$'000
Within 1 year	69,722	66,035
After 1 year but within 2 years	74,320	49,694
After 2 years but within 5 years	133,445	123,497
After 5 years	171,646	171,282
	379,411	344,473
	449,133	410,508

29 AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand except for amounts totalling \$7,941,000 (2019: \$7,941,000) which is not repayable within one year from the end of the reporting period.

30 OTHER NON-CURRENT LIABILITIES

	2020	2019
	\$'000	\$'000
Provision for severance payments	66,390	68,463
Others	638	597
	67,028	69,060

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

30 OTHER NON-CURRENT LIABILITIES (Continued)

The movements in the provision for severance payments are as follows:

	2020 \$'000	2019 \$'000
At 1 January	68,463	69,865
Exchange realignment	4,286	(1,426)
Additions	95	24
Write-back (note 6)	(6,454)	—
At 31 December	66,390	68,463

The provision for severance payments arose from the acquisition of certain subsidiaries in Mainland China in prior years, and was recognised under the relevant regulations in Mainland China.

On 25 July 2014, an indirect wholly-owned subsidiary of the Company entered into the equity transfer agreements with Nanjing Machinery & Electronics Industrial (Group) Co., Limited (南京機電產業(集團)有限公司) for the acquisition of all the minority stakes in three subsidiaries, 南京微分電機有限公司, 南京電力電容器有限公司 and 南京液壓件二廠有限公司. Under the agreement, investment properties amounting to \$124,032,000 (2019: \$114,557,000) are pledged to secure the performance of the respective subsidiaries' obligations in respect of the employees resettlement reserve funds (職工安置備用金). Under the local government policy, companies transformed from state-owned enterprise shall pledge their assets to secure the performance of their obligations in respect of the employees resettlement reserve funds.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

31 DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

The movements in deferred tax (assets)/liabilities recognised during the year are as follows:

	Depreciation allowance in excess of related depreciation \$'000	Revaluation of properties \$'000	Losses available for offsetting against future taxable profits \$'000	Others \$'000	Total \$'000
At 1 January 2019	61,027	839,088	(18,782)	–	881,333
Deferred tax charged/(credited) to profit or loss (note 10)	6,619	176,020	(14,837)	13,269	181,071
Exchange realignment	(553)	(21,360)	430	(327)	(21,810)
At 31 December 2019	67,093	993,748	(33,189)	12,942	1,040,594
At 1 January 2020	67,093	993,748	(33,189)	12,942	1,040,594
Deferred tax charged/(credited) to profit or loss (note 10)	9,004	41,780	(14,594)	13,153	49,343
Exchange realignment	2,653	66,941	(1,263)	998	69,329
At 31 December 2020	78,750	1,102,469	(49,046)	27,093	1,159,266

Deferred tax assets have not been recognised in respect of the following items:

(i) Tax losses arising in Hong Kong

As at 31 December 2020, the Group had tax losses arising in Hong Kong of \$480,253,000 (2019: \$453,760,000). Such tax losses are available indefinitely for offsetting against future taxable profits of the relevant companies from which the losses arose.

(ii) Tax losses arising in Mainland China

As at 31 December 2020, the Group had tax losses arising in Mainland China of \$263,618,000 (2019: \$380,345,000) in the past five years available for offsetting against future taxable profits. Such tax losses will expire in one to five years.

Deferred tax assets have not been recognised in respect of the above tax losses as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

31 DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED (Continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared by foreign investment enterprises established in Mainland China for distribution to foreign investors. The requirement is effective from 1 January 2008 onwards, and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008 onwards.

No deferred tax liabilities have been recognised for withholding taxes on the unremitted earnings, which are subject to the abovementioned withholding taxes, of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in the major subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately \$261,667,000 at 31 December 2020 (2019: \$218,936,000).

32 SHARE CAPITAL

(a) Shares

	2020 \$'000	2019 \$'000
Authorised:		
20,000,000,000 (2019: 20,000,000,000) ordinary shares of \$0.01 each	200,000	200,000
3,000,000,000 (2019: 3,000,000,000) redeemable convertible preference shares of \$0.02 each	60,000	60,000
Total authorised capital	260,000	260,000
Issued and fully paid:		
13,221,302,172 (2019: 13,221,302,172) ordinary shares of \$0.01 each	132,213	132,213
117,350,631 (2019: 378,813,131) redeemable convertible preference shares of \$0.02 each (Note)	2,347	7,576
Total issued and fully paid capital	134,560	139,789

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

32 SHARE CAPITAL (Continued)

(a) Shares (Continued)

Movements of issued share capital and share premium were as follows:

	Issued ordinary shares \$'000	Issued redeemable convertible preference shares \$'000	Share premium \$'000	Total \$'000
At 1 January 2019	132,213	7,814	1,701,135	1,841,162
11,878,000 redeemable convertible preference shares redeemed during the year	–	(238)	(9,264)	(9,502)
At 31 December 2019 and at 1 January 2020	132,213	7,576	1,691,871	1,831,660
261,462,500 redeemable convertible preference shares redeemed during the year	–	(5,229)	(203,941)	(209,170)
At 31 December 2020	132,213	2,347	1,487,930	1,622,490

Movements of number of issued shares are as follows:

	Number of issued ordinary shares '000	Number of redeemable convertible preference shares '000
At 1 January 2019	13,221,302	390,691
Redeemed during the year	–	(11,878)
At 31 December 2019 and at 1 January 2020	13,221,302	378,813
Redeemed during the year	–	(261,462)
At 31 December 2020	13,221,302	117,351

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

32 SHARE CAPITAL (Continued)

(a) Shares (Continued)

Note: The redeemable convertible preference shares are redeemable at the sole discretion of the Company at any time after the issuance thereof. Holders of the redeemable convertible preference shares shall be entitled to pro-rata share of dividend or distribution declared by the board of directors (the "Board"), at its discretion, to the ordinary shareholders of the Company. Dividends or distributions payable to the holders of the redeemable convertible preference shares are not cumulative. The redeemable convertible preference shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, general meetings of the Company unless a resolution is proposed to vary or abrogate the rights or privileges of the holders of the redeemable convertible preference shares or for winding-up the Company. The redeemable convertible preference shares rank prior to the ordinary shares on distribution of assets on liquidation, winding-up or dissolution of the Company to the extent of the amount equal to the aggregate issue price of the relevant redeemable convertible preference shares. The remaining assets shall belong to and be distributed on a pari passu basis among the holders of the ordinary shares.

(b) Share options

Details of the Company's share option schemes and the share options issued under the schemes are set out in note 33 to the financial statements.

(c) Share awards

In 2011, the Board approved the establishment of the Share Award Scheme. Pursuant to the rules of the Share Award Scheme, the Company has set up a trust (the "Trust") for the purpose of administering the Share Award Scheme and holding the shares purchased for the Share Award Scheme before the award and vesting of the same. The Company pays to the Trust from time to time for the purchase of shares held for the Share Award Scheme from market.

The terms of the Share Award Scheme provide for the award of shares in the Company and/or shares in South China Assets Holdings Limited, a related company under common control, to employees of the Group as part of their compensation package. Subject to the rules of the Share Award Scheme, the Board shall determine at the time of grant the vesting date for the relevant awarded shares.

Dividends payable to the awarded shares are applied to acquire further shares (dividend shares) and pay the related purchase expenses and expenses of the Trust. Dividend shares have the same vesting date as the related awarded shares.

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited and held by the trustee of the Share Award Scheme who may award such shares to other awardees taking into consideration the recommendations of the Board.

(Expressed in Hong Kong dollars)

32 SHARE CAPITAL (Continued)

No movements in the number of awarded shares in the Company during the years ended 31 December 2020 and 2019.

Movements in the number of shares in the Company held under the Share Award Scheme are as follows:

	2020		2019	
	Value \$'000	Number of shares held	Value \$'000	Number of shares held
At 1 January and 31 December	61,075	206,160,593	61,075	206,160,593

During the year ended 31 December 2020, there was no share (2019: Nil) of the Share Award Scheme of the Company was transferred to the awardees upon vesting of certain awarded shares. The total cost of the vested shares was Nil (2019: Nil).

33 SHARE OPTION SCHEMES

At the annual general meeting of the Company held on 5 June 2012, the shareholders of the Company approved the adoption of a new share option scheme (the “2012 Share Option Scheme”) which became effective on 11 June 2012. Under the 2012 Share Option Scheme, the directors of the Company may grant options to eligible persons to subscribe for the Company’s shares subject to the terms and conditions stipulated therein. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective.

The directors and employees of the Group are entitled to participate in the share option schemes operated by the Company. Details of the share option schemes are as follows:

2012 Share Option Scheme**(a) Purpose of the 2012 Share Option Scheme**

In order to provide incentives or rewards to the participants for their contributions to the Group and to enable the Group to attract and retain employees with relevant qualifications and experience to work for the Group and any entity in which any member of the Group holds equity interest (the “Invested Entity”), the shareholders of the Company approved the adoption of the 2012 Share Option Scheme at the annual general meeting held on 5 June 2012.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

33 SHARE OPTION SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

(b) Participants of the 2012 Share Option Scheme

According to the 2012 Share Option Scheme, the Board may, at its discretion, grant share options to any person in any of the following classes of participants:

- (i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;
- (ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;
- (iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;
- (iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;
- (v) any business partner, agent, consultant, contractor or representative of any member of the Group or any Invested Entity or substantial shareholder;
- (vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;
- (vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;
- (viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder;
- (ix) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute to the development and growth of any member of the Group (including any discretionary object of a participant which is a discretionary trust); and
- (x) any company wholly owned by one or more persons belonging to any of the above classes of participants.

33 SHARE OPTION SCHEMES (Continued)

2012 Share Option Scheme (Continued)

(c) Total number of shares available for issue under the 2012 Share Option Scheme

The maximum number of shares in respect of which share options may be granted under the 2012 Share Option Scheme and any other share option scheme of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the 2012 Share Option Scheme, i.e. a total of 597,727,372. Options lapsed in accordance with the terms of the 2012 Share Option Scheme or any other share option scheme of the Company under which such options are granted shall not be counted for the purpose of calculating whether the abovementioned scheme mandate limit has been exceeded.

As at 31 December 2020, the total number of shares available for issue pursuant to the grant of further share options under the 2012 Share Option Scheme was 560,885,772 (2019: 555,804,172), representing approximately 4.2% of the issued share capital of the Company as at the date of this Annual Report.

(d) Maximum entitlement of each participant

No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant to such participant would exceed in aggregate 1% (or such other percentage as may be permitted under the Listing Rules and all other applicable laws and regulations) of the shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the Listing Rules) abstaining from voting.

Where a grant of share option is to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive director of the Company or any of their respective associates (as defined in the Listing Rules) and the proposed grant of the share option, when aggregated with the share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person(s) in the past twelve months period up to and including the date of such grant, would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person(s) representing in aggregate over 0.1% of the total issued share capital of the Company for the time being (or such other amount or percentage or on such other date as the relevant provisions of the Listing Rules may specify) and having an aggregate value, based on the closing price of the share at the date of each grant, in excess of \$5 million (or such other amount or such other price or date as the relevant provisions of the Listing Rules may specify), then the proposed grant of share option must be subject to the approval of the shareholders of the Company on a poll in a general meeting where all connected persons of the Company must abstain from voting.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

33 SHARE OPTION SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

(e) *Period within which the shares must be taken up under an option*

The Board may at its absolute discretion determine the period during which a share option may be exercised. Such period should expire no later than 10 years from the date of grant. The Board may also impose restrictions on the exercise of a share option during the period a share option may be exercised.

(f) *Minimum period, if any, for which an option must be held before it can be exercised*

There is no specific requirement under the 2012 Share Option Scheme that an option must be held for any minimum period before it can be exercised. But the terms of the 2012 Share Option Scheme provide that the Board has the discretion to impose a minimum period at the time of grant of any particular option.

(g) *Amount payable upon acceptance of the option and the period within which payment must be made*

An amount of \$1 for each lot of share options granted is payable upon acceptance of the options within 28 days from the date of offer of the option.

(h) *Basis of determining the exercise price of the options*

The exercise price is determined by the Board, and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the Company's shares.

(Expressed in Hong Kong dollars)

33 SHARE OPTION SCHEMES *(Continued)***2012 Share Option Scheme** *(Continued)*(i) *Remaining life of the 2012 Share Option Scheme*

Subject to early termination of the 2012 Share Option Scheme pursuant to the terms thereof, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective on 11 June 2012.

The following share options were outstanding under the 2012 Share Option Scheme during the year:

	2020		2019	
	Weighted average exercise price per share \$	Number of options '000	Weighted average exercise price per share \$	Number of options '000
At 1 January	0.51	16,500	0.51	18,750
Lapsed during the year	0.51	(2,000)	0.51	(2,250)
At 31 December	0.51	14,500	0.51	16,500
Exercisable at 31 December	0.51	14,500	0.51	16,500

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

33 SHARE OPTION SCHEMES (Continued)

2012 Share Option Scheme (Continued)

(i) Remaining life of the 2012 Share Option Scheme (Continued)

Particulars of the outstanding share options granted under the 2012 Share Option Scheme and their movements during the year were as follows:

Name or category of participant	Number of share options			Date of grant of share options (DD/MM/YYYY) (Note 1)	Exercise period of share options (DD/MM/YYYY)	Number of ordinary share issuable upon the exercise of share options	Exercise price per share \$ (Note 2)
	Outstanding as at 1 January 2020	Lapsed during the year	Outstanding as at 31 December 2020				
Employees							
In aggregate	5,500,000	(666,666)	4,833,334	10/07/2015	10/07/2016 – 09/07/2025	12,280,532	0.51
	5,500,000	(666,667)	4,833,333	10/07/2015	10/07/2017 – 09/07/2025	12,280,533	0.51
	5,500,000	(666,667)	4,833,333	10/07/2015	10/07/2018 – 09/07/2025	12,280,535	0.51
Total	16,500,000	(2,000,000)	14,500,000			36,841,600	

Notes:

(1) All share options granted are subject to a vesting period and exercisable in the following manner:

From the date of grant of share options	Exercisable percentage
Within 12 months	Nil
13th – 24th month	Not more than 33 ¹ / ₃ %
25th – 36th month	Not more than 66 ² / ₃ %
37th – 120th month	100%

(2) The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alternation in the capital structure of the Company.

At the end of the reporting period, the Company had 14,500,000 share options outstanding under the 2012 Share Option Scheme. The exercise in full of the remaining share options would, under the capital structure of the Company as at 31 December 2020, result in the issue of 36,841,600 additional ordinary shares of the Company with additional cash received of approximately \$18,789,000.

34 RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 81 to 82.

(b) Nature and purpose of reserves

(i) *Share premium*

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) *Contributed surplus*

The excess of the value of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange was credited to the contributed surplus.

(iii) *Merger reserve*

It represents the excess of the consideration over the carrying amount of net assets acquired under common control transactions.

(iv) *Land and buildings revaluation reserve*

The land and buildings revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 2.4(g).

(v) *PRC statutory reserve*

Pursuant to the relevant laws and regulations of the PRC, certain subsidiaries of the Group registered in the PRC shall appropriate a portion of their profits after tax to the PRC statutory reserves, which are restricted as to use, subject to certain conditions provided that the said profit after tax of the relevant subsidiary is in excess of its accumulated losses brought forward, if any. For such appropriation, the said profit after tax and accumulated losses brought forward shall be the respective amounts reported in accordance with the accounting principles generally applicable to the PRC enterprises. There was no such transfer to the PRC statutory reserves for the year ended 31 December 2020 (2019: Nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

34 RESERVES (Continued)

(b) Nature and purpose of reserves (Continued)

(vi) Goodwill reserve

The goodwill arising on consolidation has been set up and dealt with in accordance with the transitional arrangements under HKFRS 3 (August 2004). Goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

(vii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy as set out in note 2.4(bb).

(viii) Employee share-based compensation reserve

The employee share-based compensation reserve comprises the fair value of the unvested share awards and the unexercised share options of the Group at grant date that has been recognised in accordance with the accounting policy as set out in note 2.4(z).

(ix) Treasury shares

At the end of the reporting period, a subsidiary had 32,249,468 of treasury shares which are available for resale and are recognised as a reduction of the total equity of the Group.

(c) Dividend

The Company had not declared or paid any dividend during the year (2019: Nil) and the board of directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

34 RESERVES (Continued)

(d) Company

	Share premium \$'000	Capital redemption reserve \$'000	Shares held for Share Award Scheme \$'000	Employee share-based compensation reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2019	1,701,135	223	(61,075)	8,496	(190,764)	1,458,015
Loss and total comprehensive income for the year	-	-	-	-	(93,528)	(93,528)
Redemption of redeemable convertible preference shares	(9,264)	-	-	-	-	(9,264)
Transfer of employee share-based compensation reserve upon lapse of share options	-	-	-	(1,020)	1,020	-
At 31 December 2019 and 1 January 2020	1,691,871	223	(61,075)	7,476	(283,272)	1,355,223
Loss and total comprehensive income for the year	-	-	-	-	(86,425)	(86,425)
Redemption of redeemable convertible preference shares	(203,941)	-	-	-	-	(203,941)
Transfer of employee share-based compensation reserve upon lapse of share options	-	-	-	(906)	906	-
At 31 December 2020	1,487,930	223	(61,075)	6,570	(368,791)	1,064,857

The Company's reserves available for distribution include share premium, capital redemption reserve, employee share-based compensation reserve and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association provided that the Company is able to pay its debts as they fall due in the ordinary course of business immediately following the distribution of dividend. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2020 amounted to approximately \$1,125,932,000 (2019: \$1,416,298,000).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

35 CONTINGENT LIABILITIES

As 31 December 2020, the Group had given guarantees to financial institutions in the aggregate amount of \$53,972,000 (2019: \$66,466,000) on behalf of purchasers of property units developed by the Group in Mainland China in relation to which the related building ownership certificate had not yet been issued at 31 December 2020. Such guarantees will be released upon the issuance of the building ownership certificate.

36 PLEDGES OF ASSETS

Details of the Group's bank loans and overdrafts and non-current liabilities, which are secured by the assets of the Group, are included in notes 25 and 30 to the financial statements.

37 OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases out its investment properties (notes 13 and 22) under operating lease arrangements with leases generally negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and may provide for periodic rent adjustments according to the then prevailing market conditions. None of the leases include variable lease payments.

At 31 December 2020, undiscounted lease payments under non-cancellable operating lease in place will be receivable by the Group in future periods as follows:

	2020 \$'000	2019 \$'000
Within one year	177,328	168,895
After 1 year but within 2 years	74,497	105,407
After 2 years but within 3 years	25,444	20,893
After 3 years but within 4 years	13,118	2,678
After 4 years but within 5 years	5,373	780
After 5 years	13,649	13,968
	309,409	312,621

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

38 CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 \$'000	2019 \$'000
Contracted but not provided for:		
Land and buildings	47,722	38,549
Machinery and equipment	2,046	2,812
Land use rights	12,396	10,427
	62,164	51,788
Authorised but not contracted for:		
Property, plant and equipment	6,694	42,635

39 RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2020 \$'000	2019 \$'000
Transactions with related companies#:		
Interest expense (Note)*	(18,950)	(12,041)
Rental income**	5,347	6,665
Expenses recharge to related companies*	13,728	14,127
Service fee to a related company**	(2,811)	–
Air tickets and travel related services purchased*	(146)	(1,722)

The relevant related companies are controlled by a substantial shareholder, who is also a director of the Company.

* These related party transactions also constitute exempted connected transactions or exempted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

** The related party transactions includes rental income of \$4,202,000 (2019: \$4,454,000) and service fee to a related party of \$2,811,000 (2019: Nil) which constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with and the key terms of the tenancy agreements have been disclosed in the announcement of the Company.

Note: Interest expense of \$18,950,000 (2019: \$12,041,000) was charged at Hong Kong dollar prime rate on the outstanding balances of the amounts due to related parties.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

39 RELATED PARTY TRANSACTIONS (Continued)

- (b) During the year ended 31 December 2020, the Group disposed of certain subsidiaries to a related company at a total consideration of \$17,500,000, which resulted in a gain on disposal of \$18,416,000 recognised in profit or loss.
- (c) Outstanding balances with related parties:
Details of the balances with related parties at the end of the reporting period are included in notes 20, 26, 27 and 29 to the financial statements.
- (d) Compensation of key management personnel of the Group:
The executive directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

40 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the management and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the management. The valuation process and results are discussed with the audit committee for financial reporting purposes.

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of financial investments are based on quoted market prices.

At the end of the reporting period, the financial investments were classified as Level 1 under the fair value hierarchy.

The Group enters into foreign exchange forward contracts with financial institutions. Foreign exchange forward contracts are measured using valuation techniques similar to forward pricing models. The models incorporate various market observable inputs including foreign exchange spot and forward rates. The carrying amounts of foreign exchange forward contracts are the same as their fair values.

At the end of the reporting period, the exchange forward contracts were classified as Level 2 under the fair value hierarchy.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values.

(Expressed in Hong Kong dollars)

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating-rate net borrowings).

	Change in basis point	Change in profit before tax \$'000
2020	100	36,413
2019	100	34,346

(b) Foreign currency risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB and United States dollars ("USD"). Foreign exchange risk mainly arises from transactions in Mainland China. The directors consider that the Group's exposure to foreign currency risk in respect of balances denominated in USD to be minimal as the Hong Kong dollar is pegged to the USD.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk (Continued)

(i) Exposure to currency risk (Continued)

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2020		2019	
	RMB \$'000	USD \$'000	RMB \$'000	USD \$'000
Assets	157,430	681,552	185,198	584,768
Liabilities	(957,300)	(37,884)	(905,857)	(24,386)
Net exposure arising from recognised assets and liabilities	(799,870)	643,668	(720,659)	560,382

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit before tax that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2020		2019	
	Increase/ (decrease) in foreign exchange rates	Effect on profit before tax \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit before tax \$'000
RMB	5%	(39,994)	5%	(36,033)
	(5)%	39,994	(5)%	36,033

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit before tax measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk (Continued)

(ii) Sensitivity analysis (Continued)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2019.

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which the Group considers to have low credit risk.

Trade receivables

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from one to three months depending on a number of factors including trade practice, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by the senior management.

The Group has no significant concentration of credit risk in industries or countries in which the customers operate, other than trading and manufacturing segment. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 45.6% (2019: 42.1%) and 82.9% (2019: 84.2%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the trading and manufacturing segment.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates different loss patterns for different customer segments, the loss allowance is calculated based on days past due from various customer segments which are grouped with similar patterns (i.e. by customer type).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

Trade receivables (Continued)

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables as at the end of the reporting period:

	2020		
	Expected loss rate %	Gross carrying amount \$'000	Loss allowance \$'000
Current (not past due)	0%	575,933	—
1–180 days past due	3%	50,174	1,382
181–365 days past due	49%	4,893	2,403
366–548 days past due	87%	15,400	13,339
549–730 days past due	100%	6,387	6,387
Over 730 days past due	100%	81,495	81,495
		734,282	105,006

	2019		
	Expected loss rate %	Gross carrying amount \$'000	Loss allowance \$'000
Current (not past due)	0%	358,535	—
1–180 days past due	5%	98,434	4,950
181–365 days past due	76%	3,837	2,924
366–548 days past due	87%	12,327	10,773
549–730 days past due	100%	3,936	3,936
Over 730 days past due	100%	85,755	85,755
		562,824	108,338

Expected loss rates are based on actual loss experience over the past two years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

(Expressed in Hong Kong dollars)

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**(d) Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other interest-bearing loans.

For bank loans subject to repayment on demand clause which can be exercised at the bank's sole discretion, the maturity analysis shows the cash outflow based on expected repayment dates with reference to the schedule of repayments set out in the banking facilities letter and, separately, the impact to the timing of the cash outflow if the lenders were to invoke unconditional rights to call the loans with immediate effect.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2020			Total \$'000
	Within 1 year or on demand \$'000	More than 1 year but less than 5 years \$'000	More than 5 years \$'000	
Trade payables	958,358	–	–	958,358
Other payables	468,859	22,732	–	491,591
Interest-bearing bank borrowings	1,864,833	1,466,476	1,295,938	4,627,247
Financial liabilities included in other non-current liabilities	–	67,028	–	67,028
Amounts due to non-controlling shareholders of subsidiaries	10,314	7,941	–	18,255
Amounts due to related parties	–	557,639	–	557,639
Lease liabilities	96,054	279,088	214,633	589,775
	3,398,418	2,400,904	1,510,571	7,309,893
Adjustments to present cash flows interest-bearing bank borrowings based on lenders' right to demand repayment	239,656	(241,844)	–	(2,188)
	3,638,074	2,159,060	1,510,571	7,307,705

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk (Continued)

	2019			Total \$'000
	Within 1 year or on demand \$'000	More than 1 year but less than 5 years \$'000	More than 5 years \$'000	
Trade payables	778,146	–	–	778,146
Other payables	541,006	27,360	–	568,366
Interest-bearing bank borrowings	2,763,349	1,856,634	–	4,619,983
Financial liabilities included in other non-current liabilities	–	69,060	–	69,060
Amounts due to non-controlling shareholders of subsidiaries	9,438	7,941	–	17,379
Amounts due to related parties	–	326,387	–	326,387
Lease liabilities	90,281	239,789	208,119	538,189
	4,182,220	2,527,171	208,119	6,917,510
Adjustments to present cash flows interest-bearing bank borrowings based on lenders' right to demand repayment	178	(178)	–	–
	4,182,398	2,526,993	208,119	6,917,510

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**(e) Capital management**

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors capital using a gearing ratio, which is total long-term debts divided by capital. The Group's policy is to maintain the gearing ratio below 50%. The long-term debts include non-current portion of interest-bearing bank borrowings. Capital includes total equity. The gearing ratios at the end of the reporting periods were as follows:

	2020	2019
	\$'000	\$'000
Total long-term debts	2,262,811	1,744,584
Capital	6,683,500	6,393,021
Gearing ratio	33.9%	27.3%

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

42 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2020 \$'000	2019 \$'000
Non-current asset			
Investments in subsidiaries		4,656,985	4,679,355
Current assets			
Other receivables		770	804
Financial assets measured at fair value through profit or loss		2,298	3,907
Cash and bank balances		43,617	36,027
Total current assets		46,685	40,738
Current liabilities			
Other payables		12,379	18,117
Interest-bearing bank borrowings		57,176	849,361
Total current liabilities		69,555	867,478
Net current liabilities		(22,870)	(826,740)
Total assets less current liabilities		4,634,115	3,852,615
Non-current liabilities			
Interest-bearing bank borrowings		1,877,775	849,077
Amounts due to subsidiaries		1,556,923	1,508,526
Total non-current liabilities		3,434,698	2,357,603
NET ASSETS		1,199,417	1,495,012
CAPITAL AND RESERVES			
Share capital	32(a)	134,560	139,789
Reserves	34(d)	1,064,857	1,355,223
TOTAL EQUITY		1,199,417	1,495,012

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2020 are as follows:

Name	Place of incorporation/ establishment and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Autowill Limited	British Virgin Islands ("BVI")	US\$1	100%	Investment holding
Beat Time Enterprises Limited	BVI	US\$1	100%	Investment holding
重慶華慶農林發展有限公司 (note (d))	The PRC	RMB25,000,000	100%	Forestry
Copthorne Holdings Corp.	Republic of Panama/ Hong Kong	US\$200	100%	Property investment
長德玩具(東莞)有限公司 (note (d))	The PRC	\$20,000,000	100%	Manufacturing of toys
創峰塑膠電子製品(北流)有限公司 (note (d))	The PRC	US\$1,000,000	100%	Manufacturing of toys
東莞盈峰塑膠電子製品有限公司 (note (d))	The PRC	US\$3,000,000	100%	Manufacturing of toys
Eastand Investments Limited	Hong Kong	\$2	100%	Property investment
Everwin Toys (Dongguan) Co., Ltd (note (d))	The PRC	\$64,500,000	100%	Manufacturing of toys
廣東華興果業發展有限公司 (note (d))	The PRC	US\$11,500,000	100%	Fruit plantation
海興華豐農業有限公司 (note (d))	The PRC	\$30,000,000	100%	Woods and crops plantation
遼寧長盛置業有限公司 (note (c))	The PRC	RMB877,349,000	80%	Property investment
Nanjing South China Dafang Electric Co., Ltd (note (d))	The PRC	RMB77,550,000	100%	Property investment
Nanjing South China Huaguan Compressor Ltd. (note (d))	The PRC	RMB53,426,450	100%	Property investment

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Nanjing South China Sanda Motor Co. Ltd. (note (d))	The PRC	RMB18,940,000	100%	Property investment
Nanjing South China Santa Machinery Co., Ltd. (note (d))	The PRC	RMB48,093,700	100%	Property investment
南京電力電容器有限公司 (notes (d))	The PRC	RMB1,425,400	100%	Property investment
南京液壓件二廠有限公司 (notes (d))	The PRC	RMB2,345,600	100%	Property investment
南京第二壓縮機有限公司 (note (d))	The PRC	RMB16,756,800	100%	Property investment
南京電機有限公司 (note (d))	The PRC	RMB25,261,300	100%	Property investment
南京微分電機有限公司 (note (d))	The PRC	RMB29,035,500	100%	Property investment
南京南英置業有限公司	The PRC	RMB30,506,400	100%	Property investment
陝西泰添農林發展有限公司 (note (d))	The PRC	\$13,525,310	100%	Woods and crops plantation
瀋陽華寶農林綜合開發有限公司 (note (d))	The PRC	US\$2,963,740	100%	Woods and crops plantation
瀋陽華凱農業開發有限公司 (note (d))	The PRC	US\$2,578,200	100%	Woods and crops plantation
瀋陽萬鴻星匯商業有限公司 (note (c))	The PRC	RMB5,000,000	80%	Property management
瀋陽南華鴻基房地產開發有限公司 (note (d))	The PRC	US\$187,429,000	100%	Property development
South China Industries (BVI) Limited (note (a))	BVI	US\$1,000	100%	Investment holding
South China Shoes Products Company Limited	Hong Kong	\$500,000	100%	Trading of footwear products

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
South China Strategic (BVI) Limited	BVI	US\$1	100%	Investment holding
South China Strategic Limited	Hong Kong	\$308,593,789	100%	Investment holding
South China Strategic Properties (BVI) Limited	BVI	US\$1	100%	Property investment
South China Strategic Property Development Limited	Hong Kong	\$5,000,000	100%	Investment holding
Splendor Sheen Limited	BVI	US\$2	100%	Investment holding
泰美華升(惠州)電子有限公司 (note (d))	The PRC	US\$15,765,610	70%	Manufacturing and trading of electronic products
Thousand China Investments Limited	BVI	US\$1	100%	Investment holding
Tianjin South China Leather Chemical Products Co. Ltd. (note (c))	The PRC	RMB20,516,500	80%	Manufacturing of leather chemical products
Tianjin South China Leesheng Sporting Goods Co. Ltd. (note (c))	The PRC	RMB10,213,600	80%	Manufacturing of sports products
Tianjin South China Shoes Products Co. Ltd. (note (c))	The PRC	RMB36,100,200	80%	Manufacturing and trading of footwear products
Wahheng Toys (Shenzhen) Co., Ltd (note (d))	The PRC	US\$8,000,000	100%	Manufacturing of toys
華輝玩具(郁南)有限公司 (note (d))	The PRC	US\$7,500,000	100%	Manufacturing of toys
天津南華譽基房地產開發有限公司 (note (d))	The PRC	\$235,661,925	100%	Property development
Wah Shing (BVI) Limited	BVI	US\$1,000	100%	Investment holding

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company	Principal activities
Wah Shing Electronics Company Limited	Hong Kong/The PRC	\$571,500	70%	Manufacturing and trading of toys
Wah Shing International Holdings Limited	Bermuda	\$54,432,000	100%	Investment holding
Wah Shing Toys Company Limited	Hong Kong	\$2 ordinary and \$3,020,002 Non-voting deferred (note (b))	100%	Trading of toys
華太玩具(深圳)有限公司 (note (d))	The PRC	US\$5,000,000	100%	Manufacturing of toys
Welbeck Holdings Limited	BVI	US\$1	100%	Investment holding
WTS International (BVI) Limited	BVI	US\$1	100%	Investment holding
Wuhan Huafeng Agricultural Development Company Limited (note (d))	The PRC	RMB8,010,330	100%	Forestry
武漢港洋林業發展有限公司 (note (d))	The PRC	RMB1,000,000	100%	Forestry
容縣華榮玩具有限公司 (note (d))	The PRC	US\$2,000,000	100%	Manufacturing of toys

Notes:

- (a) Except for South China Industries (BVI) Limited, the principal subsidiaries are all held indirectly by the Company.
- (b) The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.
- (c) These are Sino-foreign equity joint ventures established in the PRC.
- (d) These are wholly-foreign-owned equity enterprises established in the PRC.

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

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Note	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
Revenue		4,086,245	4,410,438	4,228,197	3,901,796	3,731,153
Profit before tax	1&2	114,991	838,793	193,974	303,749	201,281
Income tax		(49,609)	(282,330)	(53,241)	(55,617)	(54,648)
Profit for the year		65,382	556,463	140,733	248,132	146,633
Attributable to:						
Owners of the Company		69,775	594,040	140,003	229,872	152,142
Non-controlling interests		(4,393)	(37,577)	730	18,260	(5,509)
		65,382	556,463	140,733	248,132	146,633

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Note	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
Total assets	1&2	14,861,253	14,644,112	13,566,418	12,962,218	11,736,971
Total liabilities	1&2	(8,177,753)	(8,251,091)	(7,588,871)	(6,824,698)	(6,216,400)
Non-controlling interests		(327,751)	(301,570)	(347,845)	(372,075)	(319,271)
		6,355,749	6,091,451	5,629,702	5,765,445	5,201,300

Summary of Financial Information

Notes:

1. As a result of the adoption of HKFRS 16, *Leases*, with effect from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.
2. The Group adopted HKFRS 9, *Financial instruments*, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained profits and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.

Details of Major Properties

1 INVESTMENT PROPERTIES

Location	Group's interest	Existing use
(a) Hong Kong		
Units A, B, C and D on 2nd Floor Units A, B, C and D on 3rd Floor Units A, B, C and D on 4th Floor Units A and B on 6th Floor Units A, B and D on 10th Floor Units A, B, C and D on 12th Floor Unit B, C and D on 13th Floor Car Parking Space Nos. 7, 17, 18 and 19 and Lorry Parking Space Nos. 3, 12, 13, 21, 25 and 26 Wah Shing Centre No. 5 Fung Yip Street Chai Wan Hong Kong	100%	Industrial and carparking
1st Floor of Block G Kimberley Mansion No. 15 Austin Avenue Tsim Sha Tsui Kowloon Hong Kong	100%	Residential
The 1st floor and 2nd floor On Lok Yuen Building and the four lavatories thereof Nos. 25, 27 & 27A Des Voeux Road Central Hong Kong	100%	Commercial
Unit No. 78 on 2nd Floor Units Nos. 4, 5, 6, 7 and 8 on 3rd floor Houston Centre No. 63 Mody Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial

Details of Major Properties

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(a) Hong Kong <i>(Continued)</i>		
Units J and L on 2nd Floor Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor Kaiser Estate 2nd Phase Nos. 47–53 Man Yue Street and Nos. 20–28 Man Lok Street Hung Hom, Kowloon, Hong Kong	100%	Industrial and carparking
Units A, B and C on 7th Floor and the three lavatories thereof Century House Nos. 3–4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Units A, B and C on 8th Floor and the three lavatories thereof Century House Nos. 3–4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Units B and C on 9th Floor and the two lavatories thereof Century House Nos. 3–4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
The whole of 4th Floor McDonald's Building Nos. 46–54 Yee Wo Street Causeway Bay Hong Kong	100%	Commercial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(a) Hong Kong <i>(Continued)</i>		
Unit 14 on 6th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Bay, Kowloon Hong Kong	100%	Commercial
Flats A, B, C and D on 1st Floor Fu Fung Building Nos. 5–7 Tsing Fung Street North Point Hong Kong	100%	Commercial
2nd Floor No. 10A Austin Avenue Tsim Sha Tsui Kowloon Hong Kong	100%	Residential
Unit No. 1022 on 10th Floor, Nan Fung Centre Nos. 264–298 Castle Peak Road and Nos. 64–98 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong	100%	Commercial
16th, 21st, 23rd, 26th, 31st, 33rd and 36th Floor The Centrium No. 60 Wyndham Street, Central Hong Kong	100%	Commercial
Upper Ground Floor, Ground Floor and carpark The Centrium No. 60 Wyndham Street, Central Hong Kong	30%	Commercial

Details of Major Properties

1 INVESTMENT PROPERTIES (Continued)

Location	Group's interest	Existing use
(b) Mainland China		
Various buildings and a land parcel located at No. 28 Yunan North Road No. 2 Shiziqiao Gulou District Nanjing City Jiangsu Province The PRC	100%	Commercial
A building and a land parcel located at No. 32 Shiziqiao Gulou District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and two land parcels located at No. 36 Jiefang Road Baixia District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings erected upon a land parcel located at No. 855 Yingtian Da Jie (formerly No. 166 Yinglian West Road) Jianye District Nanjing City Jiangsu Province The PRC	100%	Commercial
4th Floor No. 64 Ertiao Lane Baixia District Nanjing City Jiangsu Province The PRC	100%	Commercial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(b) Mainland China <i>(Continued)</i>		
Various buildings and two land parcels located at No. 104 & 160 Fenghuang East Road Luhe District, Dachang Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and a land parcel located at No. 262 Yuhua West Road Yuhuatai District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and a land parcel located at No. 160 Honghua Village Qinhuai District Nanjing City Jiangsu Province The PRC	100%	Commercial
A building and a land parcel located at No. 2 Tuoyuan, Nanhu Street Jianye District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and a land parcel located at No. 292 Shengzhou Road Jianye District Nanjing City Jiangsu Province The PRC	100%	Commercial

Details of Major Properties

1 INVESTMENT PROPERTIES (Continued)

Location	Group's interest	Existing use
(b) Mainland China (Continued)		
Various buildings and a land parcel located at Zhetang Town Industrial Park Lishui County Nanjing City Jiangsu Province The PRC	100%	Industrial
An industrial complex located at No. 158 Jiangdong Middle Road Jianye District Nanjing City Jiangsu Province The PRC	100%	Industrial
Various buildings and a land parcel located at 462 Da Gu Nan Road Hexi District Tianjin City The PRC	100%	Commercial
Various buildings and a land parcel located at No. 51 Suti Road Nankai District Tianjin City The PRC	100%	Commercial/ Industrial
Various buildings and a land parcel located at Xin Le Road South Dianshanhu Town Kunshan City Jiangsu Province The PRC	100%	Industrial

1 INVESTMENT PROPERTIES (Continued)

Location	Group's interest	Existing use
(b) Mainland China (Continued)		
Unit C, 15th Floor World Trade Plaza No. 71 Wu Si Road Fuzhou City Fujian Province The PRC	100%	Commercial
Industrial buildings located at Xiaobian Administrative Zone Industrial District No. 4 Changan Town Douguan City Guangdong Province The PRC	100%	Industrial
Avenue of Stars No. 168 Chaoyang Street Shenhe District Shenyang City Liaoning Province The PRC	80%	Commercial
Southern Lot No. 19 Jinqiao Road Dadong District Shenyang City Liaoning Province The PRC	100%	Commercial
(c) Taiwan		
Unit 1 on Level 24 and portion of Basement Level 2 No. 303 Zhongming Road South West District, Tu Fu Section, Taichung City Taiwan	100%	Commercial

Details of Major Properties

2 COMPLETED PROPERTIES FOR SALE/PROPERTIES UNDER DEVELOPMENT

<u>Location</u>	<u>Marketable floor area/land area</u>	<u>Group's interest</u>	<u>Type</u>
Mainland China			
Southern Lot No. 19 Jinqiao Road Dadong District Shenyang City Liaoning Province The PRC	99,000 sq.m.	100%	Residential
East side of Guihua Road South Side of Dadong Road Siandian Town Wuqing district Tianjin City The PRC	88,000 sq.m.	100%	Commercial and residential