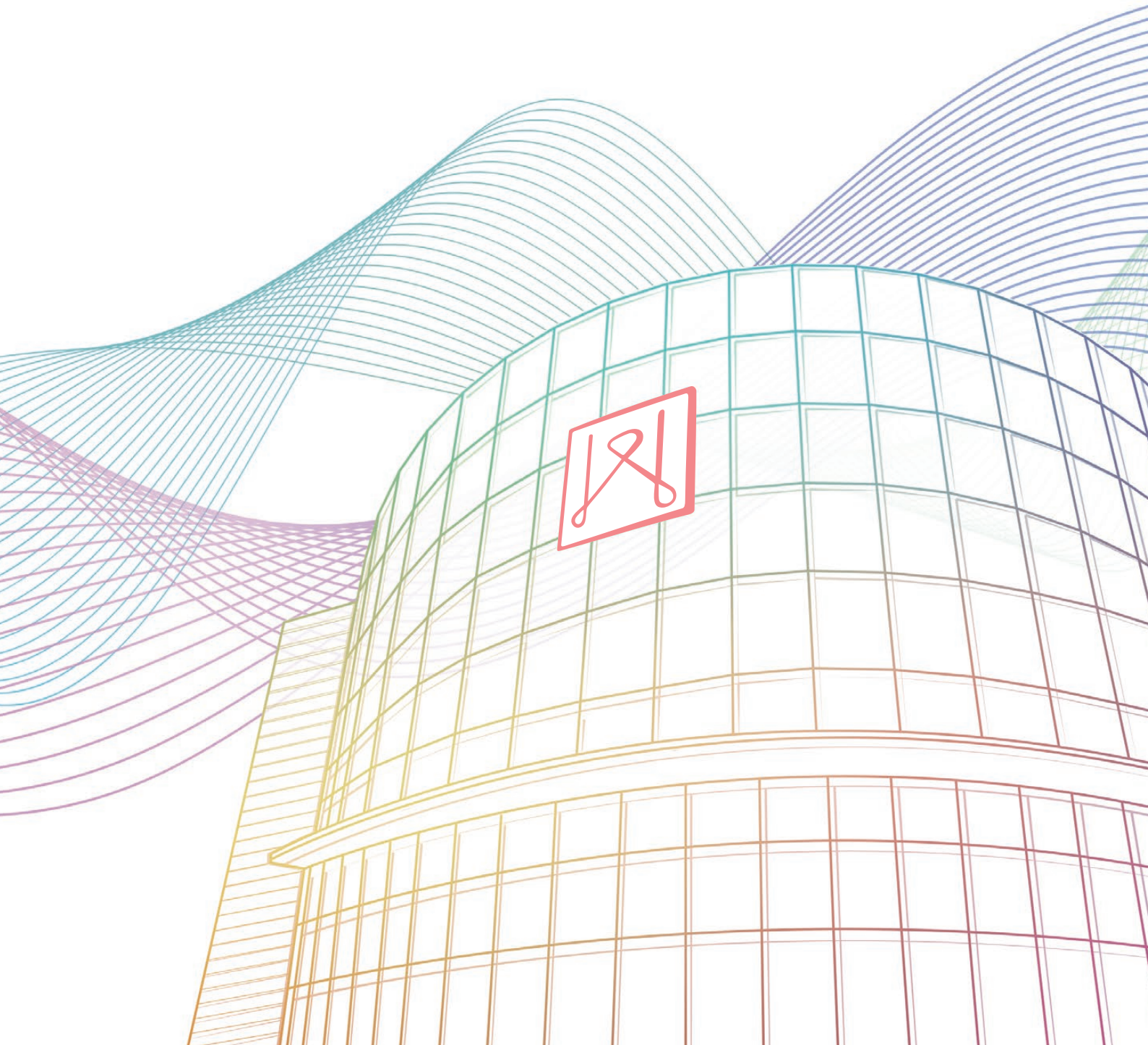




ART GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 565)

ANNUAL 2020
REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Chen Jinyan (*Chairman*)
Mr. Chen Jindong (*Chief Executive Officer*)
Mr. Kwan Chi Fai*
Mr. Lin Ye*
Mr. Yang Zeqiang*
Ms. Chong Sze Pui Joanne*

* Independent Non-executive Director

COMPANY SECRETARY

Ms. Yeow Mee Mooi

AUDITOR

Elite Partners CPA Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Shun Tak Centre
168-200 Connaught Road Central, Hong Kong
Website: <http://artgroup.etnet.com.hk>

REGISTERED OFFICE

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Cricket Square
P.O. Box 902
Grand Cayman KY1-1103
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
2nd Floor, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman KY1-1103
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
China Construction Bank
Zhongyuan Bank
Bank of Zhengzhou
Hang Seng Bank

SHARE LISTING

The Stock Exchange of Hong Kong Limited
(Stock code: 565)

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the “Board”) of Art Group Holdings Limited (錦藝集團控股有限公司) (“Art Group” or the “Company”) and its subsidiaries (together, the “Group”), I would like to report that the Group recorded a revenue of HK\$159,547,000 (2019: HK\$211,818,000) and a loss for the year of HK\$35,713,000 (2019: a profit of HK\$76,439,000).

BUSINESS REVIEW

With a view to magnify the Company's development potential and the shareholders' return, the Group places its resources into property operating aspects in order to explore future prospects and develop relevant markets. The Group owns a shopping mall (the “Jiachao's Shopping Mall”) situated in Zhengzhou City, Henan Province, the People's Republic of China (the “PRC”). The Jiachao's Shopping Mall comprises the whole of a 4-storey shopping mall built over one level of basement commercial space and has a total registered gross floor area of approximately 125,188 square meters. All the commercial space of the Jiachao's Shopping Mall had been leased out to retail shops, restaurants and/or for entertainment and leisure use. The Jiachao's Shopping Mall is a one-stop shopping paradise offering a wide range of services and goods to consumers and shoppers with more than 140 tenants including a renowned department store, a cinema, a supermarket, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. Certain area of the Jiachao's Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

Furthermore, one of the Company's PRC subsidiaries signed a rental agreement with a real estate developer whereby such PRC subsidiary leased from the real estate developer shop units in a shopping mall which is a 5-storey integrated commercial mall built over one level of basement commercial space with a gross floor area of approximately 80,118 square meters (the “Zone C Shopping Mall”). The rental period was extended to the end of 2021. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. The Group promoted and further rented out the Zone C Shopping Mall to independent tenants. The Group has an advantage by having an existing team of high-caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall have been minimal to the Group and the Group can generate incomes from the provision of rental, management and operating services to tenants of the Zone C Shopping Mall. The larger the area of the shopping mall, the more the number of similar types of shops opened, and thus the more customers will be attracted by offering them a large diversity and well-known brand choices. Positive benefits and synergy effects on the customer flow and the tenant grade will be brought to the Group through management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall together by the Group, eventually contributing to affirmative revenue and profit margin of property operating business. All the commercial space of the Zone C Shopping Mall had been leased out as retail shops and restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with approximately 120 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants. Certain area of the Zone C Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

CHAIRMAN'S STATEMENT

The COVID-19 pandemic spreads across the globe starting from the beginning of 2020, since then, the situation around the world continues to change rapidly. The Board agrees that the Group's business has been impacted by the current public health situation to certain extent. The Group had supported the tenants by reducing the rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of two shopping malls on different bases for the period from January to June 2020 with an aggregated amount of approximately HK\$17,705,000. The Group also granted permission to a small number of merchants with difficulties to postpone their payments of rent and settle monthly prepayment instead of original quarterly prepayment. Moreover, the Group cites cost reduction as a key strategic focus to help navigate business uncertainty resulting from the COVID-19 pandemic and ensures that the interests of tenants and customers continue to be protected and advanced in these difficult times, whilst prioritising the safety and well-being of the employees and business partners of the Group.

The Group also explored biotechnology segment since the year ended 30 June 2019. A number of subsidiaries to produce the finished goods, cannabidiol ("CBD"), were incorporated in Honghezhou, Yunnan Province, the PRC, during the year ended 30 June 2020, including a subsidiary responsible for the provision of raw material for the purpose of supply stabilisation and quality assurance of CBD. A factory with an area of approximately 2,904 square meters and large pieces of land with an aggregated area of approximately 1,028,133 square meters all located in Honghezhou, Yunnan Province, the PRC, were leased for building the production line and planting raw material, respectively. Moreover, Industrial CBD Cultivation License was already granted by the PRC regulatory body. Once Industrial CBD Trial Production License has been granted by the PRC regulatory body and the machinery and equipment has been fully set up, trial run could be commenced at the beginning of 2021.

The Group continues to penetrate into the property operating and biotechnology markets, explore other new market potentials and increase profit margin by leveraging on its established strengths, experience and foresight and by applying strict cost control policy and financial planning. The directors of the Company (the "Directors") believe that better performance will be steadily reflected in the Group's future results.

STRATEGIES AND OUTLOOK

In light of the global spread of the COVID-19 pandemic and its severe consequences brought to worldwide economy, the Group adjusts its future operating plans to increase marketing activities to raise the popularity of the shopping malls, pay close attention to business operations, provide policies of assistance for key merchants and follow closely with market trends and government-related policies in real time in order to make appropriate management decisions in a timely manner.

CHAIRMAN'S STATEMENT

The Jiachao's Shopping Mall signifies the cornerstone of the Group to invest in the property operating business. The Group in the long-term plans to upgrade its tenant segment by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group has conducted large-scale marketing and promotion activities in the eastern and western festivals. Hence, the properties under the Group's management always generate a stable and constant stream of incomes and fairly consistent cash flow to the Group, which ultimately benefits the Company and its shareholders as a whole. An appreciation of property value in the long-term is also expected. However, due to the epidemic situation in the first half year of 2020, the return of funds has slowed down, but the overall cash flow has little impact on the Group's financial position. Moreover, any possible investment opportunities of the property operating business will always be explored because of the increasing population and consuming power in the PRC under the effects of the Belt and Road Initiative and the Internal Circular Economy; as a result, a strong market potential is foreseeable.

In response to the ongoing challenges, the Group has been focusing on maintaining sustainable financial results from its property operating and biotechnology businesses so as to obtain more profitable outcome. The Board gives its input in determining the Group's strategy development and planning process, as well as the generation and preservation of the Group's long-term value. Consequently, the Board closely monitors and regularly reviews the results of the implementation of the strategies, with the goals of reviving the Group's performance, enhancing its competitiveness and improving its share value.

The Group continues with its prudent cost management policy to attain greater efficiency in operations and a reasonable financial position in order to pursue business development and new opportunities for strengthening its business momentum. The Group holds a moderate financial position and its property operating business continues to contribute steady and constant cash flows. The Group maintains its long-standing commitment to a prudent and cautious financial management policy and is confident of increasing share value in long-term.

Looking forward, a steady business growth of the Group is expected in the future. We will adopt a cautious approach in developing the existing projects and exploring new opportunities including cooperation with business partners. We will continue to seek and invest resources in appropriate property operating and biotechnological projects with the objectives of expanding our revenue sources, improving our profitability as well as diversifying our types of business so as to further develop the business of the Group and increase the shareholders' return.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to present my heartfelt thanks to the tenants, customers, bankers, business partners and shareholders of the Company for their incessant support and trust and also to each staff member of the Group for their diligent work. The achievement of the Group and its readiness to continue tackling the biggest challenges at an unprecedented pace and scale would not be possible without the contribution of each of the staff member and their dedication.

Chen Jinyan
Chairman

Hong Kong, 30 September 2020

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in property operating and biotechnology businesses, which is a newly-introduced segment to be further developed.

The Group was engaged in the property operating segment during the current year through holding 75% equity interests in 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Company Limited) (“Jiachao”) by the Company’s indirect wholly-owned subsidiary registered in the People’s Republic of China (the “PRC”). The major asset of Jiachao is a shopping mall situated in Zhengzhou City, Henan Province, the PRC (the “Jiachao’s Shopping Mall”). The Group owns the Jiachao’s Shopping Mall and generates revenue from the monthly incomes of rental, management and operating services payable by various tenants under the respective tenancy agreements with a remaining term ranging from one year to 14 years. The Jiachao’s Shopping Mall is a one-stop shopping paradise with more than 140 tenants that offer a wide range of services and goods including shopping, dining and entertainment, such as a renowned department store, a cinema, a supermarket, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid’s paradise and restaurants. All shop units in the Jiachao’s Shopping Mall were rented out as at 30 June 2020. Certain area of the Jiachao’s Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

In addition, Jiachao leased shop units in a shopping mall (the “Zone C Shopping Mall”) from a real estate developer to the end of 2021. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao’s Shopping Mall. Jiachao promoted and further rented out the Zone C Shopping Mall to independent tenants. Jiachao has an advantage of having an existing team of caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall is minimal to Jiachao while it is earning considerable amount of incomes from renting out the Zone C Shopping Mall to tenants. The Board believes that the larger the area for shopping, the more the number of similar types of shops opened, which may in turn attract more customers by offering them a large diversity of and well-known brand choices. The management of both the Jiachao’s Shopping Mall and the Zone C Shopping Mall by Jiachao will bring positive benefits and synergy effects on the customer flow and the tenant grade to the Group, which eventually contributes to revenue and profit margin of the property operating business of the Group. As at 30 June 2020, all the commercial space of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with approximately 120 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid’s paradise and restaurants. Certain area of the Zone C Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

MANAGEMENT DISCUSSION AND ANALYSIS

The COVID-19 pandemic spreads across the globe starting from the beginning of 2020, since then, the situation around the world continues to change rapidly. The Board agrees that the Group's business has been impacted by the current public health situation to certain extent. The Group had supported the tenants by reducing the rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK\$17,705,000. The Group also granted permission to a small number of merchants with difficulties to postpone their payments of rent and settle monthly prepayment instead of original quarterly prepayment. Moreover, the Group cites cost reduction as a key strategic focus to help navigate business uncertainty resulting from the COVID-19 pandemic and ensures that the interests of tenants and customers continue to be protected and advanced in these difficult times, whilst prioritising the safety and well-being of the employees and business partners of the Group.

The Group has started to engage in biotechnology segment during the year ended 30 June 2019. The Group has further development in this segment by holding 60% equity interests in 紅河乾林生物科技有限公司 (Honghe Ganlin Biotechnology Company Limited) ("Ganlin Biotech") by the Company's indirect wholly-owned subsidiary registered in the PRC during the current year. Ganlin Biotech holds the whole equity interest of 紅河乾林農業有限公司 (Honghe Ganlin Agricultural Company Limited) during the current year. In addition, a factory with an area of approximately 2,904 square meters and large pieces of land with an aggregated area of approximately 1,028,133 square meters all located in Honghezhou, Yunnan Province, the PRC, were leased for building the production line and planting raw material, respectively. Relevant machinery and equipment for the production process, such as process of distillation, purification and extraction etc., have also been gradually installed during the current year. The finished goods of the factory will be cannabidiol ("CBD") processed for industrial use with its market in the North America and Europe. The target production quantity is expected to be approximately 2,000 kilograms per year.

On 27 June 2019, the Group entered into a sale and purchase agreement to dispose of its entire equity interests in its subsidiary, 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited) ("Jiacong"), to an independent third party (the "Jiacong Purchaser"). The principal activity of Jiacong was the holding of 164 shops in a giant theme shopping mall (the "Jiacong's Shops") situated in Zhengzhou City, Henan Province, the PRC. However, as a consequence of China-US trade dispute and its ongoing impacts, the management of the Group was not optimistic about the future of the wholesale market of the textile industry in the PRC; hence, the management of the Group decided to dispose of Jiacong to realise the Group's investment. As a result of the negotiations between the Group and the Jiacong Purchaser, it was agreed that the Jiacong Purchaser acquired the entire equity interests in Jiacong at a consideration of RMB212,239,000 (equivalent to approximately HK\$241,180,000). The consideration was determined after arm's length negotiations with reference to normal commercial terms after taking into account of the value of the Jiacong's Shops owned by Jiacong. The disposal was completed on 28 June 2019 and the consideration was fully received on 6 September 2019. For details, please refer to the Company's announcements dated 27 June 2019 and 18 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

For the financial year ended 30 June 2020, the Group recorded a revenue of approximately HK\$159,547,000 (2019: HK\$211,818,000), approximately 24.7% less than that in 2019. Since the Group holds the Jiachao's Shopping Mall as investment properties during the current year, revenue of the Group included the monthly incomes of rental, management and operating services received and receivable from the tenants. Revenue of the Group also included the incomes generated from renting out the Zone C Shopping Mall to tenants. Decrease in revenue during the current year was due to (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK\$17,705,000 as a result of the COVID-19 pandemic; (2) a decrease in rental income of approximately HK\$23,422,000 due to a decline in usage rate for an advertisement board by the real estate companies; and (3) no revenue (2019: HK\$4,067,000) generated from the Jiacong's Shops after its disposal on 27 June 2019. Moreover, there was no revenue generated from biotechnology segment for the years ended 30 June 2019 and 2020 since the production was not yet started during the preliminary set-up stage and under the construction of the factory, respectively.

Gross Profit

The gross profit margin was approximately 60.1% for the year ended 30 June 2020 (2019: 69.9%). Relatively high gross profit margin was due to its simple costs of sales based on the business nature, such as water, electricity and heat supply charges, public security and hygiene expenses, repair and maintenance fees etc. in the property operating segment. Decrease in gross profit margin was mainly due to (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK\$17,705,000 as a result of the COVID-19 pandemic; (2) a decrease in rental income of approximately HK\$23,422,000 due to a decline in usage rate for an advertisement board by the real estate companies; (3) no revenue (2019: HK\$4,067,000) generated from the Jiacong's Shops after its disposal on 27 June 2019; and (4) an increase in the lease payments of the Zone C Shopping Mall of approximately HK\$6,379,000 during the current year.

Loss for the Year

The Group's loss incurred for the year ended 30 June 2020 was approximately HK\$35,713,000 (profit generated in 2019: HK\$76,439,000). The loss margin was 22.4% for the current year (profit margin in 2019: 36.1%). Both reduced significantly for the year ended 30 June 2020 because of (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK\$17,705,000 as a result of the COVID-19 pandemic; (2) a decrease in rental income of approximately HK\$23,422,000 due to a decline in usage rate for an advertisement board by the real estate companies; (3) no revenue (2019: HK\$4,067,000) generated from the Jiacong's Shops after its disposal on 27 June 2019; (4) a decrease in fair value of the Group's investment properties, the Jiachao's Shopping Mall, of approximately HK\$77,778,000; and (5) a substantial increase in finance costs of approximately HK\$32,526,000 mainly as a result of the two new bank borrowings with aggregated principal amount of RMB800 million for repayments of amount due to a substantial shareholder and previous bank borrowings, as well as the higher interest rate of new bank borrowings charged by the bank throughout the year ended 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Other income for the year ended 30 June 2020 was approximately HK\$14,764,000 (2019: HK\$16,066,000), which was mainly other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants. Decrease in other income was due to less consumption of car park by customers of the Jiachao's Shopping Mall, in particular during the mandatory closure of the Jiachao's Shopping Mall and the Zone C Shopping Mall for some months except the supermarket as a consequence of the COVID-19 pandemic.

Expenses

Administrative expenses amounted to approximately HK\$29,946,000 (2019: HK\$26,722,000), representing approximately 18.8% (2019: 12.6%) of revenue for the year ended 30 June 2020. Administrative expenses increased by approximately 12.1% because of the setting up of a number of subsidiaries engaging in biotechnology segment during the current year.

Finance costs amounted to approximately HK\$61,942,000 (2019: HK\$29,416,000), representing approximately 38.8% (2019: 13.9%) of revenue for the year ended 30 June 2020. The material increase was due to higher interest rate charged by the bank on two new bank borrowings with aggregated principal amount of RMB800 million throughout the current year.

The carrying value of the Group's investment properties as at 30 June 2020 of approximately HK\$2,637,363,000 (2019: HK\$2,806,818,000) was stated at fair value based on an independent valuation as at that date, which produced a loss on fair value change on investment properties of HK\$77,778,000 (2019: HK\$19,541,000). This loss on fair value change on investment properties mainly reflected a less flourishing rental growth of the investment properties. The attributable net loss on fair value change on investment properties of HK\$43,750,000 (2019: HK\$10,992,000), after deducting related deferred tax liabilities and non-controlling interests, was debited to the consolidated income statement. Decrease in the carrying value was due to the COVID-19 pandemic spreading across the globe in the first half year of 2020, which made the carrying value of the investment properties drop dramatically.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2020 (2019: Nil).

FUTURE PLANS AND PROSPECTS

In view of achieving the best interests of the Company and its shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop the relevant markets, with a view to enhance the Company's development and to maximise the shareholders' return. By doing this, the Group is engaged in property operating business and owns the Jiachao's Shopping Mall for rental purpose, which is situated in Zhengzhou City, Henan Province, the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's long-term plans are to upgrade its tenants of the Jiachao's Shopping Mall by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group conducts large scale marketing and promotion activities so that a stable and constant stream of incomes and fairly consistent cash flow can be continuously generated to the Group. Apart from investing into the Jiachao's Shopping Mall, the Group provides rental, management and operating services by leasing the Zone C Shopping Mall from its real estate developer in order to expand the source of income.

Though, during the year ended 30 June 2019, the Group disposed of Jiacong due to being not optimistic about the future of the wholesale market of the textile industry in the PRC by the management of the Group; the disposal did not have a material impact on the Group's development of its property operating business, i.e. the provision of rental, management and operating services to properties. The directors are of the view that the disposal would not have a material adverse impact on the Group's financial position because Jiacong did not comprise a very significant part of the Group's results for the year ended 30 June 2019.

By aiming to diversify the types of business and increase the shareholders' return, the Group explored biotechnology segment since the year ended 30 June 2019. A number of subsidiaries to produce the finished goods, CBD, were established in Honghezhou, Yunnan Province, the PRC, during the year ended 30 June 2020, including a subsidiary responsible for the provision of raw material for the purpose of supply stabilisation and quality assurance of CBD. A factory with an area of approximately 2,904 square meters and large pieces of land with aggregated area of approximately 1,028,133 square meters were leased for building the production line and planting raw material, respectively. Moreover, the Industrial CBD Cultivation License was already granted by the PRC regulatory body. Once the Industrial CBD Trial Production License has been granted by the PRC regulatory body and the machinery and equipment has been fully set up, trial run is expected to be commenced at the beginning of 2021.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into different areas of property operating and biotechnology markets, explore other new market potential and increase profit margin. Moreover, the Group intends to manage and operate the property operating segment by the current caliber management and competent employees of subsidiaries and build up biotechnology segment step by step with present and new resources. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management.

The world will be a different place after the pandemic is over. This poses a tremendous challenge to the Group. Nevertheless, the Group has been striving to use all of its resources on hand flexibly to cope with the difficulties happened in the PRC during the current year and in future. Extra prudence is needed in these unprecedented times; the Group can help support their tenants both now and over the long-term by increasing promotion activities to raise the popularity of the shopping malls, paying close attention to business operations, providing policies of assistance for key merchants and following closely with market trends and government-related policies in real time in order to make appropriate management decisions in a timely manner.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of property operating and biotechnology markets. The Jiachao's Shopping Mall is situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into property operating market in depth. As regulators in Australia, Europe and the North America had passed rules and regulations to recognise the legal status of cannabis begin widely used in food and beverages apart from medical and industrial use, the Group believes the future prospects of CBD to be increasingly optimistic. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future along with continuing development of the Belt and Road Initiative and the Internal Circular Economy that advocated by the PRC's government. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximised in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had net current assets and total assets less current liabilities of approximately HK\$290,629,000 (2019: net current liabilities of approximately HK\$124,948,000) and HK\$2,978,960,000 (2019: HK\$2,721,116,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and bank borrowings. As at 30 June 2020, the Group had cash and bank deposits of approximately HK\$419,095,000 (2019: HK\$32,377,000). The current ratio of the Group was approximately 274.1% (2019: 71.3%).

Total equity of the Group as at 30 June 2020 was approximately HK\$1,748,402,000 (2019: HK\$1,856,626,000). As at 30 June 2020, the total borrowings of the Group, repayable from within 12 months to over nine years from the end of the reporting period, denominated in RMB795,816,000 were equivalent to approximately HK\$874,523,000 (2019: HK\$494,318,000) and six bonds measured at amortised cost was approximately HK\$44,343,000 in aggregate (2019: HK\$35,287,000). As at 30 June 2020, the gross debt gearing ratio (i.e. total borrowings and bonds/ shareholders' fund) was approximately 52.6% (2019: 28.5%).

Though the return of funds has slowed down during the first half year of 2020 as a result of the COVID-19 pandemic, the Group still has maintained and will continue to maintain a reasonable amount of working capital on hand in order to maintain its financial position, and sufficient resources are expected to be generated from its business operations and financial support from a substantial shareholder of the Company in meeting its short-term and long-term obligations.

FINANCING

As at 30 June 2020, the total borrowing facilities of the Group amounted to approximately HK\$874,523,000 (2019: HK\$494,318,000), of which, all facilities (2019: all facilities) was utilised. In addition, six bonds (2019: five bonds) amounted to approximately HK\$44,343,000 in aggregate (2019: HK\$35,287,000), measured at amortised cost, were arranged with five independent third parties.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 30 June 2020, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and may consider a hedging policy should the need arise.

CHARGE ON GROUP'S ASSETS

As at 30 June 2020, certain investment properties of the Group with aggregate carrying value of approximately HK\$1,145,566,000 (2019: HK\$1,219,171,000) were pledged to a bank to secure banking facilities granted to the Group.

CAPITAL EXPENDITURE

During the year ended 30 June 2020, the Group invested approximately HK\$6,463,000 (2019: HK\$1,241,000) in property, plant and equipment; all was used for purchase of plant and machineries, furniture, fixtures, office equipment and motor vehicles.

As at 30 June 2020, the Group had capital commitments of approximately HK\$8,548,000 (2019: Nil) in property, plant and equipment.

STAFF POLICY

The Group had 143 employees altogether in the PRC and Hong Kong as at 30 June 2020. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are required to make respective contribution to fund the endowment insurance, unemployment insurance, medical insurance, employees' compensation insurance and birth insurance (for employers only) at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

The Group also provides periodic internal training to its employees.

Four Independent Non-executive Directors are appointed by the Company for a term of one year commencing from 11 April, 19 September, 15 October and 1 December each year respectively.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Chen Jinyan (陳錦艷), aged 51, is the Chairman of the Company and is responsible for the Group's operation. Mr. Chen has over 6 years of experience in property operations. Mr. Chen obtained a Diploma in the Design of Textile Products from the Textile Engineering Faculty of Jiangxi Textile Industry Academy (江西紡織工業學院) and thereafter had over 28 years of experience in the textile industry. He is the Executive Director and Executive Vice President of China Federation of Overseas Chinese Entrepreneurs (中國僑商聯合會) in this year. He is the elder brother of Mr. Chen Jindong.

Mr. Chen Jindong (陳錦東), aged 49, is the Chief Executive Officer of the Company responsible for administration and finance of the Group. Mr. Chen has over 6 years of experience in property operations. Mr. Chen obtained a Diploma in Industrial and Financial Accounting from Fuzhou Industrial Academy (福州工業學院) and thereafter had over 25 years of experience in the textile industry. He is the younger brother of Mr. Chen Jinyan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwan Chi Fai (關志輝), aged 56, is appointed as an Independent Non-executive Director since April 2016. Mr. Kwan is a Certified Public Accountant (Practising) in Hong Kong. Mr. Kwan is also a member of the Hong Kong Institute of Certified Public Accountants, a fellow of Association of Chartered Certified Accountants and a Certified Tax Advisor. Mr. Kwan has over 24 years of experience in auditing and accounting services.

Mr. Lin Ye (林野), aged 66, is appointed as an Independent Non-executive Director since October 2013. Mr. Lin is the Vice General Manager of Zhengzhou Yi Mian Company Limited ("Yi Mian") (鄭州一棉有限責任公司) and is responsible for administration works since 2004. Mr. Lin was the team leader, the assistant supervisor and the vice-supervisor of product development centre of Yi Mian from 1976 to 1998, respectively. Mr. Lin was the supervisor of the branch factory of Yi Mian from 1998 to 2004.

Mr. Yang Zeqiang (楊澤強), aged 50, is appointed as an Independent Non-executive Director since September 2012. Mr. Yang obtained a Diploma in Accounting and a Bachelor's Degree in Accounting from Zhongyuan University of Technology (中原工學院) (formerly known as Zhengzhou Textile Institute (鄭州紡織工學院)) in 1992 and 2005, respectively. Mr. Yang is currently the financial controller of Xuchang Yishui Xincheng Real Estate Development Company Limited (許昌潁水新城房地產開發有限公司).

Ms. Chong Sze Pui Joanne (張詩培), aged 47, is appointed as an Independent Non-executive Director since December 2016. Ms. Chong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Chartered Accountant of the Institute of Chartered Accountants Ontario, Canada and a Certified Public Accountant of the America Institute of Certified Public Accountants. Ms. Chong obtained a Bachelor's Degree of Commerce from the University of Melbourne in Australia in 1994. Ms. Chong has over 20 years of experience in auditing, taxation and business development.

DIRECTORS' REPORT

The directors of the Company (the “Directors”) present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The activities of its principal subsidiaries as at 30 June 2020 are set out in note 38 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a description of the principal risks and uncertainties facing by the Group and an indication of likely future development in the Group's business, can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 3 to 12 of this annual report. This discussion forms part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 48.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2020 (2019: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 125 of the annual report.

INVESTMENT PROPERTIES

Details of movements during the year ended 30 June 2020 in investment properties of the Group are set out in note 17 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 30 June 2020 are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of movements in reserves and changes in equity of the Company during the year ended 30 June 2020 are set out in note 37 to the consolidated financial statements.

DIRECTORS

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

Executive directors (each an “Executive Director”):

Mr. Chen Jinyan
Mr. Chen Jindong

Independent Non-executive Directors:

Mr. Kwan Chi Fai
Mr. Lin Ye
Mr. Yang Zeqiang
Ms. Chong Sze Pui Joanne

In accordance with Articles 86 and 87 of the Articles of Association of the Company, Messrs. Yang Zeqiang and Chong Sze Pui Joanne will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Chen Jindong was re-appointed by the board of directors (the “Board”) on 1 September 2020 to continue to act as an Executive Director of the Company for a term of one year after the expiration of his service agreement on 31 August 2020. The service agreement for Mr. Chen Jinyan expired on 31 August 2020 and he was re-appointed by the Board on 1 September 2020 to continue to act as an Executive Director of the Company for a term of two years. All of the above service agreements can be terminated by either party by giving three months' prior written notice.

Each of the Independent Non-executive Directors entered into service agreements with the Company for a term of one year and either the Company or the Independent Non-executive Directors may terminate the appointment by giving the other a prior notice of two months in writing before its expiration.

Other than as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Jindong	Held by his spouse (<i>Note 1</i>)	369,100,000	13.73%
Mr. Chen Jinyan	Beneficial owner and held by controlled corporation (<i>Note 2</i>)	597,280,000	22.21%

Notes:

- (1) Among the 369,100,000 shares, 324,340,000 shares are held by Jinjie Limited, a company incorporated in the British Virgin Islands (the "BVI"), the entire issued share capital of which is beneficially owned by the spouse of Mr. Chen Jindong, Ms. Lin Lin and 44,760,000 shares are held by Ms. Lin Lin. Mr. Chen Jindong is deemed to be interested in 369,100,000 shares of the Company.
- (2) Among the 597,280,000 shares, 593,480,000 shares are held by Fully Chain Limited ("Fully Chain"), a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinyan and 3,800,000 shares are held by Mr. Chen Jinyan. Mr. Chen Jindong is the younger brother of Mr. Chen Jinyan.

(b) Share options

Name of director	Capacity	Number of share options held	Number of underlying shares
Mr. Lin Ye	Beneficial owner	2,080,000	2,080,000
Mr. Yang Zeqiang	Beneficial owner	2,080,000	2,080,000

Other than as disclosed above, none of the Directors, chief executives or their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 June 2020.

DIRECTORS' REPORT

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options" below, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 30 June 2020.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 30 June 2020.

DIRECTORS' REMUNERATION

The remuneration committee makes recommendations to the Board on the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ms. Lin Lin	Beneficial owner and interest in a controlled corporation	369,100,000	13.73%
Mr. Chen Jinqing	Interest in a controlled corporation (Note)	166,000,000	6.17%
Dresdner VPV N. V.	Investment manager	139,755,200	5.20%

Note: The shares are held by Ultimate Name Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinqing. Mr. Chen Jinqing is the youngest brother of Mr. Chen Jinyan and Mr. Chen Jindong.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2020.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 33 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

Grantee	Date of grant	Exercise period	Exercise price HK\$	Outstanding as at 1.7.2019	Granted during the year	Exercised during the year	Forfeited during the year	Lapsed during the year	Outstanding as at 30.6.2020
Directors									
Mr. Lin Ye	22.5.2014	22.5.2014 to 21.5.2024	0.166	2,080,000	-	-	-	-	2,080,000
Mr. Yang Zeqiang	22.5.2014	22.5.2014 to 21.5.2024	0.166	2,080,000	-	-	-	-	2,080,000
				4,160,000	-	-	-	-	4,160,000
Employees	15.1.2019	15.1.2019 to 14.1.2028	0.430	241,650,000	-	-	(26,850,000)	-	214,800,000
Granted Total				245,810,000	-	-	(26,850,000)	-	218,960,000

DIRECTORS' REPORT

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all of the Independent Non-executive Directors are independent.

CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 34 to the consolidated financial statements constitute connected transactions of the Company under Chapter 14A of the Listing Rules exempt from shareholders' approval and all disclosure requirements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 June 2020, the aggregate sales attributable to the Group's five largest customers accounted for 30% (2019: 27%) of the Group's total sales and the sales attributable to the Group's largest customer were approximately 18% (2019: 14%) of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 67% (2019: 55%) of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 53% (2019: 43%) of the Group's total purchases.

None of the Directors, their associates or any shareholders of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

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

During the year ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 30 June 2020.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 21 to 33 of this annual report.

SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL POLICIES

Information on the work done and efforts made by the Company on environmental protection and other aspects for the sustainable growth and development of the business of the Group are set out in the Environmental, Social and Governance Report on pages 34 to 42 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

AUDITOR

Following the resignation of Centurion ZD CPA Limited as the auditor of the Company on 20 June 2019, Elite Partners CPA Limited (“Elite Partners”) was appointed as the auditor of the Company on the same day to fill in the vacancy.

Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The consolidated financial statements of the Company for the year ended 30 June 2020 were audited by Elite Partners, whose term of office will retire at the close of the forthcoming annual general meeting (“AGM”). A resolution for the re-appointment of Elite Partners as the auditor of the Company will be proposed at the AGM.

On behalf of the Board

Chen Jinyan
CHAIRMAN

Hong Kong
30 September 2020

CORPORATE GOVERNANCE REPORT

The Group is committed to achieving the best corporate governance practices as a listed company. The corporate governance policy aims to improve the accountability and transparency of the Group by regulating the Group's corporate governance practices. During the financial year ended 30 June 2020, the Group applied the principles and met the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry, all Directors have complied with the code of conduct and the required standard set out in the Model Code throughout the financial year ended 30 June 2020.

BOARD OF DIRECTORS (THE "BOARD")

During the year under review, the composition of the Board, with at least one-third of which are Independent Non-executive Directors, was as follows:

Mr. Chen Jinyan	<i>(Chairman, Executive Director)</i>
Mr. Chen Jindong	<i>(Chief Executive Officer, Executive Director)</i>
Mr. Kwan Chi Fai	<i>(Independent Non-executive Director)</i>
Mr. Lin Ye	<i>(Independent Non-executive Director)</i>
Mr. Yang Zeqiang	<i>(Independent Non-executive Director)</i>
Ms. Chong Sze Pui Joanne	<i>(Independent Non-executive Director)</i>

Each executive Director (the "Executive Director") has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently.

Each Independent Non-executive Director has confirmed his/her independence with the Company and the Company considers that each of the Independent Non-executive Directors to be independent under Rule 3.13 of the Listing Rules. Each Independent Non-executive Director was appointed for a term of one year. The Board members have no financial, business or other material/relevant relationships with each other except that Mr. Chen Jinyan is the eldest brother of Mr. Chen Jindong.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (THE “BOARD”) *(Continued)*

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company and its shareholders taken as a whole. During the financial year ended 30 June 2020, eight Board meetings were held and the attendance of all Directors at the Board meetings was as follows:

Name of Directors	Attendance
Mr. Chen Jinyan	8/8
Mr. Chen Jindong	8/8
Mr. Kwan Chi Fai	7/8
Mr. Lin Ye	7/8
Mr. Yang Zeqiang	7/8
Ms. Chong Sze Pui Joanne	7/8

The Board convened the Board meetings in performance of its duties, to consider, approve and review, inter alia,

- the interim review fee for the period ended 31 December 2019 and the annual audit fee for the financial year ended 30 June 2020;
- declaration, recommendation and payment of interim and final dividends;
- the adequacy of resources, qualifications and experience of staff for the Company’s accounting and financial reporting function, and their training programmes and budget;
- the change of address of Principal Share Registrar and Transfer Office of the Company in the Cayman Islands;
- publication of interim and annual results announcements; and
- the internal control review report of the Company.

Directors’ training is an ongoing process and its purpose is to improve Directors’ knowledge of, and performance in, business operations and compliance matters. During the financial year ended 30 June 2020, Directors received regular updates and presentations on changes and developments to the Group’s business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company’s expense. Moreover, all Directors are required to provide the Company with their respective training records.

CORPORATE GOVERNANCE REPORT

OPERATION OF THE BOARD

The principal roles of the Board are to oversee the Company's operation, administration and finance, to design and set corporate policies and development strategies and to implement and monitor the Company's business plans, such as property operating market expansion and tenant growth with delighting shoppers, as well as set-up and development of cannabidiol production line, while the senior management is responsible for the execution of the Board's decisions in order to achieve the Company's goals and objectives. The Board has separate and independent access to the senior management for collecting information on operation.

The Board is also responsible for reviewing the effectiveness of the Group's internal control system annually. An external professional party conducted review of the effectiveness of the Group's system of internal control. The audit committee of the Board reviewed the findings and opinion of the external professional party on the effectiveness of the Group's system of internal control. In respect of the financial year ended 30 June 2020, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed regularly to ensure its effectiveness and sufficiency.

In addition, the Board reviewed the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget. The audit committee also reviewed and was satisfied with the adequacy of the staffing of the financial reporting functions.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows of the Group for that period. The Directors ensure that the financial statements for the financial year ended 30 June 2020 were prepared in accordance with statutory requirements and applicable accounting standards. The financial statements were prepared on a going concern basis. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. It is the responsibility of the auditor to form an independent opinion on these statements and to report their opinion to the Group.

CORPORATE GOVERNANCE REPORT

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chen Jinyan while the Chief Executive Officer is Mr. Chen Jindong who is the younger brother of Mr. Chen Jinyan. The duties of the Chairman include:

- (a) to ensure all Directors are properly briefed on issues arising at Board meetings;
- (b) to ensure all Directors receive adequate information, which must be complete and reliable, in a timely manner;
- (c) to provide leadership to the Board;
- (d) to ensure appropriate steps have been taken to provide effective communication with shareholders, such as release of website announcements, circulars, interim and annual reports and holding of annual general meeting etc.;
- (e) to ensure that good corporate governance practices and procedures are established; and
- (f) to conform to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or other applicable laws, rules and regulations.

The duties of the Chief Executive Officer include:

- (a) to be responsible for the day-to-day management of the Group's business;
- (b) to develop strategies and policies for the Board's approval;
- (c) to be responsible for the performance of the Group and the implementation of the Board's strategies and policies;
- (d) to maintain effective systems of internal control and risk management;
- (e) to ensure that proper financial records and accounts are kept; and
- (f) to ensure all applicable laws, rules and regulations and other relevant statements of best practice are complied with.

COMMITTEES OF THE COMPANY

The Board had established the audit committee, remuneration committee and nomination committee and their authorities and duties that stated in specific written terms of reference had been discussed and approved in the Board meeting.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

With specific written terms of reference, the audit committee of the Company (the “AC”) comprises four members, all being Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne. Mr. Kwan Chi Fai, who is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of Association of Chartered Certified Accountants and a Certified Tax Advisor, is the chairman of the AC. The AC’s terms of reference are posted on the websites of the Company and the Stock Exchange.

The principal role and function of the AC are:

- (a) in relation to the Company’s external auditor, to recommend the Board on its appointment, re-appointment and removal, remuneration and terms of engagement of the external auditor, its independence, effectiveness of audit process, as well as nature and scope of audit and reporting obligations before the audit commences;
- (b) to monitor the integrity of financial statements of the Group and the annual reports and interim reports focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions and qualifications, compliance with accounting standards and the Listing Rules;
- (c) to review and make recommendations of the Group’s financial control, internal control and risk management systems;
- (d) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;
- (e) where an internal audit function exists, to review the internal audit programme, ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (f) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system;
- (g) to review the external auditor’s management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management’s response;
- (h) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter; and
- (i) to review the Group’s financial and accounting policies and practices.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Continued)*

In addition, the AC has been delegated by the Board to be responsible for performing the corporate governance duties that are listed as follows:

- (a) to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;
- (b) to perform the Company's corporate governance functions;
- (c) to review and monitor the training and continuous professional development of directors and senior management of the Company;
- (d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (e) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors of the Company; and
- (f) to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

During the financial year ended 30 June 2020, seven AC meetings were held and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	7/7
Mr. Lin Ye	7/7
Mr. Yang Zeqiang	7/7
Ms. Chong Sze Pui Joanne	7/7

The following is a summary of the work performed by the AC during the financial year ended 30 June 2020 in discharging its responsibilities and its duties set out in the CG Code:

- reviewed the annual report and interim report, focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions, compliance with accounting standard and compliance with the Listing Rules and the Companies Ordinance;
- assessed the risk environment and risk management system, reviewed internal control procedure manual of the Group and auditor's findings and opinion on the Group's system of internal control and considered that the internal control system and the risk management system are effective and adequate and there is no immediate need to set up internal audit function within the Group. The AC will review and consider establish such department when it thinks necessary;

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Continued)*

- reviewed the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget and was satisfied with the adequacy;
- reviewed external auditor's significant audit matters;
- considered and approved the annual audit fee and interim review fee; and
- reviewed and monitored the external auditor's independence and engagement to perform non-audit services.

The chairman of the AC reports the findings and recommendations of the AC to the Board after each meeting. The AC had discussed with the auditor regarding the annual audit for the financial year ended 30 June 2019 and the interim review for the period ended 31 December 2019 before the Board meeting.

The Group's audited consolidated financial statements for the financial year ended 30 June 2020 have been reviewed by the AC, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

The AC considered that the existing proposed terms in relation to the appointment of the Group's external auditors are fair and reasonable.

REMUNERATION COMMITTEE

With specific written terms of reference, all members of the remuneration committee of the Company (the "RC") are Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne. Mr. Kwan Chi Fai is the chairman of the RC. The RC's terms of reference are posted on the websites of the Company and the Stock Exchange.

The role and function of the RC include making recommendations to the Board on the Company's policy and structure for all remuneration of key executives of the Company, proposing their specific remuneration packages by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the Company's performance and ensuring that no Director of the Company or any of his/her associate(s) is involved in deciding his/her own remuneration. The RC performs an advisory role to the Board, with the Board retaining the final authority to approve key executives' remuneration.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(Continued)*

The chairman of the RC reports the findings and recommendations of the RC to the Board after each meeting. During the financial year ended 30 June 2020, there was one RC meeting and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	1/1
Mr. Lin Ye	1/1
Mr. Yang Zeqiang	1/1
Ms. Chong Sze Pui Joanne	1/1

The work performed by the RC during the financial year ended 30 June 2020 included the review of the remuneration policy for this financial year and the remuneration of the Executive Directors and the Independent Non-executive Directors.

NOMINATION COMMITTEE

With specific written terms of reference, all members of the nomination committee of the Company (the “NC”) are Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne. Mr. Kwan Chi Fai is the chairman of the NC. The NC’s terms of reference are posted on the websites of the Company and the Stock Exchange.

The role and function of the NC include:

- (a) to review the structure, size and composition (including the skills, knowledge, diversity and experience) of the Board at least annually and make recommendations to the Board regarding any proposed changes so as to complement the Company’s corporate strategy;
- (b) 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 with due regard for the benefits of diversity on the Board with reference to the Board diversity policy;
- (c) 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 officer of the Company, taking into account the Company’s corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate;
- (d) to assess the independence of Independent Non-executive Directors in accordance with the provisions of the Listing Rules and other relevant laws, rules and regulations;

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(Continued)*

- (e) to review the Diversity Policy, to develop and review measurable objectives for implementing the Diversity Policy and to monitor the progress on achieving these objectives; and
- (f) where the Board proposes a resolution to elect an individual as an Independent Non-executive Directors at the general meeting, the NC should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he/she should be elected and the reasons why they consider him/her to be independent.

The chairman of the NC reports the findings and recommendations of the NC to the Board after each meeting. During the financial year ended 30 June 2020, there was one NC meeting and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	1/1
Mr. Lin Ye	1/1
Mr. Yang Zeqiang	1/1
Ms. Chong Sze Pui Joanne	1/1

The NC recommended that one Executive Director, Mr. Chen Jindong and one Independent Non-executive Director, Mr. Kwan Chi Fai, retiring by rotation at the annual general meeting (the “AGM”) held in November 2019, be re-elected. The NC made this recommendation for re-appointment based on their contributions to the Board and their firm commitment to their roles. The Board accepted the NC’s recommendation and accordingly, the Executive Director and the Independent Non-executive Director above offered themselves for re-election at the AGM held in November 2019. The NC also considered the contribution of each Director to the effectiveness of the Board, reviewed the attendance and participation of the Directors at the Board and Board meetings.

Nomination Policy

The NC recommends candidates for nomination to the Board, which approves the final choice of candidates. The NC is responsible to maintain the nomination policy of the Company (the “Nomination Policy”) and review the same regularly. The objective of the Nomination Policy is to assist the Company in fulfilling its duties and responsibilities as provided in its terms of reference. This Nomination Policy sets out, inter alia, the selection criteria and the evaluation procedures in nominating candidates to be appointed or re-appointed as Directors of the Company.

The NC shall consider any and all candidates recommended as nominees for Directors to the committee by any Directors or shareholders of the Company in accordance with its Articles of Association. The NC may also undertake its own search process for candidates and may retain the services of professional search firms or other third parties to assist in identifying and evaluating potential nominees. The NC shall endeavour to find individuals of high integrity who possess the qualifications, qualities, skills, experience and independence (in case of Independent Non-executive Directors) to effectively represent the best interests of all shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(Continued)*

Nomination Policy *(Continued)*

The NC may use any process it deems appropriate for the purpose of evaluating candidates including personal interviews, background checks, written submission by the candidates and third party references. As far as practicable, nominees for each election or appointment of Directors shall be evaluated using a substantially similar process. The NC shall review the Nomination Policy from time to time.

AUDITOR'S SERVICES

(a) Audit service

The fee for annual audit quoted by Elite Partners CPA Limited ("Elite Partners") had been reviewed by the Board and the AC. For the financial year ended 30 June 2020, the auditor's remuneration was HK\$1,200,000.

(b) Non-audit service

The fee charged by Elite Partners of interim review for the period ended 31 December 2019 was HK\$360,000. Elite Partners reviewed the interim financial statements and made a review conclusion.

BOARD DIVERSITY POLICY

The Board and the NC adopted and approved the Diversity Policy on 26 August 2013 for the purpose of supporting the attainment of strategic objectives and sustainable and balanced development of the Company. A summary of the Diversity Policy, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Measurable Objectives

In designing the Board's composition, all Board appointments will be based on merits, and candidates of the Board membership will be considered against objective criteria, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, with due regard for the benefits of diversity on the Board.

Monitoring and Reporting

The NC will report annually the composition of the Board in the Corporate Governance Report. The NC will also review the objectives of the Diversity Policy and closely monitor it in order to ensure the implementation of this policy. Furthermore, the NC will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises six Directors, four of them are Independent Non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, experience, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Company has in place of a dividend policy. Any declaration and payment of dividend shall be determined at the sole discretion of the Board with the long term objective of maximising shareholder value of the Company.

According to the dividend policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account; inter alia, the following factors:

- (a) operating and financial results;
- (b) cash flow situation;
- (c) business conditions and strategies;
- (d) future operations and earnings;
- (e) taxation considerations;
- (f) capital requirements and expenditure plans;
- (g) interests of shareholders;
- (h) any restrictions on payment of dividends; and
- (i) any other factors that the Board may consider relevant.

Such declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rules and regulations and the Articles of Association of the Company.

Any declaration and payment of future dividends under the dividend policy are subject to the Board's determination that the same would be in best interests of the Group and the shareholders of the Company as a whole. The Board will review the dividend policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as it deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Board uses the AGM to communicate with shareholders and encourages their participation. At the AGM held in November 2019, the Chairman proposed a separate resolution in respect of each substantially separate issue. The Chairman also arranged a member of the AC and the auditor to answer questions at the meeting. Moreover, the Company provides extensive information to its shareholders in its annual reports, interim reports, announcements and circulars that are published on the websites of the Company and the Stock Exchange. Shareholders may at any time send their enquiries and concerns to the Board addressing to the Company Secretary of the Company by fax or by post to the Company's head office and principal place of business in Hong Kong as follows:

Art Group Holdings Limited
Unit 1407, 14th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong
Fax: +852 3106 6987

COMPANY SECRETARY

The Company Secretary is Ms. Yeow Mee Mooi. She had taken not less than 15 hours of relevant professional training during the financial year ended 30 June 2020 as required under Rule 3.29 of the Listing Rules.

RIGHTS OF SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 58 of the Articles of Association of the Company, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company deposited at the Company's head office and principal place of business in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

VOTING BY POLL

The Articles of Association of the Company set out the procedures, requirements and circumstances where voting by poll is required. Pursuant to Rule 13.39 of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll.

The poll results will be published on the websites of the Stock Exchange and of the Company as soon as possible after conclusion of the general meeting, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following the general meeting.

CHANGES TO CONSTITUTIONAL DOCUMENTS

The Company has not made any amendments to its constitutional documents during the year ended 30 June 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to the long term sustainability of the environment and communities in which it engages. Acting in an environmentally responsible manner, the Group endeavours to identify and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. This report is prepared by the Group in compliance with the Environmental, Social and Governance (“ESG”) Reporting Guide (the “ESG Reporting Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This report complies with the “comply or explain” provisions set out in the ESG Reporting Guide for the financial year ended 30 June 2020 by making general disclosures on environmental and social information.

The Group had commenced to develop biotechnology segment since the financial year ended 30 June 2019. In order to fulfill the rules and regulations stipulated by Yunnan Provincial Department of Environmental Protection in the People’s Republic of China (the “PRC”), the Group had performed the environmental protection assessment before the set-up of the cannabidiol (“CBD”) production line. The report concluded that the construction of the CBD production line is in line with national and local industrial policies and in compliance with the requirements of emission standards. Exhaust gas, waste water, noise, solid waste etc. generated by the CBD production line can be discharged in compliance with various pollution prevention and control measures. It has little impact on the local atmosphere, surface water environment, ground water environment and acoustic environment, and will not cause significant changes in the environmental function of the location of the CBD production line. By ensuring normal operation of various environmental protection facilities, such as rain and sewage pipe network, sound insulation equipment, hazardous waste temporary storage room, key anti-seepage area etc., the construction of the CBD production line is feasible from the perspective of environmental protection. As the Group was still at the initial stage to set up the CBD production line at the end of June 2020, therefore, no environmental and social key performance indicators were available for the biotechnology segment.

ENVIRONMENTAL

Emissions

Air Emissions by the Group

In accordance with the “Environmental Protection Law of the PRC”(中國環境保護法) and the “Regulations on the Administration of Environmental Protection of Construction Projects”(建設項目環境保護管理條例), the facilities for pollution prevention and control in the construction project must be designed, constructed and put into use at the same time as the main project. Pollution prevention and control facilities, such as “three simultaneous” concept, are considered as the effective measures to strictly control the new pollution sources and pollutant emissions and to curb the trend of environmental deterioration. During the project construction and operation period, the Group’s pollution prevention and control measures strictly complied with the relevant regulations and standards of the PRC government.

During the reporting period, the Group’s emissions were mainly underground garage and automobile exhaust and amounted to 1.61 tons of carbon monoxide in total. From the understanding of the Group, after the real estate developer sets up an independent air supply and exhaust system in underground parking lot, the impact of automobile exhaust on the surrounding environment becomes minimal. 11 exhaust pipes installed in the underground garage discharged emissions for approximately 2,900 hours per annum. Though the Group is only responsible to operate the underground garage, it also observes the status of the exhaust emissions from time to time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL *(Continued)*

Emissions *(Continued)*

Air emission by Group's tenants

In order to prevent the pollution caused by catering industry fumes on the atmospheric environment and living environment, the catering tenants of the Group, in accordance with the "Air Pollution Control Law of the PRC" (中國大氣污染防治法) and "Catering Fume Emission Standards" (飲食業油煙排放標準) specially formulated by the Ministry of Environmental Protection of the PRC, installed fume purification facilities and implemented pollution prevention and control measures to achieve pollutant discharge standards. Fume purification facilities are installed and used by the catering tenants after inspection and approval by the units qualified by the PRC government. From the understanding of the Group, the specifications of the fume purification facilities are in compliance with the relevant standard, and the Environmental Protection Administrative Department is responsible for monitoring the implementation. The Group also monitors the status of fumes emissions in the catering shop units from time to time.

Waste water discharge

Through the use of rain and sewage diversion system and the compliance of sewage treatment by the septic tank, the Group deals with waste water drainage by the municipal sewage pipe network in accordance with the sewage standards issued by the relevant PRC government departments. The real estate developer had built altogether seven sewage outfall for the purpose of sewage discharge in both the Jiachao's Shopping Mall and the Zone C Shopping Mall. The quality of waste water discharged by the Group met the third standard of the "Integrated Wastewater Discharge Standard" (污水綜合排放標準) (GB8978-1996) and B grade standard of the "Sewage into the City Sewer Water Quality Standard" (污水排入城市下水道水質標準) (CJ343-1996) before the waste water is transferred to the Wulongkou sewage treatment plant. According to the test data of an inspection company, the sewage discharge measured throughout the whole reporting period was approximately 123 kilograms.

Waste Management

In the public areas of the shopping malls managed by the Group, the Group has set up waste sorting bins, handles the waste in a timely manner and maintains the sanitation around the collection bins. The Group centralises the wastes collected in the public areas of the shopping malls managed by it for disposal. According to the requirements of the government departments, the Group carries out the collection of wet and dry domestic wastes and their separation in the designated areas. These wastes are then transported to the municipal solid waste recycling station for unified destruction. Moreover, the following procedures are implemented: (i) an agreement was signed with a kitchen waste treatment company which is assigned by the Zhengzhou City Municipal Government; (ii) a domestic garbage dumping certificate was obtained; (iii) an agreement was signed with a disinfect and pesticides company for regular sterilisation of public areas and merchant shops; (iv) unified collection of merchant wastes at unified recycling station and (v) uniform treatment of swill.

During the reporting period, the Group produced three types of non-hazardous waste, namely (i) 4,000 cubic meters of construction waste, such as renovation and decoration materials from tenants and promotion activities; (ii) 9,000 cubic meters of domestic waste, such as packing materials and sundry items etc.; and (iii) 1,095,000 liters of kitchen waste. The intensity of these three types of non-hazardous waste production was 0.02 cubic meters/square meter, 0.04 cubic meters/square meter and 5.33 liters/square meter, respectively. To the knowledge of the Directors, no hazardous waste is produced in the Group's operation.

During the reporting period, the measurement of the above emission and discharge were within the stipulated standards. The Group has complied with policies and relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL (Continued)

Use of Resources

1. Electricity: Greenhouse gases emission is closely related to the consumption of energy, and the Group recognises that the main source of its energy consumption is electricity. The Group targets and, encourages its tenants to put energy conservation practices in place and support global warming mitigation, such as turning off lights after office hours and using effective energy-saving light bulbs as far as possible. During the reporting period, the Group's electricity consumption consists of commercial electricity provided to investment properties and details of which are set out below. The electricity consumption of the Group during the reporting period was approximately 32,243,000 kWh and the energy consumption intensity was 157.05 kWh/square meter.

Henan Electricity Company Zhengzhou Branch provides commercial electricity to the Group's investment properties. The charges of electricity usage in office, public facilities such as landscape area, public access etc. are borne by the Group while tenants of each commercial unit bear their own costs based on independent measurement by meters. The electricity consumption of the Group supplied by Henan Electricity Company Zhengzhou Branch was approximately 32,243,000 kWh during the reporting period.

The Group responded to the call of the state by actively participating in the Zhengzhou City Power Sales Platform jointly organised by the Zhengzhou City Municipal Government and the National Development and Reform Commission. A power sales agreement was signed by the Group which in turn benefits the Group by reducing electricity costs and saving energy. Furthermore, the Group has cooperated with the implementation of the document issued by the Zhengzhou City Municipal Government, namely, the "Encourage electricity consumption for large-sized businesses and enterprises, and reduce electricity consumption costs" (對大型商業、企業鼓勵用電·降低用電費用), and achieved the effect of electricity price reduction by over 18.9% in the reporting period, though mainly due to the closure of the shopping malls as a result of the epidemic situation.

2. Water consumption: Zhengzhou Tap Water Investment Holdings Co., Ltd. provides urban water for commercial use in office and public facilities such as public restrooms. Such water fee is borne by the Group while tenants of each commercial unit bear their own water fee based on independent measurement by meters. The water fee includes the sewage charge paid to the government. The water consumption of the Group was approximately 277,000 cubic meters and the water consumption intensity was approximately 1.35 cubic meters/square meter during the reporting period.

The Group did not have any issue in sourcing water that is fit for purpose. The Group also renovated partial bathrooms in the Jiachao's Shopping Mall by replacing old faucets with faucets that could achieve water saving. Secondly, the Group increased the posting of "Water Conservation" signage in the Jiachao's Shopping Mall, and the service counters broadcast water conservation promotion from time to time in order to improve the awareness of water conservation for customers and employees. For the purpose of hygiene and good service quality, the Group continues to strive to lower water consumption through the above policies and achieved the effect of water price reduction by over 20.0% in the reporting period, though mainly due to the closure of the shopping malls as a result of the epidemic situation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL *(Continued)*

Use of Resources *(Continued)*

3. Natural gas: The real estate developer installed eleven boilers in both shopping malls so as to provide heating to office and public areas during the period from 26 November 2019 to 5 February 2020. These boilers were functioned by natural gas which was supplied by Zhengzhou Vanguard Natural Gas Holdings Co., Ltd. and the heating cost was borne by the Group. The natural gas consumption of the Group was approximately 407,000 cubic meters and the natural gas consumption intensity was 1.98 cubic meters/square meter during the reporting period.

During the period from 26 November 2019 to 5 February 2020, the heating was turned on only when the investment properties were opened and the heating was turned off when the investment properties were closed. The flow of natural gas is determined by the weather through adjusting the size of valves. The Group continues to strive to lower natural gas consumption through the above policies and achieved the effect of natural gas price reduction by over 22.6% in the reporting period, though mainly due to the closure of the shopping malls as a result of the epidemic situation.

The Environment and Natural Resources

The Group strictly abides by the requirements of the relevant environmental protection laws and regulations, departmental regulations and local regulations during the implementation of large-scale marketing and promotional activities. Equipment used in these activities is all made by environmentally-friendly materials and there is no pollution such as waste smoke, waste water, waste garbage and noise. No pollution accidents and no illegal activities such as violation of pollution discharge regulations or environmental pollution have occurred.

Marketing and promotional activities

1. In the large-scale marketing and promotional activities, only environmentally-friendly materials and equipment are used while dangerous goods such as fireworks and firecrackers that generate waste smoke and waste gas are restricted to be used.
2. Large-scale marketing and promotional activities are arranged indoors as far as possible. The volume of outdoor activities is controlled within 70 decibels and these activities are finished by nine o'clock in the evening to avoid unnecessary noise pollution.
3. After completion of these activities, activity materials and domestic garbage are disposed of properly to reduce environmental pollution.

Ecological environment

The Group has arranged green area of 2,550 square meters so as to improve the ecological environment. During the current year, the Group not only kept preserving the original green area, it also increased some potted plants, and maintained and pruned them regularly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment

The Group complies with and implements the relevant laws and regulations of the PRC including, the “Labour Law”(勞動法) “Recruitment Management Approach”(招聘管理辦法), “Pay Management Approach”(薪酬管理辦法), “Attendance Management Approach”(考勤管理辦法) and “Promotion Management Approach”(晉升管理辦法) in respect of recruitment, employment, working hours and resignation without any violation of “Labor Law” up-to-date. The Group sets grassroots positions with equal pay and provides employees from top level to bottom level with standard welfare. The Group establishes a fair and impartial promotion mechanism to ensure there is no discrimination or bias on age, sex, geographical etc. at the time of employment. Moreover, the employment laws and regulations, including the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) are applied to the employees in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding remuneration, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and termination of employment.

Health and Safety

The Group has strictly complied with the relevant laws and regulations of the PRC including the “Employer’s Occupational Disease Hazard Prevention and Control Regulations”(用人單位職業病危害防治八條規定), pursuant to which it is necessary to carry out health check, archive personal details for engineering and technical posts and arrange insurance for the employees. The Group provides qualified protective equipment during work process and erects warning notices during the construction process in order to ensure the safety of employees. Moreover, the laws and regulations, including the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and the Occupation Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) are strictly adhered to by the Group in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding safe working environment and prevention of occupation hazard workplace. The Group neither reported work-related accidents and injuries from employees nor recorded any lost days due to work injury during the reporting period.

Development and Training

In order to cultivate internal staff, according to the relevant provisions of the Group’s “Internal Training and Training Points Management System”, the Group adopts the combination of internal training and external training. There are two types of internal training, namely training hosted by internal lecturers and external lecturers. Theme topics and contents of these trainings are tailor-made for staff at mid-to-high-level and elementary level. Since 2017, a training card system has been set up for each employee who should accumulate at least 12 points in one year to fulfill one of the appraisal criteria. External training is divided into two categories: the first category is to organise activities every year to improve staff cohesion, such as hiking; the second category is the technical/professional training, such as technician certification and fire certification. The Group bears training costs and grants time for employees to attend external training so as to improve their professional skills.

Labour Standards

The Group abides by the standard requirements of the “Labour Law”(勞動法) in full in the recruitment of employees in the PRC in the screening of resume and interview. Structured interview method and written examination are used for interview process. The Group further confirms the authenticity of employee candidate’s information, including age, through background checks. The Group prohibits the employment of any child labour or forced labour, and there is no child labour or forced labour noted in the Group. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding prohibition of child labour and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL *(Continued)*

Supply Chain Management

According to the “Seven Principles of Supply Chain Management”, the Group, based on the required service characteristics, divides the suppliers into different categories, namely procurement suppliers, constructors and external security and cleaning suppliers. The Group selects suppliers and constructors through a unified form of bidding for screening and clearly sets out the standard specifications. A number of departments unify calibration in accordance with the tender requirements. In the process of cooperation, the Group sets up a number of links for control and audit by a number of departments and establishes information systems of supply chain so as to achieve win-win cooperation. At the end of the year, all suppliers and constructors will be surveyed to review their quality of service. For external security and cleaning suppliers, the Group develops an assessment system for assessment and supervision. The assessment system is linked with wage and the implementation of reward and punishment system, thereby to enhance the quality of field service.

Product Responsibility

According to the provisions of the “Product Liability Insurance”, products sold by tenants must be genuine and no fake and shoddy products shall be put up for sale. Catering business should obtain the “Food Safety Permit” and employees should hold health certificate for their posts. The Group, as the owner of investment properties, is required to have public liability insurance. In the ordinary operation, the Jiachao’s Shopping Mall has a customer service desk which is designed to deal with customers’ complaints and any difficult problems. In order to protect the legitimate and safe operation of tenants, the Group also provides them with advertising and fire safety knowledge training regularly. Apart from providing the above services to tenants, the Group conducts a comprehensive supervision and management on them in the usual business operations. The Group’s mission is to provide a safe and effective place for business operations of tenants and also to provide customers with a safe, comfortable and healthy shopping environment. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters in relation to products and services provided and methods of redress. During the reporting period, the Group did not receive any complaints from the tenants about its services.

Anti-corruption

In order to prevent employees, suppliers and tenants from bribery behavior, the Group adopted some measures in this regard. First of all, the Group signs “Honest Agreement” with employees and tenants and “Cooperation Honest Agreement” with suppliers. Secondly, the Group sets up compliant hotline and if any of the employees is found to be engaging in bribery, the Group would strictly follow the “Reward and Punishment Management System” and impose penalty to the involved employees accordingly. Besides, the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong) is strictly adhered to by the Group in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding anti-bribery, extortion, fraud and money laundering. During the reporting period, the Group did not have any corruption lawsuit cases.

Community Investment

The opening of the Jiachao’s Shopping Mall not only improves the facilities for the residents living nearby, but also provides a very convenient shopping environment for a vast number of consumers in different kinds, as well as to create over 7,000 job opportunities. There is an affirmative contribution to the community, especially in children’s entertainment, education and culture aspects, which is expected to be more prosperous in next few decades. The operation of the Jiachao’s Shopping Mall definitely stimulates the consumption level of the western part of Zhengzhou City.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE ESG REPORTING GUIDE CONTENT INDEX

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A1.1	Types of emissions and respective emission data	Emissions	34
A1.2	Greenhouse gas emissions in total, and where appropriate, intensity	Emissions	34
A1.3	Total hazardous waste produced and, where appropriate, intensity	Not applicable. No hazardous waste was generated in the Group's operation.	–
A1.4	Total non-hazardous waste produced and, where appropriate, intensity	Emissions	34
A1.5	Description of measures to mitigate emissions and results achieved	Emissions	34
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Emissions	34
A2 Use of resources			
A2	General disclosure	Use of Resources	36
A2.1	Direct and/or indirect energy consumption by type in total and intensity	Use of Resources	36
A2.2	Water consumption in total and intensity	Use of Resources	36
A2.3	Description of energy use efficiency initiatives and results achieved	Use of Resources	36
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Use of Resources	36
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not applicable. No packaging material was used in the Group's operations.	–
A3 The Environment and natural resources			
A3	General disclosure	The Environment and Natural Resources	37
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Environment and Natural Resources	37

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

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B. Social			
B1 Employment and labour practice			
B1	General disclosure	Employment	38
B1.1	Total workforce by gender, employment type, age group and geographical region	Not disclosed	–
B1.2	Employee turnover rate by gender, age and geographical region	Not disclosed	–
B2 Health and safety			
B2	General disclosure	Health and Safety	38
B2.1	Number and rate of work-rated fatalities	Health and Safety	38
B2.2	Lost days due to work injury	Health and Safety	38
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety	38
B3 Development and training			
B3	General disclosure	Development and Training	38
B3.1	Percentage of employees trained by gender and employee category	Not disclosed	–
B3.2	Average training hours completed per employee by gender and employee category	Not disclosed	–
B4 Labour standards			
B4	General disclosure	Labour Standards	38
B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour Standards	38
B4.2	Description of steps taken to eliminate such practices when discovered	Labour Standards	38
B5 Supply chain management			
B5	General disclosure	Supply Chain Management	39
B5.1	Number of suppliers by geographical region	Not disclosed	–
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply Chain Management	39

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

Aspect/description and KPI		Section/statement	Page no.
B6 Product responsibility			
B6	General disclosure	Product Responsibility	39
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable to the Group's operations	–
B6.2	Number of products and service related complaints received and how they are dealt with	Product Responsibility	39
B6.3	Description of practices relating to observing and protecting intellectual property rights	Not disclosed	–
B6.4	Description of quality assurance process and recall procedures	Not applicable to the Group's operations	–
B6.5	Description of customer data protection and privacy policies, how they are implemented and monitored	Not disclosed	–
B7 Anti-corruption			
B7	General disclosure	Anti-corruption	39
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Anti-corruption	39
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption	39
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B8.2	Resources contributed to the focus area	Community Investment	39

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF ART GROUP HOLDINGS LIMITED

錦藝集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Art Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 48 to 124, which comprise the consolidated statement of financial position as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 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 (“HKCO”).

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”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key audit matter

Fair value measurement of investment properties

We identified the fair value measurement of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with significant judgments associated with determining the fair value. As disclosed in note 17 to the consolidated financial statements, the Group's investment properties amounted to HK\$2,637 million, as at 30 June 2020 represented 84% of the Group's total assets. Fair value loss on investment properties of HK\$78 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

As disclosed in note 17 to the consolidated financial statements, the investment properties are stated at fair value based on valuation performed by an independent professional property valuer.

The fair value of the Group's investment properties were determined by adopting the valuation techniques with significant unobservable inputs, assumptions of market conditions and judgments. The Group also worked closely with the independent professional property valuers to establish and determine the appropriate valuation techniques.

How our audit addressed the key audit matter

Our major procedures to address the valuation of investment properties included the following:

- Evaluating the competence, capabilities and objectivity of the independent professional property valuer;
- Obtaining an understanding from the independent professional property valuer about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgment on key inputs and data used in the valuations;
- Assessing the reasonableness of source data used in the valuations by benchmarking the assumptions to relevant market information on sales prices and rentals achieved in other similar properties in the neighbourhood;
- Evaluating the reasonableness of the information provided by the management to independent professional property valuer; and
- Assessing the integrity of information provided by the management to the independent professional property valuer by comparing the details of operational performance, on a sample basis, to the respective underlying existing lease agreements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the HKCO, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

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, in accordance with our agreed terms of engagement, 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Jimmy with Practising Certificate number P05898.

Elite Partners CPA Limited
Certified Public Accountants

10th Floor
8 Observatory Road
Tsim Sha Tsui,
Kowloon, Hong Kong

30 September 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Revenue	7	159,547	211,818
Cost of sales		(63,598)	(63,683)
Gross profit		95,949	148,135
Other income	8	14,764	16,066
Administrative expenses		(29,946)	(26,722)
Loss on fair value changes on investment properties	17	(77,778)	(19,541)
Gain on fair value change on biological assets	19	744	–
Gain on disposal of a subsidiary	35	–	4,400
Finance costs	9	(61,942)	(29,416)
(Loss)/profit before taxation		(58,209)	92,922
Income tax credit/(expense)	10	22,496	(16,483)
(Loss)/profit for the year	11	(35,713)	76,439
Other comprehensive expense: <i>Item that will not be reclassified to profit or loss</i>			
Exchange differences on translation from functional currency to presentation currency		(61,261)	(84,328)
Other comprehensive expense for the year (net of income tax)		(61,261)	(84,328)
Total comprehensive expense for the year		(96,974)	(7,889)
(Loss)/profit for the year attributable to:			
Owners of the Company		(30,658)	55,925
Non-controlling interests		(5,055)	20,514
		(35,713)	76,439
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(79,731)	(11,273)
Non-controlling interests		(17,243)	3,384
		(96,974)	(7,889)
(LOSS)/EARNINGS PER SHARE	14		
Basic (HK cents)		(1.14)	2.08
Diluted (HK cents)		(1.14)	2.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2020*

	NOTES	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	8,609	4,482
Right-of-use assets	16	7,595	–
Investment properties	17	2,637,363	2,806,818
Goodwill	18	34,764	34,764
		<u>2,688,331</u>	<u>2,846,064</u>
CURRENT ASSETS			
Biological assets	19	1,418	–
Trade and other receivables	20	37,031	278,114
Bank balances and cash	21	419,095	32,377
		<u>457,544</u>	<u>310,491</u>
CURRENT LIABILITIES			
Other payables	22	57,012	65,309
Contract liabilities	23	23,876	31,814
Lease liabilities	24	1,315	–
Amount due to a substantial shareholder	25	–	239,497
Secured bank borrowings	26	74,713	89,773
Bond	27	9,999	–
Tax liabilities		–	9,046
		<u>166,915</u>	<u>435,439</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>290,629</u>	<u>(124,948)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,978,960</u>	<u>2,721,116</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2020*

	NOTES	2020 HK\$'000	2019 HK\$'000
CAPITAL AND RESERVES			
Share capital	29	26,888	26,888
Reserves		1,374,869	1,454,600
Equity attributable to owners of the Company		1,401,757	1,481,488
Non-controlling interests	32	346,645	375,138
TOTAL EQUITY		1,748,402	1,856,626
NON-CURRENT LIABILITIES			
Lease liabilities	24	4,935	–
Deferred tax liabilities	28	391,469	424,658
Secured bank borrowings	26	799,810	404,545
Bonds	27	34,344	35,287
		1,230,558	864,490
		2,978,960	2,721,116

The consolidated financial statements on pages 48 to 124 were approved and authorised for issue by the board of directors on 30 September 2020 and are signed on its behalf by:

Chen Jinyan
DIRECTOR

Chen Jindong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Attributable to owners of the Company							Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000			
As at 1 July 2018	26,888	263,850	136	(63,371)	54,332	-	1,210,926	1,492,761	371,754	1,864,515
Profit for the year	-	-	-	-	-	-	55,925	55,925	20,514	76,439
Other comprehensive expense for the year										
- Exchange difference on translation from functional currency to presentation currency	-	-	-	(67,198)	-	-	-	(67,198)	(17,130)	(84,328)
Total comprehensive (expense)/ income for the year	-	-	-	(67,198)	-	-	55,925	(11,273)	3,384	(7,889)
Disposal of a subsidiary (<i>Note 35</i>)	-	-	-	4,749	-	-	(4,749)	-	-	-
Forfeit of shares under employee share option plan	-	-	-	-	(5,402)	-	5,402	-	-	-
As at 30 June 2019	26,888	263,850	136	(125,820)	48,930	-	1,267,504	1,481,488	375,138	1,856,626
Loss for the year	-	-	-	-	-	-	(30,658)	(30,658)	(5,055)	(35,713)
Other comprehensive expense for the year										
- Exchange difference on translation from functional currency to presentation currency	-	-	-	(49,073)	-	-	-	(49,073)	(12,188)	(61,261)
Total comprehensive expense for the year	-	-	-	(49,073)	-	-	(30,658)	(79,731)	(17,243)	(96,974)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	(11,250)	(11,250)
Forfeit of shares under employee share option plan	-	-	-	-	(5,402)	-	5,402	-	-	-
Appropriations	-	-	-	-	-	5,000	(5,000)	-	-	-
As at 30 June 2020	26,888	263,850	136	(174,893)	43,528	5,000	1,237,248	1,401,757	346,645	1,748,402

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

NOTES	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit for the year	(35,713)	76,439
Adjustments for:		
Income tax (credit)/expense recognised in profit and loss	(22,496)	16,483
Loss on fair value change on investment properties	77,778	19,541
Gain on fair value change on biological assets	(744)	–
Depreciation of property, plant and equipment	2,142	3,164
Depreciation of right-of-use assets	1,144	–
Gain on disposal of a subsidiary	–	(4,400)
Finance costs recognised in profit or loss	61,942	29,416
Interest income	(126)	(60)
Gain on disposal of property, plant and equipment	–	(6)
Operating cash flows before movements in working capital	83,927	140,577
Increase in biological assets	(690)	–
Decrease/(increase) in trade and other receivables	12,284	(124,982)
(Decrease)/increase in other payables	(6,243)	103,724
(Decrease)/increase in contract liabilities	(6,966)	11,303
Cash generated from operations	82,312	130,622
Income tax paid	(5,792)	(12,868)
NET CASH GENERATED FROM OPERATING ACTIVITIES	76,520	117,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(6,463)	(1,241)
Interest received	126	60
Proceed from disposal of property, plant and equipment	–	75
Net cash inflow from disposal of a subsidiary	224,710	11,321
NET CASH GENERATED FROM INVESTING ACTIVITIES	218,373	10,215

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 30 June 2020*

	<i>NOTES</i>	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amount due to a substantial shareholder		(234,312)	(13,375)
Proceeds from secured bank borrowings		888,890	–
Repayments of secured bank borrowings		(491,667)	(82,759)
Repayments of lease liabilities		(2,503)	–
Proceeds from issue of bond		9,000	10,000
Interest paid on secured bank borrowings		(54,607)	(26,640)
Interest paid on bonds		(3,494)	(2,726)
Interest paid on lease liabilities		(101)	–
Dividend paid to non-controlling interest		(11,250)	–
		<hr/>	<hr/>
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		99,956	(115,500)
		<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS		394,849	12,469
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		32,377	18,121
Effect of foreign exchange rate changes		(8,131)	1,787
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	<i>21</i>	419,095	32,377
		<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. GENERAL

Art Group Holdings Limited (the “Company”) is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate and ultimate holding company is Fully Chain Limited, a private company incorporated in the British Virgin Islands (“BVI”). Its ultimate controlling party is Mr. Chen Jinyan, who is also the director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and the functional currency of the Company is Renminbi (“RMB”). The consolidated financial statements are presented in HK\$ for the convenience of the shareholders because the Company’s shares are listed in Hong Kong.

The Company is an investment holding company. Particulars of the principal activities of the Company’s subsidiaries (collectively referred to as the “Group”) are set out in note 38.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs, Hong Kong Accounting Standard (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

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

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group’s consolidated financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) **HKFRS 16 Leases**

HKFRS 16 *Leases* (“HKFRS 16”) replaces HKAS 17 *Leases* (“HKAS 17”), HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) – Int 15 *Operating Leases – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have significant impact on leases where the Group is the lessor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year
(Continued)

(a) HKFRS 16 Leases *(Continued)*

The Group has adopted HKFRS 16 using the modified retrospective method at the date of initial application of 1 July 2019. Under this method, the comparative information for 2019 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 July 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities as at 1 July 2019 were quantified and assessed by management based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 July 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year
(Continued)

(a) HKFRS 16 Leases (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impact on transition (Continued)

All the right-of-use assets were assessed for any impairment based on HKAS 36 on that date.

The Group has used the following elective practical expedients when applying HKFRS 16 as at 1 July 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact as at 1 July 2019

The application of HKFRS 16 on 1 July 2019 by the Group did not give rise to any additional lease liabilities as at 1 July 2019, as the Group considered that the financial impact of the initial adoption of HKFRS 16 to be immaterial to the Group on 1 July 2019. The adoption has had no impact on the Group’s equity as at 1 July 2019.

There is no significant difference between the amount of operating lease commitments as at 30 June 2019 disclosed applying the previous standards (see note 30), discounted using the incremental borrowing rate as at 1 July 2019 and the amount of lease liabilities as at 1 July 2019 as quantified and assessed by management.

(b) HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC) – Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The Group considered that the interpretation did not have any impact on the financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Covid-19 – Related Rent Concession ⁴
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁵
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁶
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ⁶
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018-2020 ⁶
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁶

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

² Effective for business combinations and assets acquisitions for which the acquisition date is on or after the first period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2020.

⁶ Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and biological assets that are measured at fair values at the end of each reporting period as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* (since 1 July 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 *Impairment of Assets*.

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.

For investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of the subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill, and then to the other assets on a pro-rata basis of the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill). When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period for which they arise.

Investment properties are derecognised upon disposal or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from its disposals. Effective from 1 July 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment and right-of-use assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Lease

Upon the application of HKFRS 16 on 1 July 2019

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessor

Allocation of consideration to components of a contract

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

Sublease

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

The Group as lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of leasehold properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option.

Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

Upon the application of HKFRS 16 on 1 July 2019 (Continued)

The Group as lessee (Continued)

Right-of-use assets (Continued)

The cost of right-of-use asset includes:

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

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

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments).

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Under HKAS 17 (prior to 1 July 2019)

The Group as lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

Under HKAS 17 (prior to 1 July 2019) (Continued)

The Group as lessor (Continued)

Classification and measurement of leases (Continued)

Amounts due from lessees under finance leases are recognised as receivables at commencement date at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as lessee

Definition of a lease

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive (expense)/income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive (expense)/income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive (expense)/income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Retirement benefit costs and termination benefits

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Scheme Ordinance for all employees in Hong Kong. Contributions are made based on a percentage of the employees’ relevant income 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 independently administered funds. The Group’s employer contributions vest fully with the employees when contributed in the MPF Scheme.

The employees of the Company’s subsidiaries which operate in the People’s Republic of China (the “PRC”) are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRSs requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment arrangements

Share-based payment transactions of the Company

For share options that vested immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

Amortised cost and interest income

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

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables and bank balances and cash) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The Group always recognises lifetime ECL for trade receivables that result from transactions within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 July 2019) or HKAS 17 (prior to 1 July 2019).

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including other payables, amount due to a substantial shareholder, secured bank borrowings and bonds) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Biological assets

Biological assets are plants managed by the Group which is involved in the agricultural activities of the transformation of biological assets for sale, into agricultural produce. Biological assets are measured at fair value less costs to sell at initial recognition and at each reporting date. The fair value of biological assets is determined based on either the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate or the market-determined prices with reference to the selling price of industrial hemp based on market researches, the expected harvest dates and quantities, actual costs incurred as of 30 June 2020 and costs to be incurred until the expected harvest dates.

The gain or loss arising on initial recognition of biological assets at fair value less costs to sell and from a change in fair value less costs to sell is recognised in profit or loss for the year in which it arises.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the Group's parent.
- (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) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party;
 - (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); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily obtainable from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Measurement of ECL

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Selecting appropriate models and assumptions for the measurement of ECL; and
- Establishing the relative probability weightings of forward looking scenarios.

Significant increase in credit risk

ECL of different financial assets is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined in note 6. A financial asset moves to Stage 2 when its credit risk has increased significantly since initial recognition, and it comes to Stage 3 when it is credit-impaired (but it is not purchased original credit impaired). In assessing whether the credit risk of a financial asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information with significant judgments involved.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgment is applied in identifying the appropriate model for each type of financial assets, as well as the assumptions used in these models. Please refer to note 6 for more details on ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining the recoverable amount of goodwill requires an estimation of the value in use of the CGU to which goodwill has been allocated which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. As at 30 June 2020, the carrying amount of goodwill is HK\$34,764,000 (2019: HK\$34,764,000). Details of the recoverable amount calculation are disclosed in note 18.

Fair value measurement of biological assets

The Group's biological assets are stated at fair value less costs to sell on initial recognition and at the end of each reporting period. The directors of the Company determine the fair value less costs to sell with reference to the selling price of industrial hemp based on market researches, the expected harvest dates and quantities, actual costs incurred as of 30 June 2020 and costs to be incurred until the expected harvest dates. Any change in the estimates may affect the fair value of the biological assets significantly. The carrying amounts of the Group's biological assets as at 30 June 2020 were approximately HK\$1,418,000 (2019: Nil). Details of the valuation of biological assets are disclosed in note 19.

Impairment assessment under ECL for trade receivables

The Group uses a provision matrix to calculate ECL for the trade receivables that result from transactions within the scope of HKFRS 15. The provision rates are based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable and available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information is considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. Details of the impairment assessment of trade receivables at amortised cost is disclosed in note 6.

Impairment assessment under ECL for financial assets at amortised cost other than trade receivables (including other receivables and bank balances and cash)

The impairment assessment under ECL for financial assets at amortised cost (including other receivables and bank balances and cash) is an area that requires the use of models and assumptions about future economic conditions and the credit risk of the respective financial instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Inputs, assumptions and estimation techniques

ECL is the discounted product of expected future cash flows by using the Probability of Default (“PD”), Loss Given Default (“LGD”) and Exposure at Default, of which PD and LGD are estimates based on significant management judgment. For credit-impaired financial assets, the management perform individual assessment for each client by considering various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Company and subsequent settlement and additional collaterals received.

In measuring ECL in accordance with HKFRS 9, it should consider forward-looking information. The calculation of ECL incorporates forward-looking information through the use of publicly available economic data and forecasts based on assumptions and management judgment to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

Details of the impairment assessment of financial assets at amortised cost is disclosed in note 6.

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 30 June 2020 and 30 June 2019, using the capitalisation method on the basis of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest by assuming a stabilised economic income capitalised by a reversionary yield rate and the comparison method with reference to the sales transactions of the comparable properties by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the valuation techniques and assumptions have been disclosed in note 17.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the Group has recognised deferred taxes on changes in fair value of investment properties in relation to the PRC’s land appreciation tax, which is the additional tax to be charged if a property in the PRC is recovered through sale. As at 30 June 2020, the carrying amount of these properties was HK\$2,637,363,000 (2019: HK\$2,806,818,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes secured bank borrowings disclosed in note 26, bonds disclosed in note 27, bank balances and cash disclosed in note 21, and equity attributable to owners of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with the capital. The Group will balance its overall capital structure through the payments of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

In addition to capital risk management, there is a concentration risk on location of net assets owned by the Group. The Group's net assets are principally situated in the PRC and accordingly, they are subject to a concentration of assets realisation risk in the local municipalities and provinces, where they are located. The Group's ability to realise the majority of its net assets is related to the economic conditions in the PRC as a whole and the local areas in which it operates. Management manages this exposure by maintaining a portfolio of assets in different locations with different risk profiles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
At amortised cost:		
Trade and other receivables	26,368	273,693
Bank balances and cash	419,095	32,377
	<u>445,463</u>	<u>306,070</u>
	2020 HK\$'000	2019 HK\$'000
Financial liabilities		
At amortised cost:		
Other payables	40,331	44,365
Amount due to a substantial shareholder	–	239,497
Secured bank borrowings	874,523	494,318
Bonds	44,343	35,287
	<u>959,197</u>	<u>813,467</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, other payables, amount due to a substantial shareholder, secured bank borrowings and bonds. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall policies remain unchanged from prior years.

Market risk

(i) Currency risk

Certain bank balances and bonds are denominated in United States dollars ("USD") and HK\$ which are currencies other than functional currency of the relevant group entities.

The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) *Currency risk* (Continued)

Sensitivity analysis

The group entities are mainly exposed to the fluctuation of USD and HK\$ against RMB.

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2019: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2019: 5%) change in foreign currency rates.

The sensitivity analysis includes USD and HK\$ denominated bank balances and bonds, as appropriate. A positive or negative number below indicates an increase or a decrease in post-tax loss where RMB strengthen 5% (2019: 5%) against the relevant currency. For a 5% (2019: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss.

	HK\$ Impact		USD Impact	
	<i>(Note)</i>		<i>(Note)</i>	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit or loss	<u>(1,625)</u>	<u>(1,211)</u>	<u>1</u>	<u>1</u>

Note: This is mainly attributable to the exposure outstanding on USD or HK\$ bank balances and bonds not subject to cash flow hedge at the end of the reporting period in the Group.

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to floating-rate secured bank borrowings (see note 26 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China arising from the Group's RMB denominated bank borrowings.

The Group is also exposed to fair value interest rate risk in relation to bank balances, secured bank borrowings and bonds, as set out in notes 21, 26 and 27, respectively.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

The Group maintains floating-rate borrowings. The Group currently does not have an interest rate hedging policy. However, management closely monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period carried at floating market interest rate. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points (2019: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax (loss)/profit for the year ended 30 June 2020 would decrease/increase by HK\$6,559,000 (2019: HK\$3,707,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

Credit risk and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's concentration of credit risk by geographical location is mainly in the PRC.

Maximum exposure to credit risk which will cause a financial loss to the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Other receivables

The Group has applied the general approach in HKFRS 9 to measure the loss allowance at 12m ECL, since the directors of the Company assessed that there has not been any significant increase in credit risk since initial recognition. The credit quality of the deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate allowances are made for irrecoverable amounts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 30 June 2020, the directors of the Company consider that the concentration of credit risk is limited due to the customer base being large and unrelated.

Bank balances

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivable	Other financial assets
Low risk	The counter party has a low risk of default and does not have any past-due amounts.	Lifetime ECL not credit impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources.	Lifetime ECL not credit impaired	Lifetime ECL not credit impaired
Loss	There is evidence indicating the asset is credit impaired.	Lifetime ECL credit impaired	Lifetime ECL credit impaired
Written-off	There is evidence indicating that debtor is severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2020	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amounts HK\$'000
Financial assets at amortised cost					
Trade receivables (Note 1)	20	N/A	Low risk	Lifetime ECL (provision matrix)	3,769
Other receivables (Note 2)	20	N/A	Low risk	12m ECL	22,599
Bank balances and cash (Note 3)	21	Baa2	Low risk	12m ECL	419,095
2019	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amounts HK\$'000
Financial assets at amortised cost					
Trade receivables (Note 1)	20	N/A	Low risk	Lifetime ECL (provision matrix)	31,409
Other receivables (Note 2)	20	N/A	Low risk	12m ECL	242,284
Bank balances and cash (Note 3)	21	Baa2	Low risk	12m ECL	32,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Notes:

- (1) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant balances or credit impaired, the Group determines the ECL on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' ageing and corresponding rental deposit to assess the impairment of trade receivables from customers in relation to its business of property operating because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Trade receivables with carrying amounts of HK\$3,769,000 (2019: HK\$31,409,000) are assessed based on provision matrix within lifetime ECL (not credit impaired).

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. During the years ended 30 June 2020 and 30 June 2019, no impairment allowance on trade receivables are provided based on the provision matrix assessed individually as the amounts involved are immaterial.

- (2) Included in other receivables are amounts representing refundable utility and rental deposits which the Group is entitled but held by landlord. The Group assessed the loss allowance for these other receivables on 12m ECL basis. In determining the ECL, the Group has taken into account the historical default experience and forward-looking information as appropriate. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that credit risk inherent in the Group's outstanding balances is insignificant.
- (3) The credit risk on bank balances (including segregated and general accounts) are limited because the counterparties are with high credit ratings assigned by international credit rating agencies. Majority of bank balances are deposited in reputable large commercial banks with credit rating of Baa2 (2019: Baa2) or above issued by Moody's.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating-rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts as at 30.6.2020 HK\$'000
2020								
Other payables	N/A	40,331	-	-	-	-	40,331	40,331
Lease liabilities	3.09% – 11.26%	246	205	1,352	5,837	-	7,640	6,250
Secured bank borrowings – floating-rate	6.97% – 7.21%	524	13,875	116,451	611,442	337,483	1,079,775	874,523
Bonds	8.00% – 8.33%	-	10,020	2,747	28,368	10,501	51,636	44,343
		<u>41,101</u>	<u>24,100</u>	<u>120,550</u>	<u>645,647</u>	<u>347,984</u>	<u>1,179,382</u>	<u>965,447</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts as at 30.6.2019 HK\$'000
2019								
Other payables	N/A	44,365	-	-	-	-	44,365	44,365
Amount due to a substantial shareholder	N/A	239,497	-	-	-	-	239,497	239,497
Secured bank borrowings								
– floating-rate	4.9%	1,991	15,170	94,748	448,418	-	560,327	494,318
Bonds	8.00% – 8.33%	-	-	2,829	30,554	11,301	44,684	35,287
		<u>285,853</u>	<u>15,170</u>	<u>97,577</u>	<u>478,972</u>	<u>11,301</u>	<u>888,873</u>	<u>813,467</u>

Secured bank borrowings with a repayment on demand clause are included in the “on demand or less than 1 month” time band in the above maturity analysis, if any.

The amounts included above for floating interest rate instruments for non-derivative financial liabilities are subject to change if changes in floating interest rates differ from those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the lease payments received and receivable in the normal course of business, net of related taxes for the year. The Group is engaged in the property operating business during the year.

Information reported to the Board of the Company, being the chief operating decision maker (“CODM”), for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

For the reporting period, management of the Company has determined that the Group has two operating segments (2019: Two) as the Group is engaged in the property operating and biotechnology businesses, which is the basis used by the CODM. From a product perspective, management assesses the performance from property operating and biotechnology segments for the years ended 30 June 2020 and 30 June 2019.

The accounting policies of the operating segments are the same as the Group’s accounting policies described in note 3. Segment results represent the profit or loss from the segments without allocation of income tax (credit)/expense and central administration costs.

One single tenant from property operating segment contributed to 10 per cent or more of the Group’s revenue for the year ended 30 June 2020 (2019: One). The total amount of revenue from this tenant was HK\$28,260,000 (2019: HK\$29,118,000).

	2020 HK\$'000	2019 HK\$'000
Revenue from major business services:		
<i>Revenue within the scope of HKFRS 16/HKAS 17</i>		
Rental income from leasing of properties	65,826	74,570
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>		
Property management fee income	91,269	111,520
Property management – other related services	2,452	25,728
	93,721	137,248
	159,547	211,818
Disaggregated by timing of revenue recognition:		
<i>Over time:</i>		
Property management fee income	91,269	111,520
Property management – other related services	2,452	25,728
	93,721	137,248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. REVENUE AND SEGMENT INFORMATION (Continued)

Performance obligations for revenue from contracts with customers

(i) Property management fee

Property management fee is recognised over the service period. The Group receives monthly property management fee payments from customers one to three months in advance under the contracts.

(ii) Biotechnology

There was no revenue generated in biotechnology segment during the reporting period.

Segment information

The CODM assesses the performance of the property operating and biotechnology segments based on sales and net profit.

2020

	Property operating HK\$'000	Biotechnology HK\$'000	Consolidated HK\$'000
Revenue	159,547	–	159,547
Segment result	(41,078)	(1,022)	(42,100)
Income tax credit	22,496	–	22,496
Central administration costs			(16,109)
Loss for the year			(35,713)
Amounts included in the measure of segment loss			
Depreciation of property, plant and equipment	2,104	27	
Depreciation of right-of-use assets	–	76	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

2019	Property operating HK\$'000	Biotechnology HK\$'000	Consolidated HK\$'000
Revenue	211,818	–	211,818
Segment result	102,651	(600)	102,051
Income tax expense	(16,483)	–	(16,483)
Gain on disposal of a subsidiary			4,400
Central administration costs			(13,529)
Profit for the year			76,439
Amount included in the measure of segment profit			
Depreciation of property, plant and equipment	3,154	–	

No geographical market analysis is provided as the Group's revenue and contribution to segment results were substantially derived from the tenants in the PRC and the assets are substantially located in the PRC.

8. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Bank interest income	126	60
Car parking income	6,151	7,110
Service income	7,667	8,223
Exchange gain	317	565
Others	503	108
	<u>14,764</u>	<u>16,066</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

9. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on		
– Secured bank borrowings wholly repayable over five years	58,291	26,640
– Bonds	3,550	2,776
– Lease liabilities	101	–
	<u>61,942</u>	<u>29,416</u>

10. INCOME TAX (CREDIT)/EXPENSE

	2020 HK\$'000	2019 HK\$'000
<i>Income tax recognised in profit or loss</i>		
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	2,443	21,368
– Overprovision in prior year	(5,495)	–
Deferred tax (<i>note 28</i>)	<u>(19,444)</u>	<u>(4,885)</u>
	<u>(22,496)</u>	<u>16,483</u>

Hong Kong Profits Tax was calculated at 16.5% (2019: 16.5%) of the estimated assessable profit for the financial year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25% for both years.

As at 30 June 2020, no deferred tax liabilities (2019: Nil) were recognised in respect of the undistributed retained earnings of the PRC subsidiaries attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC, which are set out in note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

10. INCOME TAX (CREDIT)/EXPENSE (Continued)

The tax charge for the year can be reconciled to the (loss)/profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 HK\$'000	2019 HK\$'000
(Loss)/profit before taxation	<u>(58,209)</u>	<u>92,922</u>
Tax at the income tax rate of 25% (2019: 25%)	(14,552)	23,231
Tax effect of expenses not deductible for tax purpose	11,592	3,435
Tax effect of income not taxable for tax purpose	(231)	(1,100)
Net tax effect of expense and income that are not deductible and taxable in determining taxable profit and tax allowance	(13,810)	(9,083)
Tax effect of overprovision in prior year	<u>(5,495)</u>	<u>–</u>
Income tax (credit)/expense recognised in profit or loss	<u>(22,496)</u>	<u>16,483</u>

11. (LOSS)/PROFIT FOR THE YEAR

	2020 HK\$'000	2019 HK\$'000
(Loss)/profit for the year has been arrived at after charging/(crediting):		
Staff costs		
– directors' emoluments	4,008	4,008
– other staff's salaries and other benefits	17,374	15,583
– other staff's retirement benefit scheme contributions	<u>1,267</u>	<u>2,032</u>
	<u>22,649</u>	<u>21,623</u>
Auditor's remuneration	1,200	1,100
Depreciation of property, plant and equipment	2,142	3,164
Depreciation of right-of-use assets	971	–
Short-term leases	21,981	–
Minimum lease payments in respect of rented premises	–	18,940
Exchange gain	(317)	(565)
Gain on disposal of property, plant and equipment	<u>–</u>	<u>(6)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the six (2019: six) directors were as follows:

(a) **Directors' emoluments**

Details of emoluments of individual directors are set out as follows:

2020

	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Mr. Chen Jinyan	–	1,800	18	1,818
Mr. Chen Jindong	–	1,800	18	1,818
Mr. Kwan Chi Fai	120	–	–	120
Mr. Lin Ye	36	–	–	36
Mr. Yang Zeqiang	96	–	–	96
Ms. Chong Sze Pui Joanne	120	–	–	120
	<u>372</u>	<u>3,600</u>	<u>36</u>	<u>4,008</u>

2019

	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Mr. Chen Jinyan	–	1,800	18	1,818
Mr. Chen Jindong	–	1,800	18	1,818
Mr. Kwan Chi Fai	120	–	–	120
Mr. Lin Ye	36	–	–	36
Mr. Yang Zeqiang	96	–	–	96
Ms. Chong Sze Pui Joanne	120	–	–	120
	<u>372</u>	<u>3,600</u>	<u>36</u>	<u>4,008</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

During the year ended 30 June 2020, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil) and no directors have waived or agreed to waive any emoluments (2019: Nil).

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 30 June 2020 included two (2019: two) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining three (2019: three) individuals are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	2,602	2,580
Retirement benefit scheme contributions	36	36
	<u>2,638</u>	<u>2,616</u>

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2020 No. of employees	2019 No. of employees
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>3</u>	<u>3</u>

During the year ended 30 June 2020, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil) and no five highest paid individuals have waived or agreed to waive any emoluments (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

13. DIVIDEND PAID

No dividend was paid or proposed for the year ended 30 June 2020 nor has any dividend been proposed since the end of the reporting period (2019: Nil).

14. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	2020 HK\$'000	2019 HK\$'000
(Loss)/earnings		
(Loss)/profit for the year attributable to the owners of the Company for the purposes of basic and diluted (loss)/earnings per share	<u>(30,658)</u>	<u>55,925</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	2,688,805	2,688,805
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	<u>–</u>	<u>1,795</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	2,688,805	<u>2,690,600</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures, office equipment and motor vehicles HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST					
As at 1 July 2018	11,637	1,820	–	–	13,457
Additions	1,222	19	–	–	1,241
Disposal	–	(195)	–	–	(195)
Exchange realignment	(529)	(69)	–	–	(598)
As at 30 June 2019	12,330	1,575	–	–	13,905
Additions	–	299	16	6,148	6,463
Exchange realignment	(396)	(46)	–	(67)	(509)
As at 30 June 2020	11,934	1,828	16	6,081	19,859
ACCUMULATED DEPRECIATION					
As at 1 July 2018	5,412	1,288	–	–	6,700
Provided for the year	2,941	223	–	–	3,164
Disposal	–	(126)	–	–	(126)
Exchange realignment	(266)	(49)	–	–	(315)
As at 30 June 2019	8,087	1,336	–	–	9,423
Provided for the year	2,035	107	–	–	2,142
Exchange realignment	(279)	(36)	–	–	(315)
As at 30 June 2020	9,843	1,407	–	–	11,250
NET CARRYING AMOUNT					
As at 30 June 2020	2,091	421	16	6,081	8,609
As at 30 June 2019	4,243	239	–	–	4,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, after taking into account the residual value, are depreciated on straight-line basis at the following rates per annum:

Leasehold improvements	20% – 25%
Furniture, fixtures, office equipment and motor vehicles (with 5% residual value on the cost)	20% – 33%
Plant and machinery	10%

16. RIGHT-OF-USE ASSETS

	Office HK\$'000	Farmland HK\$'000	Factory HK\$'000	Total HK\$'000
COST				
As at 1 July 2019	–	–	–	–
Additions	2,386	4,143	2,277	8,806
Exchange realignment	–	(45)	(25)	(70)
As at 30 June 2020	2,386	4,098	2,252	8,736
ACCUMULATED DEPRECIATION				
As at 1 July 2019	–	–	–	–
Provided for the year	895	173	76	1,144
Exchange realignment	–	(2)	(1)	(3)
As at 30 June 2020	895	171	75	1,141
NET CARRYING AMOUNT				
As at 30 June 2020	1,491	3,927	2,177	7,595
Expense relating to short-term leases and within 12 months of the date of initial application of HKFRS 16				21,981
Total cash outflow for leases				24,585

During the year, the Group leases offices, farmland and factory for its operations. Lease contracts are entered into for fixed term of 2 years to 6 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

17. INVESTMENT PROPERTIES

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currency of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2020 HK\$'000	2019 HK\$'000
Fair value		
Balance at the beginning of the year	2,806,818	3,208,333
Disposal	–	(236,364)
Loss on fair value change on investment properties	(77,778)	(19,541)
Exchange realignment	(91,677)	(145,610)
	<u>2,637,363</u>	<u>2,806,818</u>
Balance at the end of the year		
Unrealised loss on property revaluation included in profit or loss	<u>(77,778)</u>	<u>(19,541)</u>

The carrying value of investment properties shown above comprises properties situated on:

	2020 HK\$'000	2019 HK\$'000
Land under medium-term leases in the PRC	<u>2,637,363</u>	<u>2,806,818</u>

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

The fair value of the Group's investment properties as at 30 June 2020 and 30 June 2019 has been arrived at on the basis of a valuation carried out at the end of the year by International Valuation Limited (the "Valuer"), an independent qualified professional valuer not connected with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

17. INVESTMENT PROPERTIES (Continued)

The Valuer has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The Group's investment properties were valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards. The fair value was arrived at by reference to comparable sales transactions available in the relevant market together with income approach by capitalising the net rental income derived from the existing tenancies with various terms.

In estimating the fair value of the investment properties, the directors of the Company has considered that the highest and best use of the properties is their current use upon the application of HKFRS 13 *Fair value measurement*. There has been no change of the valuation technique during the year.

All of the Group's investment properties are located in the PRC and classified as Level 3 in the fair value hierarchy.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works closely with the Valuer to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Company.

The following table shows the valuation techniques used in the determination of fair values for investment properties and the key unobservable inputs used in the valuation models.

Description	Fair value as at 30 June 2020	Fair value as at 30 June 2019	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial – shopping mall	RMB2,400,000,000 (Equivalent to HK\$2,637,363,000)	RMB2,470,000,000 (Equivalent to HK\$2,806,818,000)	Combination of capitalisation method and comparison method	1) reversionary yield derived from market rent and price	2020: 4.5% p.a. (2019: 4.5% p.a.)	The higher the reversionary yield, the lower the fair value, and vice versa
				2) monthly unit rent		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

17. INVESTMENT PROPERTIES (Continued)

The Group as lessor

Property rental income, management fee income and operating service income earned during the year was HK\$159,547,000 (2019: HK\$211,818,000). All properties have committed tenants ranging from the next 1 to 14 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2020 HK\$'000	2019 HK\$'000
Within one year	131,452	145,541
In the second to fifth years inclusive	287,600	372,288
Over five years	306,408	481,845
	<u>725,460</u>	<u>999,674</u>

As at 30 June 2020, certain investment properties of the Group with aggregate carrying amounts of HK\$1,145,566,000 (2019: HK\$1,219,171,000) were pledged to banks to secure banking facilities granted to the Group.

18. GOODWILL

	HK\$'000
Cost	
As at 1 July 2018	63,549
Disposal of a subsidiary (<i>note 35</i>)	<u>(28,785)</u>
As at 30 June 2019 and 30 June 2020	<u>34,764</u>

Goodwill is accounted for in accordance with the Group's accounting policies as set out in note 3. At the end of the reporting period, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the property business is based on its value in use.

The recoverable amount is determined based on value in use calculation which uses cash flow projections based on financial budget approved by the directors of the Company covering a five-year period and a discount rate of 14% per annum (2019: 13%). Cash flow beyond that five-year period have been extrapolated using a constant growth rate of 3% (2019: 3%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

18. GOODWILL (Continued)

The key assumptions for the value in use calculation are those regarding the discount rate, growth rate and expected changes to revenue and direct costs during the year. The forecast is discounted using a discount rate of 14% (2019: 13%). The discount rate was determined with reference to weighted average cost of capital of similar companies in the industry and adjusted for specific risks associated with property operation. The extrapolated growth rate does not exceed the long-term average industry growth forecasts. Changes in revenue and direct costs are based on past practices and the management's expectations of future changes in the market. The Group considers no impairment loss is necessary.

At the reporting date, management believes that any reasonably foreseeable change in any of the above key assumptions of the CGU would not cause the carrying amount of goodwill to exceed the recoverable amount.

19. BIOLOGICAL ASSETS

	Plants HK\$'000
As at 1 July 2019	–
Additions	690
Gain arising from changes in fair value less costs to sell	744
Exchange realignment	(16)
As at 30 June 2020	1,418

Biological assets of plants as at 30 June 2020 were stated at fair value less costs to sell and were analysed as follows:

	2020 HK\$'000
Non-current	–
Current	1,418
	1,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

19. BIOLOGICAL ASSETS (Continued)

Fair value measurement

The Group's biological assets were valued by the Valuer, a firm of independent qualified professional valuers unrelated to the Group. The fair value less costs to sell of biological assets are determined with reference to the selling price of industrial hemp based on market researches, the expected harvest dates and quantities, actual costs incurred as of 30 June 2020 and costs to be incurred until the expected harvest dates.

The fair value less costs to sell of the Group's biological assets measured at the end of the reporting period on a recurring basis, categorised as level 3 fair value measurement based on the inputs to the valuation techniques used. The valuation of plants would be performed annually.

Level 3 fair value

The following table shows the valuation techniques used in measuring fair value less costs to sell, as well as the significant unobservable inputs used.

Type	Valuation technique	Unobservable inputs	Range of unobservable inputs		Relationship of unobservable inputs to fair value
			2020	2019	
Plants	Income approach	Market-determined price	Weighted average price of RMB25 per kilogram	N/A	The higher of market-determined price, the higher of the fair value less costs to sell determined

No plants were harvested during the year ended 30 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

20. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	3,769	31,409
Prepayments, deposits and other receivables	33,262	16,888
Consideration receivable (<i>Note</i>)	–	229,817
	<u>37,031</u>	<u>278,114</u>

Note: The consideration receivable represents the consideration of the disposal of Zhengzhou Jiacong Property Services Company Limited (“Zhengzhou Jiacong”) on 28 June 2019. The consideration receivable of RMB202,239,000 (equivalent to approximately HK\$224,710,000) was fully received on 6 September 2019.

As at 30 June 2020 and 30 June 2019, all trade receivables of the Group were in the functional currency of the relevant group entities.

The following is an aged analysis of trade receivables presented based on date of rendering of services:

	2020 HK\$'000	2019 HK\$'000
0 – 60 days	3,532	29,489
61 – 90 days	104	1,053
Over 90 days	133	867
	<u>3,769</u>	<u>31,409</u>
Trade receivables	<u>3,769</u>	<u>31,409</u>

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover potential exposure to credit risk, the allowance for ECL is insignificant.

Before accepting any new tenants, the Group assesses the potential tenants' credit quality. 94% (2019: 94%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

Details of impairment assessment of trade and other receivables for the years ended 30 June 2020 and 30 June 2019 are set out in note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.001% to 0.35% (2019: 0.125% to 0.35%) per annum and have original maturity of three months or less.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	2020 HK\$'000	2019 HK\$'000
HK\$	11,847	11,070
USD	<u>11</u>	<u>11</u>

22. OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Receipts in advance	16,681	20,944
Deposits received from tenants	32,804	32,496
Accrued charges and other payables	<u>7,527</u>	<u>11,869</u>
	<u>57,012</u>	<u>65,309</u>

23. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Property management fee	<u>23,876</u>	<u>31,814</u>

Note: As at 1 July 2018, contract liabilities amounted to HK\$21,621,000.

The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

Contract liabilities of the Group, which are expected to be settled within the Group's normal operating cycle, are classified under current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

23. CONTRACT LIABILITIES (Continued)

Movements in contract liabilities

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	2020 HK\$'000	2019 HK\$'000
As at 1 July	31,814	21,621
Decrease in contract liabilities as a result of – revenue recognised that was included in the contract liabilities balance at the beginning of the year	(31,814)	(21,621)
Increase in contract liabilities as a result of – receipts in advance of property management fee	23,876	31,814
As at 30 June	<u>23,876</u>	<u>31,814</u>

24. LEASE LIABILITIES

The exposure of the Group's lease liabilities are as follows:

	2020 HK\$'000
Current	1,315
Non-current	4,935
	<u>6,250</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

24. LEASE LIABILITIES (Continued)

	Minimum lease payments HK\$'000	Present value of lease liabilities HK\$'000
Minimum lease payments due:		
– within one year	1,803	1,315
– more than one year but not more than two years	2,546	2,121
– more than two years but not more than five years	<u>3,291</u>	<u>2,814</u>
	7,640	6,250
Future finance charges	<u>(1,390)</u>	
Present value of lease liabilities	<u>6,250</u>	
Amounts due for settlement within one year (shown under current liabilities)		<u>(1,315)</u>
Amounts due for settlement after one year		<u>4,935</u>

25. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER

The amount due to a substantial shareholder is unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

26. SECURED BANK BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Carrying amount of secured bank borrowings that are repayable:		
– within one year	74,713	89,773
– from one to two years	75,121	90,909
– from two to five years	254,654	273,864
– over five years	470,035	39,772
	874,523	494,318
Less: Amounts due within one year shown under current liabilities	(74,713)	(89,773)
Amounts shown under non-current liabilities	799,810	404,545

The exposure of the Group's floating-rate borrowings are as follows:

	2020 HK\$'000	2019 HK\$'000
Floating-rate borrowings	874,523	494,318

The effective interest rates per annum (which are equal to contractual interest rates) on the Group's floating-rate borrowings was 6.97%-7.21% for the year ended 30 June 2020 (2019: 4.90%).

The Group's secured bank borrowings are wholly repayable over nine years for the year ended 30 June 2020 (2019: five years) and secured by certain investment properties as set out in note 17.

27. BONDS

	2020 HK\$'000	2019 HK\$'000
Within 1 year (<i>Note (a)</i>)	9,999	–
Between 2 to 5 years (<i>Notes (b) and (d)</i>)	24,342	25,285
Over 5 years (<i>Note (c)</i>)	10,002	10,002
	44,343	35,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

27. BONDS (Continued)

Notes:

- (a) On 10 July 2013, the Company issued unlisted and non-transferable bond of HK\$10,000,000 to an independent third party at face value with issuing cost of HK\$120,000. The bond is interest bearing at 8.00% per annum, unsecured and repayable on the seventh anniversary of the date of issue. The bond was initially recognised at HK\$9,862,000 less issuing cost of HK\$120,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.33% (2019: 8.33%) per annum.
- (b) On 13 August 2014, the Company issued two unlisted and non-transferable bonds at face value of HK\$5,340,000 and HK\$10,000,000 to two independent third parties. The bonds are interest bearing at 8.00% per annum, unsecured and repayable on the seventh and half anniversary of the respective date of issue. The bonds were initially recognised at HK\$15,309,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.05% (2019: 8.05%) per annum.
- (c) On 8 August 2018 and 29 August 2018, the Company issued two unlisted and non-transferable bonds at face value of HK\$7,000,000 and HK\$3,000,000 to an independent third party. The bonds are interest bearing at 8.00% per annum, unsecured and repayable on the seventh and half anniversary of the respective date of issue. The bonds were initially recognised at HK\$10,000,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.00% (2019: 8.00%) per annum.
- (d) On 1 August 2019, the Company issued unlisted and non-transferable bond at face value of HK\$9,000,000 to an independent third party. The bond is interest bearing at 8.00% per annum, unsecured and repayable on the second anniversary of the respective date of issue. The bond was initially recognised at HK\$9,000,000 and subsequently measured at amortised cost using the effective interest method.

The movements of the liability component of the Group's bonds during the year are as follows:

	HK\$'000
As at 1 July 2018	25,237
Issue of bonds	10,000
Effective interest charged for the year	2,776
Coupon interest paid/payable	(2,726)
	<hr/>
As at 30 June 2019 and 1 July 2019	35,287
Issue of bond	9,000
Effective interest charged for the year	3,550
Coupon interest paid/payable	(3,494)
	<hr/>
As at 30 June 2020	44,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

28. DEFERRED TAX LIABILITIES

The followings are the deferred tax liabilities recognised by the Group and movement thereon during the current and prior years.

	Fair Value adjustment on investment properties HK\$'000	Undistributable profits of PRC's subsidiaries HK\$'000	Total HK\$'000
As at 1 July 2018	478,872	1,250	480,122
Charged to profit or loss	(4,885)	–	(4,885)
Disposal of a subsidiary	(28,867)	–	(28,867)
Exchange realignment	(21,712)	–	(21,712)
	<u>423,408</u>	<u>1,250</u>	<u>424,658</u>
As at 30 June 2019	423,408	1,250	424,658
Charged to profit or loss	(19,444)	–	(19,444)
Exchange realignment	(13,745)	–	(13,745)
	<u>390,219</u>	<u>1,250</u>	<u>391,469</u>
As at 30 June 2020	390,219	1,250	391,469

Under the EIT Law of the PRC, certain subsidiaries are entitled to a withholding tax at the rate of 5% for dividend payments for the years ended 30 June 2020 and 30 June 2019.

The Group has no unused tax losses that may arise deferred tax assets during the years ended 30 June 2020 and 30 June 2019.

29. SHARE CAPITAL OF THE COMPANY

	2020 HK\$'000	2019 HK\$'000
Authorised:		
5,000,000,000 ordinary shares with HK\$0.01 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
2,688,805,163 ordinary shares with HK\$0.01 each	<u>26,888</u>	<u>26,888</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

30. OPERATING LEASE COMMITMENTS

The Group as lessee

	2019 HK\$'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	<u>18,940</u>

At the end of the reporting period, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	2019 HK\$'000
Within one year	<u>9,174</u>

During the year ended 30 June 2019, operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for a term ranging from 1 year to 2 years with fixed rentals. Most of the operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

31. CAPITAL COMMITMENTS

	2020 HK\$'000	2019 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment	<u>8,548</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

32. NON-CONTROLLING INTERESTS

The details of a number of non-wholly owned subsidiaries of the Group that have material non-controlling interests shown as below:

Name of subsidiary	Place of incorporation/ principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Zhengzhou Jiachao Property Services Co. Ltd ("Zhengzhou Jiachao")	PRC/PRC	25%	25%	(4,646)	20,514	347,049	375,138
Individually immaterial subsidiaries with non-controlling interests	PRC/PRC	40%	N/A	(409)	N/A	(404)	N/A

Summarised financial information in respect of Zhengzhou Jiachao that has material non-controlling interests are set out below. The summarised financial information below represented amounts before intragroup eliminations.

	As at 30 June	
	2020 HK\$'000	2019 HK\$'000
Non-current assets	2,639,600	2,811,271
Current assets	445,565	95,678
Current liabilities	(506,938)	(578,443)
Non-current liabilities	(1,190,029)	(827,954)
	1,388,198	1,500,552
Equity attributable to owners of the Company	1,041,149	1,125,414
Non-controlling interest	347,049	375,138
	1,388,198	1,500,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

32. NON-CONTROLLING INTERESTS (Continued)

	As at 30 June	
	2020 HK\$'000	2019 HK\$'000
Revenue	159,547	207,751
Other income	14,438	15,482
Expenses	(192,568)	(141,177)
(Loss)/profit for the year	(18,583)	82,056
Other comprehensive expense for the year	(48,772)	(68,523)
Total comprehensive (expense)/income for the year	(67,355)	13,533
(Loss)/profit for the year attributable to:		
Owners of the Company	(13,937)	61,542
Non-controlling interest	(4,646)	20,514
	(18,583)	82,056
Total comprehensive (expense)/income for the year attributable to:		
Owners of the Company	(50,516)	10,149
Non-controlling interest	(16,839)	3,384
	(67,355)	13,533
Net cash inflow/(outflow) from:		
Operating activities	103,679	72,881
Investing activities	–	(1,021)
Financing activities	297,616	(109,399)
Net cash inflow/(outflow)	401,295	(37,539)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

33. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 22 November 2013 (the "Effective Date") and, unless otherwise terminated or amended, will remain in force for 10 years.

As at 30 June 2020, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 218,960,000 (2019: 245,810,000), representing approximately 8.14% (2019: 9.14%) of the issued share capital of the Company at that date. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of the Company's shares as equal to 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue at the Effective Date. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company which shall not be lower than the nominal value of the shares of the Company and shall be at least the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; and (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of the grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options held by independent non-executive directors and employees during the current and prior years:

(a) The terms and conditions of the grants are as follows:

Category	Date of grant	Exercise period	Exercise price HK\$	Outstanding as at 1.7.2018	Forfeited during the year	Lapsed during the year	Outstanding as at 30.6.2019	Forfeited during the year	Lapsed during the year	Outstanding as at 30.6.2020
Independent Non-executive Directors	22.5.2014	22.5.2014 to 21.5.2024	0.166	4,160,000	-	-	4,160,000	-	-	4,160,000
Employees	15.1.2018	15.1.2018 to 14.1.2028	0.430	268,500,000	(26,850,000)	-	241,650,000	(26,850,000)	-	214,800,000
Granted Total				272,660,000	(26,850,000)	-	245,810,000	(26,850,000)	-	218,960,000
Exercisable at year end							245,810,000			218,960,000

(b) Fair values of options granted

The fair values of the share options granted are measured at the date of grant, using the binomial option pricing model, taking into account the terms and conditions of the share-based arrangement except for non-market vesting conditions. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The inputs into the model are as follows:

	Option 2014	Option 2018
Share price on grant date	HK\$0.320	HK\$0.430
Expected volatility	40.148%	62%
Expected life of the options	10 years	10 years
Risk free rate	1.957%	2.37%
Expected dividend yield	Nil	Nil

The expected volatility was determined by using the historical volatility of the Company's share price over the last ten years of share options granted. The variables and assumptions used in computing the fair values of the share options are based on the directors' best estimate.

No share-based payment expenses were recognised in profit or loss for the years ended 30 June 2020 and 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(c) The number and weighted average exercise prices of share options are as follows:

	2020		2019	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	245,810,000	0.426	272,660,000	0.426
Forfeited during the year	(26,850,000)	0.430	(26,850,000)	0.430
Outstanding at the end of the year	<u>218,960,000</u>	<u>0.425</u>	<u>245,810,000</u>	<u>0.426</u>
Exercisable at the end of the year	<u>218,960,000</u>	<u>0.425</u>	<u>245,810,000</u>	<u>0.426</u>

The options outstanding at the end of the reporting period have a weighted average remaining contractual life of 7.49 years (2019: 8.49 years) and the exercise prices range from HK\$0.166 to HK\$0.430 (2019: HK\$0.166 to HK\$0.430).

34. RELATED PARTY TRANSACTIONS

(a) The remuneration of directors and other members of key management during the year was as follows:

	2020 HK\$'000	2019 HK\$'000
Short-term benefits	3,972	3,972
Retirement benefit scheme contributions	<u>36</u>	<u>36</u>
	<u>4,008</u>	<u>4,008</u>

The remuneration of directors and other members of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

34. RELATED PARTY TRANSACTIONS (Continued)

(b) As at 30 June 2020 and 2019, the Group had the following balance with related party:

	2020 HK\$'000	2019 HK\$'000
Amount due to a substantial shareholder (Note)	—	239,497

Note: The amount is a loan provided by a substantial shareholder to repay part of other borrowings at a high interest rate. The amount is unsecured, interest free and has no fixed term of repayment.

35. DISPOSAL OF A SUBSIDIARY

On 27 June 2019, the Group entered into a sale and purchase agreement to dispose of its entire equity interests in its subsidiary, 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong), to an independent third party (the “Jiacong Purchaser”). The principal activity of Zhengzhou Jiacong was the holding of 164 shops in a giant theme shopping mall (the “Jiacong’s Shops”) situated in Zhengzhou City, Henan Province, the PRC. However, as a consequence of China-US trade dispute and its ongoing impacts, the management of the Group was not optimistic about the future of the wholesale market of the textile industry in the PRC; hence, the management of the Group decided to dispose of Zhengzhou Jiacong to realise the Group’s investment. As a result of the negotiations between the Group and the Jiacong Purchaser, it was agreed that the Jiacong Purchaser acquired the entire equity interests in Zhengzhou Jiacong at a consideration of RMB212,239,000 (equivalent to approximately HK\$241,180,000). The consideration was determined after arm’s length negotiations with reference to normal commercial terms after taking into account of the value of the Jiacong’s Shops owned by Zhengzhou Jiacong. The disposal was completed on 28 June 2019 and the consideration was fully received on 6 September 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

35. DISPOSAL OF A SUBSIDIARY (Continued)

Analysis of assets and liabilities over which control was lost:

	2019 HK\$'000
Investment properties	236,364
Goodwill	28,785
Trade and other receivables	1,551
Bank balances and cash	42
Other payables	(938)
Tax payables	(157)
Deferred tax liabilities	(28,867)
	<u>236,780</u>
<i>Gain on disposal of a subsidiary:</i>	
Total consideration	241,180
Less:	
Net assets disposed of	<u>(236,780)</u>
Gain on disposal	<u>4,400</u>
<i>Total consideration satisfied by:</i>	
Cash consideration received	11,363
Cash consideration receivable (included in trade and other receivables as disclosed in note 20)	<u>229,817</u>
	<u>241,180</u>
<i>Net cash inflow arising on disposal:</i>	
Cash consideration received	11,363
Bank balances and cash disposed of	<u>(42)</u>
Net cash inflow	<u>11,321</u>

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Bonds HK\$'000	Amount due to a substantial shareholder HK\$'000	Secured bank borrowings HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
As at 1 July 2018	25,237	264,537	603,571	–	893,345
Changes from financing cash flows:					
Repayments	–	(13,375)	(82,759)	–	(96,134)
Proceeds from issue of bonds	10,000	–	–	–	10,000
Interest paid	(2,726)	–	(26,640)	–	(29,366)
Total changes from financing cash flows:	7,274	(13,375)	(109,399)	–	(115,500)
Effect of changes in foreign exchange rates	–	(11,665)	(26,494)	–	(38,159)
Other changes:					
Interest expenses	2,776	–	26,640	–	29,416
As at 30 June 2019 and 1 July 2019	35,287	239,497	494,318	–	769,102
Changes from financing cash flows:					
Repayments	–	(234,312)	(491,667)	(2,503)	(728,482)
Interest paid	(3,494)	–	(54,607)	(101)	(58,202)
Total changes from financing cash flows:	(3,494)	(234,312)	(546,274)	(2,604)	(786,684)
Effect of changes in foreign exchange rates	–	(5,185)	(20,702)	(53)	(25,940)
Other changes:					
Additions	9,000	–	888,890	8,806	906,696
Interest expenses	3,550	–	58,291	101	61,942
Total changes from other changes	12,550	–	947,181	8,907	968,638
As at 30 June 2020	44,343	–	874,523	6,250	925,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

37. FINANCIAL INFORMATION OF THE COMPANY

	NOTES	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		19	29
Right-of-use asset		1,491	–
Investments in subsidiaries	38	172,770	172,770
		174,280	172,799
CURRENT ASSETS			
Trade and other receivables		356	339
Amount due from subsidiaries	38	809,017	808,952
Bank balances and cash		2,010	1,120
		811,383	810,411
CURRENT LIABILITIES			
Other payables		998	7,164
Lease liability		1,199	–
Amount due to subsidiaries	38	18,250	4,655
Bond	27	9,999	–
		30,446	11,819
NET CURRENT ASSETS		780,937	798,592
TOTAL ASSETS LESS CURRENT LIABILITIES		955,217	971,391
CAPITAL AND RESERVES			
Share capital	29	26,888	26,888
Reserves		893,679	909,216
Equity attributable to owners of the Company (Note)		920,567	936,104
NON-CURRENT LIABILITIES			
Bonds	27	34,344	35,287
Lease liability		306	–
		34,650	35,287
		955,217	971,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

37. FINANCIAL INFORMATION OF THE COMPANY (Continued)

Note: Details of movements of the Company's share capital and reserves are as follows:

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 July 2018	26,888	263,850	172,750	15,469	54,332	416,888	950,177
Other comprehensive expense for the year							
Loss for the year	-	-	-	-	-	(14,073)	(14,073)
Total comprehensive expense for the year	-	-	-	-	-	(14,073)	(14,073)
Forfeit of shares under employee share option plan	-	-	-	-	(5,402)	5,402	-
As at 30 June 2019	26,888	263,850	172,750	15,469	48,930	408,217	936,104
Other comprehensive expense for the year							
Loss for the year	-	-	-	-	-	(15,537)	(15,537)
Total comprehensive expense for the year	-	-	-	-	-	(15,537)	(15,537)
Forfeit of shares under employee share option plan	-	-	-	-	(5,402)	5,402	-
As at 30 June 2020	26,888	263,850	172,750	15,469	43,528	398,082	920,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

38. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 30 June 2020 and 2019 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2020 %	2019 %	2020 %	2019 %	
Big Luck International (HK) Limited	Hong Kong	HK\$1	–	–	100	100	Investment holding
Bloom Noble Limited	Hong Kong	HK\$1	–	–	100	100	Investment holding
Honghe Bloom Noble Technology Co., Ltd (“Honghe Bloom Noble”)*	PRC	RMB10,000,000	–	N/A	100	N/A	Investment holding
Honghe Ganlin Biotechnology Co., Ltd. (“Honghe Ganlin Biotechnology”)**	PRC	RMB30,000,000	–	N/A	60	N/A	Biotechnology product manufacturing
Honghe Ganlin Agriculture Co., Ltd. (“Honghe Ganlin Agriculture”)**	PRC	RMB1,000,000	–	N/A	60	N/A	Trading of agricultural by products
Max High International Limited	BVI	US\$30,000 Ordinary shares	–	–	100	100	Investment holding
Right Lane International Limited	BVI	US\$30,000 Ordinary shares	100	100	–	–	Investment holding
Zhengzhou Changdun Assets Management Co., Ltd. (“Zhengzhou Changdun”)*	PRC	HK\$10,000,000	–	–	100	100	Investment holding
Zhengzhou Jiachao**	PRC	RMB20,000,000	–	–	75	75	Property operating

* *Honghe Bloom Noble and Zhengzhou Changdun are established as wholly foreign-owned enterprises under the relevant PRC laws and regulations.*

** *Honghe Ganlin Biotechnology, Honghe Ganlin Agriculture and Zhengzhou Jiachao are established as wholly domestic-owned enterprises under the relevant PRC laws and regulations.*

None of the subsidiaries had issued any debt securities at the end of the year.

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed term of repayment.

FINANCIAL SUMMARY

RESULTS

	Year ended 30 June				2020 HK\$'000
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	
Revenue	<u>164,160</u>	<u>185,422</u>	<u>199,219</u>	<u>211,818</u>	<u>159,547</u>
Profit/(loss) for the year	<u>500,487</u>	<u>126,563</u>	<u>112,195</u>	<u>76,439</u>	<u>(35,713)</u>

ASSETS AND LIABILITIES

	As at 30 June				2020 HK\$'000
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	
Total assets	<u>3,177,067</u>	<u>3,121,631</u>	<u>3,316,776</u>	<u>3,156,555</u>	<u>3,145,875</u>
Total liabilities	<u>(1,614,472)</u>	<u>(1,481,020)</u>	<u>(1,452,261)</u>	<u>(1,299,929)</u>	<u>(1,397,473)</u>
Equity attributable to owners of the Company	<u>1,562,595</u>	<u>1,640,611</u>	<u>1,864,515</u>	<u>1,856,626</u>	<u>1,748,402</u>

SCHEDULE OF INVESTMENT PROPERTIES

Particulars of investment properties as at 30 June 2020

Address	Existing use	Lease term
Basement 1, Level 1-4, Zones A & B No. 36 Mian Fang West Road Zhongyuan District, Zhengzhou City Henan Province The People's Republic of China	Shopping mall	Medium (<i>Note</i>)

Note: The term for which the lease was granted remaining unexpired as at 30 June 2020 is less than 50 years but not less than 10 years.