

Audited Financial Statements

P&R HOLDINGS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

31st December, 2019

The logo consists of the letters 'EY' in a bold, sans-serif font, followed by the Chinese characters '安永' in a similar bold font.

Building a better
working world

P&R HOLDINGS LIMITED

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Independent auditor's report
To the directors of P&R Holdings Limited
(Incorporated in British Virgin Islands with limited liability)

Opinion

We have audited the consolidated financial statements of P&R Holdings Limited (the "Company") set out on pages 3 to 88, which comprise the consolidated statement of financial position as at 31st December, 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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.

Responsibilities of the directors 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 for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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.

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. Our 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent auditor's report (continued)
To the directors of P&R Holdings Limited
(Incorporated in British Virgin Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

We communicate with the board of directors 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.



Certified Public Accountants
Hong Kong
22nd July, 2020

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	4	668,340	3,278,714
Cost of sales		<u>(397,935)</u>	<u>(2,537,834)</u>
Gross profit		270,405	740,880
Other income and gains, net	4	531,495	184,408
Property selling and marketing expenses		(71,195)	(77,012)
Administrative expenses		(216,070)	(142,475)
Finance costs	6	(413,420)	(212,300)
Share of loss of a joint venture		<u>(3)</u>	<u>(3)</u>
PROFIT BEFORE TAX	5	101,212	493,498
Income tax expense	7	<u>(39,584)</u>	<u>(117,047)</u>
PROFIT FOR THE YEAR		<u>61,628</u>	<u>376,451</u>
Attributable to:			
Equity holders of the parent		102,830	336,925
Non-controlling interests		<u>(41,202)</u>	<u>39,526</u>
		<u>61,628</u>	<u>376,451</u>

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2019

	2019 HK\$'000	2018 HK\$'000
PROFIT FOR THE YEAR	61,628	376,451
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	<u>(38,397)</u>	<u>(116,265)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>23,231</u>	<u>260,186</u>
Attributable to:		
Equity holders of the parent	78,690	245,279
Non-controlling interests	<u>(55,459)</u>	<u>14,907</u>
	<u>23,231</u>	<u>260,186</u>

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	461,417	1,487,637
Investment properties	10	2,524,901	2,634,469
Right-of-use assets	11	603,387	-
Properties under development	12	1,329,917	1,329,727
Investment in an associate	13	573,221	-
Investment in a joint venture	14	10,794	10,797
Financial assets at fair value through profit or loss	15	46,348	46,675
Loans receivable	16	228,205	132,597
Deposits and prepayments	17	243,864	395,210
Goodwill	18	267,231	267,231
Intangible asset	19	2,045	-
Total non-current assets		6,291,330	6,304,343
CURRENT ASSETS			
Properties under development	12	2,842,104	1,771,999
Properties held for sale	20	5,780,994	6,018,512
Financial assets at fair value through profit or loss	15	293,097	177,748
Loans receivable	16	388,229	176,838
Debtors, deposits and prepayments	17	483,541	161,920
Inventories		166	85
Restricted cash	21	363,252	12,900
Pledged bank balances		451	-
Time deposits		66,924	163,076
Cash and bank balances		382,959	470,157
Total current assets		10,601,717	8,953,235
CURRENT LIABILITIES			
Creditors and accruals	22	(871,063)	(937,092)
Contract liabilities	23	(1,204,661)	(284,096)
Lease liabilities	11	(836)	-
Deposits received		(58,543)	(1,208)
Due to fellow subsidiaries	31(b)	(16,614)	(22,612)
Other borrowings	24	(1,304,294)	(1,270,125)
Interest bearing bank borrowings	25	(635,482)	(2,856,443)
Tax payable		(74,247)	(94,707)
Total current liabilities		(4,165,740)	(5,466,283)
NET CURRENT ASSETS		6,435,977	3,486,952
TOTAL ASSETS LESS CURRENT LIABILITIES		12,727,307	9,791,295

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT LIABILITIES			
Creditors and accruals	22	(32,621)	(28,973)
Lease liabilities	11	(293)	-
Deposits received		(16,137)	(18,634)
Other borrowings	24	(5,510,432)	(4,810,730)
Interest bearing bank borrowings	25	(4,055,770)	(1,786,424)
Deferred tax liabilities	26	(335,839)	(328,570)
Total non-current liabilities		<u>(9,951,092)</u>	<u>(6,973,331)</u>
Net assets		<u>2,776,215</u>	<u>2,817,964</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	27	1	1
Reserves	28	<u>2,536,821</u>	<u>2,535,265</u>
		2,536,822	2,535,266
Non-controlling interests		<u>239,393</u>	<u>282,698</u>
Total equity		<u>2,776,215</u>	<u>2,817,964</u>



Mr. Donald Fan Tung
Director



Mr. Allen Wan Tze Wai
Director

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2019

		Attributable to equity holders of the parent						
	Note	Issued capital HK\$'000	Capital reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1st January, 2019		1	(20,508)	(192,340)	2,748,113	2,535,266	282,698	2,817,964
Profit for the year		-	-	-	102,830	102,830	(41,202)	61,628
Other comprehensive loss for the year:		-	-	(24,140)	-	(24,140)	(14,257)	(38,397)
Exchange differences on translating foreign operations		-	-	(24,140)	102,830	78,690	(55,459)	23,231
Total comprehensive income/(loss) for the year		-	-	-	102,830	78,690	(51,410)	(68,284)
Acquisition of non-controlling interests in a subsidiary		-	(16,874)	-	-	(16,874)	60,260	525,000
Disposal of non-controlling interests in a subsidiary		-	464,740	-	-	464,740	-	-
Contribution from a non-controlling shareholder of a subsidiary		-	-	-	-	-	3,304	3,304
Interim 2019 dividend	8	-	-	-	(525,000)	(525,000)	-	(525,000)
At 31st December, 2019		1	427,358	(216,480)	2,325,943	2,536,822	239,393	2,776,215

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31st December, 2019

	Attributable to equity holders of the parent						
	Issued capital HK\$'000	Capital reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
At 1st January, 2018	1	(3,613)	(100,694)	2,411,188	2,306,882	271,208	2,578,090
Profit for the year	-	-	-	336,925	336,925	39,526	376,451
Other comprehensive loss for the year:							
Exchange differences on translating foreign operations	-	-	(91,646)	-	(91,646)	(24,619)	(116,265)
Total comprehensive income/(loss) for the year	-	-	(91,646)	336,925	245,279	14,907	260,186
Acquisition of non-controlling interests in a subsidiary	-	(16,895)	-	-	(16,895)	(3,417)	(20,312)
At 31st December, 2018	1	(20,508)	(192,340)	2,748,113	2,535,266	282,698	2,817,964

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		101,212	493,498
Adjustments for:			
Interest income	4	(74,088)	(33,083)
Gain on disposal of subsidiaries	4	(550,261)	-
Share of loss of a joint venture		3	3
Dividend income	4	(7,140)	(6,604)
Fair value loss on financial assets at fair value through profit or loss, net	4	25,690	30,199
Fair value loss upon reclassification of properties held for sale to investment properties	4	-	5,524
Fair value loss/(gain) on investment properties, net	4	73,568	(186,000)
Gain on disposal of an investment property	4	(3,876)	-
Depreciation of property, plant and equipment	5	19,512	9,323
Depreciation of right-of-use assets	5	11,583	-
Amortisation of intangible asset	5	755	-
Write-off of items of property, plant and equipment	5	7	1
Impairment of other receivables	5	14,645	-
Write-off of trade debtors	5	6,231	-
Finance costs	6	413,420	212,300
		<u>31,261</u>	<u>525,161</u>
Additions to properties under development		(785,562)	(1,429,713)
Decrease in properties held for sale		227,215	2,335,720
Increase in inventories		(81)	(85)
Increase in financial assets at fair value through profit or loss		(140,000)	-
Decrease/(Increase) in debtors, deposit and prepayments		(55,750)	139,167
Decrease/(Increase) in restricted cash		(355,952)	63,852
Increase in creditors and accruals		2,030	63,242
Increase/(Decrease) in contract liabilities		909,930	(2,363,877)
Increase in deposit received		624	1,826
		<u>(166,285)</u>	<u>(664,707)</u>
Cash used in operations		(166,285)	(664,707)
Dividend received		7,140	6,604
Hong Kong profits tax paid		(8)	-
Overseas tax refunded		-	687
Overseas tax paid		(90,035)	(5,557)
		<u>(249,188)</u>	<u>(662,973)</u>
Net cash used in operating activities		(249,188)	(662,973)

P&R HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31st December, 2019

	Note	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries that are not a business		(434,353)	(256,191)
Disposal of interests in subsidiaries	30(b)	60,000	-
Purchase of financial assets at fair value through profit or loss		(710)	-
Increase in loans receivable		(100,057)	(193,893)
Proceeds from disposal of an investment property		39,621	-
Additions to investment properties		(20,029)	(63,103)
Purchases of items of property, plant and equipment		(262,424)	(344,365)
Purchase of intangible assets		(2,832)	-
Investment deposit paid		(43,160)	(201,382)
Advance to a joint venture		(6)	(6)
Interest received		9,518	18,920
Investment deposit received		10,000	-
Increase in pledged bank balances		(451)	-
Cash flows used in investing activities		<u>(744,883)</u>	<u>(1,040,020)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of non-controlling interests in a listed subsidiary		(68,284)	(20,312)
Contribution from a non-controlling shareholder of a subsidiary		3,304	-
Drawdown of bank loans		1,482,700	1,157,456
Repayments of bank loans		(1,074,345)	(171,183)
Drawdown of other borrowings		1,561,377	2,469,782
Repayment of other borrowings		(827,506)	(1,654,045)
Payment of loan and other costs		(21,291)	(27,197)
Interest paid		(291,475)	(283,593)
Principal portion of lease payments		(767)	-
Loan from the non-controlling shareholder of a subsidiary		3,681	-
Investment deposit received		45,026	-
Net cash flows from financing activities		<u>812,420</u>	<u>1,470,908</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		633,233	903,013
Effect of foreign exchange rate changes, net		(1,699)	(37,695)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>449,883</u></u>	<u><u>633,233</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		382,959	470,157
Non-pledged time deposits with original maturity of less than three months when acquired		<u>66,924</u>	<u>163,076</u>
		<u><u>449,883</u></u>	<u><u>633,233</u></u>

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

I. CORPORATE AND GROUP INFORMATION

P&R Holdings Limited (the "Company") is a limited liability company incorporated in British Virgin Islands. The registered office of the Company is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG 1110, British Virgin Islands and its principal place of business in Hong Kong is located at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in property development and investment, hotel ownership, hotel operation and other investments including financial assets investments.

The Company is jointly owned by Capital Merit Investments Limited and Regal Hotels Investments Limited (collectively referred to as "Shareholders"), both were incorporated in the British Virgin Islands. In the opinion of the Directors, the ultimate holding company of the Company is Century City International Holdings Limited ("CCIHL"), which was incorporated in Bermuda and is listed on The Stock Exchange of Hong Kong Limited.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Advance Fame Investments Limited	Hong Kong	HK\$1	100	100	Property development
Alpha Advantage Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Brilliant Enhancement Limited	Hong Kong	HK\$1	100	100	Property investment
Eminent Gold Investments Limited	Hong Kong	HK\$1	100	100	Property development
Equal Advantage Limited	Hong Kong	HK\$1	100	100	Property investment
Estate Legend Investments Limited	Hong Kong	HK\$1	100	100	Financing
Fountain Sky Limited	Hong Kong	HK\$2	100	100	Securities investment
Grace Express Investment Limited	Hong Kong	HK\$1	100	100	Property investment

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

1. CORPORATE AND GROUP INFORMATION

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Great Select Holdings Limited	British Virgin Islands	US\$1	100	100	Securities investment
Inspiring Goal Limited	Hong Kong	HK\$1	100	100	Property Investment
Interzone Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Jumbo Pearl Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Lendas Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Lucky Achievement Limited	Hong Kong	HK\$1	100	100	Property investment
Marvel Sino Holdings Limited	Hong Kong	HK\$1	100	100	Property investment
Marvel Best International Limited	Hong Kong	HK\$1	100	100	Investment holdings
Metropolitan Metro Asia (Ma On Shan) Limited	Hong Kong	HK\$1	100	100	Food and beverage operation
Metropolitan Metro Café (Ma On Shan) Limited	Hong Kong	HK\$1	100	100	Food and beverage operation
Multiple Achievement Limited	Hong Kong	HK\$1	100	100	Property investment
New Multi-Profit Limited	Hong Kong	HK\$1	100	100	Property investment
P&R Finance Limited	Hong Kong	HK\$1	100	100	Financing
P&R Strategic Limited	British Virgin Islands	US\$1	100	100	Investment holdings

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

1. CORPORATE AND GROUP INFORMATION

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Real Charm Investment Limited	Hong Kong	HK\$2	100	100	Property development and investment
Regala Success Limited	Hong Kong	HK\$100	80	100	Food and beverage operation
Star Yield Investments Limited	Hong Kong	HK\$1	100	100	Property investment
Super Residence Limited	Hong Kong	HK\$1	100	100	Property investment
Sun Joyous Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Time Crest Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Ultimate Lead Limited	Hong Kong	HK\$1	100	100	Hotel Ownership
Valuegood International Limited	British Virgin Islands	US\$1	100	100	Securities investment
Vast Strong Corporation Limited	Hong Kong	HK\$1	100	100	Property investment
Well Mount Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Well View Investment Limited	Hong Kong	HK\$1	100	100	Property investment
Winart Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
富豪(重慶)股權投資基金合夥企業(有限合夥) ⁽¹⁾	People's Republic of China ("PRC")/ Mainland China	RMB250,000,000	100	100	Investment holdings and management consultancy

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

1. CORPORATE AND GROUP INFORMATION

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Cosmopolitan International Holdings Limited ("Cosmopolitan")	Cayman Island/ Hong Kong	Ordinary - HK\$8,827,445 Preference - HK\$4,691,383	63	63	Investment holding
			100	100	
Apex Team Limited	Hong Kong	HK\$1	76	76	Financing
Cosmopolitan International Finance Limited	Hong Kong	HK\$1	76	76	Financing and financial assets investment
Cosmopolitan International Management Services Limited	Hong Kong	HK\$1	76	76	Management services
Evercharm Investments Limited	British Virgin Islands	US\$1	76	76	Financial assets investment
新疆麗寶生態開發有限公司 ⁽ⁱ⁾	PRC/ Mainland China	US\$16,800,000	76	76	Property development
成都富博房地產開發有限公司 ⁽ⁱⁱ⁾	PRC/ Mainland China	HK\$175,000,000	76	76	Property development
天津市富都房地產開發有限公司 ⁽ⁱⁱ⁾	PRC/ Mainland China	RMB650,000,000	76	76	Property development
置富投資開發(成都)有限公司 ⁽ⁱⁱ⁾	PRC/ Mainland China	HK\$336,000,960	76	76	Property development
富宏(深圳)諮詢管理有限公司 ⁽ⁱⁱ⁾	PRC/ Mainland China	RMB10,000,000	76	76	Development consultancy

(i) This is a fund registered as a limited partnership under PRC partnership law.

(ii) These subsidiaries are registered as wholly foreign owned enterprise under PRC law.

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

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

31st December, 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time in the current year's financial statements.

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

Other than as explained below regarding the impact of HKFRS 16 and amendments to HKAS 28, the adoption of the above new and revised standards has had no significant financial effect on the Group's consolidated financial statements.

The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, 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 continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1st January, 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1st January, 2019, and the comparative information for 2018 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 the use of the identified asset and the right to direct the use of the identified asset. The Company 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 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 1st January, 2019.

31st December, 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee - Leases previously classified as operating leases*Nature of the effect of adoption of HKFRS 16*

The Group has lease contracts for certain office premises and staff quarters. As a lessee, the Group previously classified leases as either finance leases or 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 1st January, 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

Impact of transition

Lease liabilities at 1st January, 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1st January, 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 1st January, 2019.

The right-of-use assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets and lease liabilities separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1st January, 2019:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at 1st January, 2019

The impacts arising from the adoption of HKFRS 16 as at 1st January, 2019 was as follows:

	Increase HK\$'000
Assets	
Right-of-use assets	<u>2,454</u>
Liabilities	
Lease liabilities	<u>2,454</u>

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NOTES TO FINANCIAL STATEMENTS

31st December, 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1st January, 2019 (continued)

The lease liabilities as at 1st January, 2019 reconciled to the operating lease commitment as at 31st December, 2018 were as follows:

	HK\$'000
Operating lease commitments as at 31st December, 2018	2,753
Incremental borrowing rate as at 1st January, 2019	5.0%
Discounted operating lease commitments as at 1st January, 2019	2,559
Less: Commitments relating to short-term leases and those leases with a remaining term ended on or before 31st December, 2019	<u>(105)</u>
Lease liabilities as at 1st January, 2019	<u><u>2,454</u></u>

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates upon adoption of the amendments on 1st January, 2019 and concluded that the long-term interests in associates continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on financial position or performance of the Group.

31st December, 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark and Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sales or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> ¹

¹ Effective for annual periods beginning on or after 1st January, 2020

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

³ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1st January, 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

31st December, 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS
(continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1st January, 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

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

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combination and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

(b) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss.

(c) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interests in joint operations:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operations;
- its share of the revenue from the sale of the output by the joint operations; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interests in joint operations are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

(e) Impairment on non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties held for sale, properties under development, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment on non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Buildings	33 ¹ / ₃ %
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties under construction are stated at cost less any impairment losses and are not depreciated. Cost comprises land costs, direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Properties under construction are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(g) Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as right-of-use assets (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

(h) Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, direct costs of construction, applicable borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to properties held for sale.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (applicable from 1st January, 2019)

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets, which include leasehold land and leased properties, are depreciated on a straight-line basis over the underlying lease terms.

(ii) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

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31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (applicable from 1st January, 2019) (continued)

Group as a lessee (continued)

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of other equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(j) Leases (applicable before 1st January, 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases (applicable before 1st January, 2019) (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(k) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The Group's intangible asset represents licences which are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 years.

(l) Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade debtors that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade debtors that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(1) Investments and other financial assets (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime ECLs).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade debtors which apply the simplified approach.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of financial assets (continued)

Simplified approach

For trade debtors that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(n) Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(o) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables as appropriate.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is recognised in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

(p) Derecognition of financial liabilities

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

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

(q) Offsetting of financial instruments

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

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Interest is capitalised at the interest rates related to specific development project borrowings. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Properties held for sale

Properties held for sale are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.

(t) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on the estimated selling prices less any estimated costs expected to be incurred to disposal.

(u) Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Sale of properties

Revenue from the sale of properties is recognised at the point in time when the purchasers obtain the physical possession or the legal title of the completed property and the Group has a present right to payment and the collection of the consideration is probable.

Some contracts for the sales of properties involve a difference in timing between the timing of payments and the transfer of properties. The difference in timing give rises to a significant financing component.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

Revenue from contracts with customers (continued)

(ii) Hotel operation

Revenue from the provision of hotel operations is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(iii) Restaurant operation

Revenue from restaurant operation is recognised at the point in time when the control of the food and beverage products is transferred to the customer, generally upon purchase of the food and beverage items by the customers.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(v) Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

(w) Contract costs

Other than the costs which are capitalised as properties held for sale and properties under development, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (i) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (ii) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (iii) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Employee benefits

Staff retirement schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

(aa) Provisions

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

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

(ab) Related parties

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

- (i) the party is a person or a close member of that person's family and that person
 - (1) has control or joint control over the Group;
 - (2) has significant influence over the Group; or
 - (3) is a member of the key management personnel of the Group or of a parent of the Group; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Related parties (continued)

- (ii) the party is an entity where any of the following conditions applies:
- (1) the entity and the Group are members of the same group;
 - (2) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (3) the entity and the Group are joint ventures of the same third party;
 - (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (6) the entity is controlled or jointly controlled by a person identified in (i);
 - (7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

(ac) Dividend

Final dividend is recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividend is simultaneously proposed and declared, because the Company's memorandum of association and bye-laws grant the Directors the authority to declare interim dividend. Consequently, interim dividend is recognised immediately as a liability when it is proposed and declared.

(ad) 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

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

Property lease classification - Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade debtors

The Group uses a provision matrix to calculate ECLs for trade debtors. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product/service type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision on expected credit losses on other financial assets at amortised cost

The measurement of impairment losses under HKFRS 9 on other financial assets at amortised cost requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also forward-looking analysis.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of net realisable values of properties under development and held for sale

The Group performs regular review of the carrying amounts of properties under development and held for sale with reference to prevailing market data such as most recent sale transactions and internal estimates such as future selling prices and costs to completion of the properties.

Based on this review, write-down of properties will be made when the estimated net realisable values decline below their carrying amounts. Due to changes in market and economic conditions, management's estimates may be adjusted.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to properties held for sale upon completion. An apportionment of these costs will be recognised in the statement of profit or loss upon the recognition of the sales of properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
<i>Revenue from contracts with customers</i>		
Proceeds from sale of properties	553,804	3,222,256
Hotel operations	25,975	-
Restaurant operations	14,489	692
	<u>594,268</u>	<u>3,222,948</u>
<i>Revenue from other sources</i>		
Rental income:		
Investment properties	64,701	48,275
Others	2,231	887
Dividend income from listed investments	7,140	6,604
	<u>74,072</u>	<u>55,766</u>
	<u>668,340</u>	<u>3,278,714</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

	2019 HK\$'000	2018 HK\$'000
<u>Geographical markets</u>		
Hong Kong	485,506	1,082,302
Mainland China	108,762	2,140,646
	<u>594,268</u>	<u>3,222,948</u>
<u>Timing of revenue recognition</u>		
At a point in time	568,293	3,222,948
Over time	25,975	-
	<u>594,268</u>	<u>3,222,948</u>

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NOTES TO FINANCIAL STATEMENTS

31st December, 2019

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

(b) Performance obligation

Information about the Group's performance obligations is summarised below:

Sales of properties

The performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser. Customers generally paid deposit during pre-sale. The transaction prices were adjusted to reflect the effects of the fair value of money and the significant benefit of financing.

Hotel operations

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services.

Revenue from restaurant operations

The performance obligation is satisfied when the control of the food and beverage products is transferred, being at the point when the customer purchases the food and beverage items at the restaurants. Payment of the transaction is due immediately at the point when the customer purchases the food and beverage.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31st December are as follows:

	2019 HK\$'000	2018 HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	90,900	212,604
After one year	<u>1,602,402</u>	<u>292,723</u>
	<u>1,693,302</u>	<u>505,327</u>

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

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

	2019 HK\$'000	2018 HK\$'000
Bank interest income	5,232	13,634
Other interest income	68,856	19,449
Gain on disposal of subsidiaries	550,261	-
Fair value loss on financial assets at fair value through profit or loss, net	(25,690)	(30,199)
Fair value gain/(loss) on investment properties	(73,568)	186,000
Fair value loss upon reclassification of properties held for sale to investment properties	-	(5,524)
Gain on disposal of an investment property	3,876	-
Others	<u>2,528</u>	<u>1,048</u>
	<u>531,495</u>	<u>184,408</u>

5. PROFIT BEFORE TAX

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

	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold and services provided	397,935	2,537,834
Depreciation of property, plant and equipment	19,512	9,323
Depreciation of right-of-use assets	11,583	-
Amortisation of intangible assets	755	-
Employee benefit expense:		
Salaries, wages and allowances	48,944	33,557
Staff retirement scheme contributions	<u>4,536</u>	<u>4,323</u>
	53,480	37,880
Less: Staff costs capitalised in respect of property development projects:		
Salaries, wages and allowances	(9,285)	(7,541)
Staff retirement scheme contributions	<u>(1,063)</u>	<u>(1,187)</u>
	<u>(10,348)</u>	<u>(8,728)</u>
	<u>43,132</u>	<u>29,152</u>

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

5. PROFIT BEFORE TAX (continued)

	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration	2,662	2,101
Minimum lease payments under operating leases	-	2,212
Lease payments not included in the measurement of lease liabilities	440	-
Write-off of items of property, plant and equipment	7	1
Write-off of trade debtors	6,231	-
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	41,088	30,147
Impairment of other receivables	14,645	-
Foreign exchange differences, net	<u>(24)</u>	<u>402</u>

6. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans	152,232	119,758
Interest on other borrowings	255,388	209,350
Interest expenses arising from revenue contracts	28,997	22,581
Interest on lease liabilities	80	-
Amortisation of debt establishment costs	<u>18,306</u>	<u>11,351</u>
Total interest expenses	455,003	363,040
Other loan costs	<u>215</u>	<u>2,450</u>
	455,218	365,490
Less: finance costs capitalised	<u>(41,798)</u>	<u>(153,190)</u>
	<u>413,420</u>	<u>212,300</u>

P&R HOLDINGS LIMITED

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31st December, 2019

7. INCOME TAX

	2019 HK\$'000	2018 HK\$'000
Current - Hong Kong		
Charge for the year	5,854	23,095
Current - PRC		
Charge for the year	18,551	50,916
Underprovision in prior year	6,667	-
PRC land appreciation tax	1,097	67,135
Deferred (note 26)	<u>7,415</u>	<u>(24,099)</u>
	<u>39,584</u>	<u>117,047</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2018: 16.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate.

The PRC land appreciation tax ("LAT") is levied on the sale or transfer of state-owned land use rights, buildings and their attached facilities in Mainland China at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for the sale of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

7. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the Group's effective tax rate is as follows:

2019

	Hong Kong HK\$'000	%	Mainland China HK\$'000	%	Total HK\$'000
Profit before tax	<u>73,221</u>		<u>27,991</u>		<u>101,212</u>
Tax at the statutory tax rate	12,081	16.5	6,998	25.0	19,079
Adjustment in respect of current tax of previous years	-		6,667		6,667
Income not subject to tax	(80,338)		(294)		(80,632)
Expense not deductible for tax	29,351		10,168		39,519
Tax losses utilised from previous years	(85)		(28)		(113)
Tax losses not recognised during the year	51,328		1,353		52,596
LAT provided	-		1,170		1,170
Tax effect on LAT	-		(289)		(289)
Others	<u>(6,483)</u>		<u>7,985</u>		<u>1,587</u>
Tax charge for the year	<u>5,854</u>		<u>33,730</u>		<u>39,584</u>

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31st December, 2019

7. INCOME TAX (continued)

2018

	Hong Kong HK\$'000	%	Mainland China HK\$'000	%	Total HK\$'000
Profit before tax	<u>83,101</u>		<u>410,397</u>		<u>493,498</u>
Tax at the statutory tax rate	13,712	16.5	102,599	25.0	116,311
Income not subject to tax	(30,506)		(2,109)		(32,615)
Expense not deductible for tax	25,870		165		26,035
Tax losses utilised from previous years	(6,605)		(65,068)		(71,673)
Tax losses not recognised during the year	20,573		2,861		23,434
LAT provided	-		67,135		67,135
Tax effect on LAT	-		(16,784)		(16,784)
Others	<u>1,127</u>		<u>4,077</u>		<u>5,204</u>
Tax charge for the year	<u>24,171</u>		<u>92,876</u>		<u>117,047</u>

8. DIVIDEND

	2019 HK\$'000	2018 HK\$'000
Interim - HK\$5,250,000 (2018: Nil) per ordinary share (note 30(c)(i))	<u>525,000</u>	<u>-</u>

P&R HOLDINGS LIMITED

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9. PROPERTY, PLANT AND EQUIPMENT

31st December, 2019

At 31st December, 2018 and 1st January, 2019:

	Hotel building HK\$'000	Leasehold improvement HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Buildings HK\$'000	Properties under construction HK\$'000	Total HK\$'000
Cost	-	18,669	8,692	1,726	30,383	1,467,895	1,527,365
Accumulated depreciation	-	(4,326)	(3,545)	(1,474)	(30,383)	-	(39,728)
Net carrying amount	-	14,343	5,147	252	-	1,467,895	1,487,637
At 1st January, 2019, net of accumulated depreciation	-	14,343	5,147	252	-	1,467,895	1,487,637
Additions	-	9,568	13,936	535	-	222,195	246,234
Transfer upon completion of properties under construction	427,261	-	-	-	-	(1,040,351)	(613,090)
Disposal of subsidiaries	-	-	-	-	-	(649,739)	(649,739)
Transfer from investment properties	-	-	-	-	10,082	-	10,082
Write-off/disposals	-	-	(106)	(241)	-	-	(347)
Reversal of depreciation upon write-off/disposals	-	-	99	241	-	-	340
Depreciation provided during the year	(8,744)	(7,364)	(3,022)	(88)	(294)	-	(19,512)
Exchange realignment	-	(8)	(18)	(12)	(150)	-	(188)
At 31st December, 2019, net of accumulated depreciation	418,517	16,539	16,036	687	9,638	-	461,417
At 31st December, 2019:							
Cost	427,261	28,181	22,438	2,099	39,691	-	519,670
Accumulated depreciation	(8,744)	(11,642)	(6,402)	(1,412)	(30,053)	-	(58,253)
Net carrying amount	418,517	16,539	16,036	687	9,638	-	461,417

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

9. PROPERTY, PLANT AND EQUIPMENT (continued)

31st December, 2018

	Leasehold improvement HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Buildings HK\$'000	Properties under construction HK\$'000	Total HK\$'000
At 1st January, 2018:						
Cost	4,949	4,850	1,810	32,008	1,079,173	1,122,790
Accumulated depreciation	(3,822)	(2,884)	(1,385)	(24,228)	-	(32,319)
Net carrying amount	<u>1,127</u>	<u>1,966</u>	<u>425</u>	<u>7,780</u>	<u>1,079,173</u>	<u>1,090,471</u>
At 1st January, 2018, net of accumulated depreciation						
Additions	1,127	1,966	425	7,780	1,079,173	1,090,471
Write-off/disposals	13,845	4,094	8	-	388,722	406,669
Reversal of depreciation upon write-off/disposals	-	(42)	-	-	-	(42)
Depreciation provided during the year	-	41	-	-	-	41
Exchange realignment	(627)	(848)	(165)	(7,683)	-	(9,323)
	(2)	(64)	(16)	(97)	-	(179)
At 31st December, 2018, net of accumulated depreciation	<u>14,343</u>	<u>5,147</u>	<u>252</u>	<u>-</u>	<u>1,467,895</u>	<u>1,487,637</u>
At 31st December, 2018:						
Cost	18,669	8,692	1,726	30,383	1,467,895	1,527,365
Accumulated depreciation	(4,326)	(3,545)	(1,474)	(30,383)	-	(39,728)
Net carrying amount	<u>14,343</u>	<u>5,147</u>	<u>252</u>	<u>-</u>	<u>1,467,895</u>	<u>1,487,637</u>

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

9. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31st December, 2019, the Group's property, plant and equipment and leasehold land included in right-of-use assets (note 11) with net carrying amounts of HK\$1,020,821,000 (2018: HK\$1,467,895,000) were pledged to secure banking facilities granted to the Group.

10. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
Carrying amount at 1st January	2,634,469	2,300,000
Capital expenditure for the year	11,915	14,000
Net gain/(loss) from fair value adjustments	(73,568)	186,000
Transfer from properties held for sale	-	134,469
Transfer to owner-occupied properties	(10,082)	-
Disposals	(35,745)	-
Exchange realignment	(2,088)	-
	<u>2,524,901</u>	<u>2,634,469</u>
Carrying amount at 31st December	<u>2,524,901</u>	<u>2,634,469</u>

The Group's investment properties consist of 2 commercial properties in Hong Kong and Mainland China. The Directors of the Company determined the Group's investment properties into different classes of asset based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31st December, 2019 based on valuations performed by Savills Valuation and Professional Services Limited and Cushman & Wakefield Limited, two independent professionally qualified valuers, at an aggregate valuation amount of HK\$2,524,901,000. Each year, the Group's management selects the external valuers to be appointed for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management also has discussions with the valuers on the valuation assumptions and valuation results twice a year when the valuations are performed for interim and annual financial reporting. Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 11(b) to the financial statements.

At 31st December, 2019, the Group's investment properties with a carrying value of HK\$2,435,000,000 (2018: HK\$2,500,000,000) were pledged to secure banking facilities granted to the Group.

Fair value hierarchy

All investment properties were classified as commercial properties under Level 3 in the fair value hierarchy as the fair value measurement were based on significant unobservable inputs. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

P&R HOLDINGS LIMITED

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31st December, 2019

10. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

	Commercial properties HK\$'000
Carrying amount at 1st January, 2018	2,300,000
Capital expenditure	14,000
Transfer from properties held for sale	134,469
Net gain from fair value adjustments	<u>186,000</u>
Carrying amount at 31st December, 2018 and 1st January, 2019	2,634,469
Capital expenditure	11,915
Transfer to owners-occupied properties	(10,082)
Disposals	(35,745)
Net loss from fair value adjustments	(73,568)
Exchange realignment	<u>(2,088)</u>
Carrying amount at 31st December, 2019	<u><u>2,524,901</u></u>

10. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range 2019	2018
Commercial properties	Discounted cash flow method	Capitalisation rate	2.5% to 3.7%	2.5% to 3.7%
		Discount rate	6%	6%
		Estimated rental value per square metre and per month	HK\$323 to HK\$624	HK\$352 to HK\$639
	Income capitalisation method	Capitalisation rate	4.25% to 4.75%	4.25% to 4.75%
		Estimated rental value per square metre and per month	RMB80 to RMB114	RMB73 to RMB116

Under the discounted cash flow method for commercial properties, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross rental income less expenses. The series of periodic net rental income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Under the income capitalisation method, the fair value is estimated based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sales transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have been assessed with reference to recent lettings, within the subject properties and other comparable properties.

A significant increase/(decrease) in the estimated rental value in isolation would result in a significant increase/(decrease) in the fair value of the commercial properties. A significant increase/(decrease) in the capitalisation rate in isolation would result in a significant decrease/(increase) in the fair value of the commercial properties.

31st December, 2019

11. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

(a) The Group as a lessee

The Group has lease contracts for various items of leasehold land, office premises and staff quarters. Lump sum payments were made upfront to acquire the leased land from the owners, and no ongoing payments will be made under the terms of these land leases. Leases of certain office premises have lease terms of 3 years. Other office premises and staff quarters generally have lease terms of 12 months or less.

(i) Right-of-use assets

The carrying amount of the Group's right-of-use assets and movements during the year are as follows:

	Leasehold land HK\$'000	Leased properties HK\$'000	Total HK\$'000
As at 1st January, 2019	-	2,454	2,454
Addition	613,090	-	613,090
Termination of a lease	-	(524)	(524)
Depreciation charge	(10,786)	(797)	(11,583)
Exchange realignment	-	(50)	(50)
	<u>602,304</u>	<u>1,083</u>	<u>603,387</u>
As at 31st December, 2019	<u>602,304</u>	<u>1,083</u>	<u>603,387</u>

Details of the leasehold land pledged to secure banking facilities of the Group are disclosed in note 9 to the financial statements.

(ii) Lease liabilities

The carrying amount of the Group's lease liabilities and movements during the year are as follows:

	2019 HK\$'000
Carrying amount at 1st January	2,454
Termination of a lease	(524)
Interest expense	80
Payment	(847)
Exchange realignment	(34)
Carrying amount at 31st December	<u>1,129</u>
Analysed into:	
Current portion	836
Non-current portion	<u>293</u>
	<u>1,129</u>

31st December, 2019

11. RIGHT-OF-USE ASSETS/LEASE LIABILITIES (continued)

- (a) The Group as a lessee (continued)
(ii) Lease liabilities (continued)

The maturity analysis of lease liabilities is disclosed in note 37 to the financial statements.

- (iii) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK\$'000
Interest on lease liabilities	80
Depreciation of right-of-use assets	11,583
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31st December, 2019	440
	<u>12,103</u>

- (iv) The total cash outflow for leases is disclosed in note 30(d) to the financial statements.

- (b) The Group as a lessor
The Group leases its investment properties (note 10) under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK\$66,932,000 (2018: HK\$49,162,000), details of which are included in note 4 to the financial statements.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	46,445	59,584
After one year but within two years	22,151	67,872
After two years but within three years	11,356	8,171
After three years but within four years	10,432	8,187
After four years but within five years	6,132	7,436
After five years	3,642	5,377
	<u>100,158</u>	<u>156,627</u>

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

12. PROPERTIES UNDER DEVELOPMENT

	2019 HK\$'000	2018 HK\$'000
Balance at 1st January	3,101,726	8,971,296
Additions	1,102,163	1,852,351
Transfer to properties held for sale	-	(7,636,950)
Exchange realignment	<u>(31,868)</u>	<u>(84,971)</u>
Balance at 31st December	4,172,021	3,101,726
Portion included in current assets	<u>(2,842,104)</u>	<u>(1,771,999)</u>
Non-current portion	<u>1,329,917</u>	<u>1,329,727</u>

Properties under development included under current assets expected to be completed within normal operating cycle and recovered:

	2019 HK\$'000	2018 HK\$'000
After one year	<u>2,842,104</u>	<u>1,771,999</u>

At 31st December, 2019, the Group's properties under development with a carrying amount of HK\$1,131,762,000 (2018: Nil) were pledged to secure banking facilities granted to the Group.

P&R HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 2019

13. INVESTMENT IN AN ASSOCIATE

	2019 HK\$'000	2018 HK\$'000
Share of net assets	142,860	-
Loans to an associate	<u>430,361</u>	<u>-</u>
	<u>573,221</u>	<u>-</u>

On 31st December, 2019, the Group disposed of 50% equity interest in Dense Globe Investments Limited ("Dense Globe") and its subsidiary, Fine Cosmos Development Limited ("Fine Cosmos"), (collectively the "Dense Globe Group") that beneficially hold a hotel development project at a net consideration of HK\$270,000,000 (before net assets adjustment of HK\$422,000). After the disposal, Dense Globe became an associate of the Group. Further details of the disposal are included in note 30(b) to the financial statements.

The loans to an associate are unsecured, interest-free and repayable on demand except for (i) an amount of HK\$242,800,000 which bears interest at the Hong Kong Interbank Offered Rates ("HIBOR") plus an interest margin of 1.15% per annum (the "Base Rate"); and (ii) an amount of HK\$60,000,000 which bears interest at two times of the Base Rate, for a term of three years to December 2022.

In the opinion of the Directors, the loans to an associate are considered as part of the Group's net investment in the associate. There was no recent history of default and past due amounts for the loans to the associate. As at 31st December, 2019, the loss allowance was assessed to be minimal.

Particulars of the Group's associate are as follows:

Name	Place of incorporation and business	Issued ordinary share capital	Percentage of equity attributable to the Group		Principal activities
			2019	2018	
Dense Globe	British Virgin Islands	Ordinary shares of US\$1 each	50	100	Investment holding
Fine Cosmos*	Hong Kong	HK\$2	50	100	Hotel ownership and operation

* This is a wholly owned subsidiary of Dense Globe and indirectly held by the Company.

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NOTES TO FINANCIAL STATEMENTS

31st December, 2019

13. INVESTMENT IN AN ASSOCIATE (continued)

The following table illustrates the summarised financial information in respect of Dense Globe Group:

	2019 HK\$'000
Non-current assets	1,200,000
Current assets	1,086
Current liabilities	(660,244)
Non-current liabilities	<u>(255,122)</u>
	<u>285,720</u>
Reconciliation to the Group's interest in the associate: Proportion of the Group's ownership	50%
Group's share of net assets of the associate	142,860
Loans to an associate	<u>430,361</u>
Carrying amount of the investment	<u>573,221</u>

14. INVESTMENT IN A JOINT VENTURE

	2019 HK\$'000	2018 HK\$'000
Share of net assets	2,425	2,428
Goodwill on acquisition	<u>8,369</u>	<u>8,369</u>
	<u>10,794</u>	<u>10,797</u>

Particulars of the Group's joint venture are as follows:

Name	Place of incorporation and business	Issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Faith Crown Holdings Limited ("Faith Crown")	British Virgin Islands	HK\$1	50	50	Investment holding

The joint venture is indirectly held by the Company.

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NOTES TO FINANCIAL STATEMENTS

31st December, 2019

14. INVESTMENT IN A JOINT VENTURE (continued)

The following table illustrates the summarised financial information in respect of Faith Crown:

	2019 HK\$'000	2018 HK\$'000
Non-current assets	45,482	45,495
Current liabilities	<u>(40,632)</u>	<u>(40,639)</u>
	<u>4,850</u>	<u>4,856</u>
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture and carrying amount of the investment	<u>2,425</u>	<u>2,428</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK\$'000	2018 HK\$'000
Non-current		
Unlisted equity investment, at fair value	<u>46,348</u>	<u>46,675</u>
Current		
Listed equity investment, at fair value	153,097	177,748
Assigned right, at fair value	<u>140,000</u>	<u>-</u>
	<u>293,097</u>	<u>177,748</u>

The unlisted equity investment at 31st December, 2019 and 2018 was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

The listed equity investments at 31st December, 2019 and 2018 were classified financial assets at fair value through profit or loss as they were held for trading.

On 23rd December, 2019, the Group entered into an assignment agreement ("Assignment Agreement") with a fellow subsidiary, which holds 30% equity interest in a property development company ("Property Development Company"). Pursuant to the Assignment Agreement, the fellow subsidiary assigned and transferred its rights of future proceeds and distributions from the Property Development Company (the "Assigned Right") at a cash consideration of HK\$140,000,000. The Assigned Right was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

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NOTES TO FINANCIAL STATEMENTS

31st December, 2019

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As at 31st December, 2019, certain of the Group's financial assets at fair value through profit or loss with a carrying value of HK\$28,471,000 (2018: Nil) were pledged to secure banking facilities granted to the Group.

16. LOANS RECEIVABLE

	2019 HK\$'000	2018 HK\$'000
Non-current		
Mortgage loans (note (c))	<u>228,205</u>	<u>132,597</u>
Current		
Short term secured loans (note (a))	167,310	170,790
Loan note receivable (note (b))	210,422	-
Mortgage loans (note (c))	<u>10,497</u>	<u>6,048</u>
	<u>388,229</u>	<u>176,838</u>

Notes:

- (a) On 16th August, 2018, Cosmopolitan and its subsidiaries (the "Cosmopolitan Group") entered into a deposit agreement (the "Deposit Agreement") in relation to the possible investment by the Cosmopolitan Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC. Pursuant to the Deposit Agreement, the Cosmopolitan Group paid a deposit of RMB70,000,000 (HK\$78,078,000) to the vendor and was granted an exclusivity period of 18 months to conduct bona fide negotiations to settle the terms of the possible investment. Following further negotiations with the vendor, the Cosmopolitan Group has agreed to increase the deposit under the Deposit Agreement from RMB70,000,000 (HK\$78,078,000) to RMB170,000,000 (HK\$189,618,000). The Cosmopolitan Group also granted loan facilities to the target investee group in an aggregate loan amount of RMB150,000,000 (HK\$167,310,000) which was fully utilised as at 31st December, 2019 (2018: RMB150,000,000 (HK\$170,790,000)).

The short term secured loans bear interest at 18% to 24% per annum. The deposits and the loan amounts outstanding under the loan facilities are primarily secured by equity pledges over certain PRC companies associated with the vendor, guarantees provided by the vendor and certain of his associates, and pledges over the receivables of the target investee company and certain associates of the vendor. The short term secured loans were overdue as at 31st December, 2019.

31st December, 2019

16. LOANS RECEIVABLE (continued)

Notes: (continued)

(a) (continued)

On 31st December, 2019, the Cosmopolitan Group entered into an agreement with another independent purchaser for the proposed disposal of its entire interests in certain wholly owned subsidiaries that directly and indirectly own the investment deposits and loans for a consideration of HK\$400,000,000, which was determined with reference to the total outstanding amount of those deposits and loans, together with the interest accrued on the loans up to 31st December, 2019 (the "Disposal"). An expected credit loss on interest related to the short term secured loans included in debtors, deposits and prepayments in note 16 amounting to HK\$14,645,000 was charged to the profit or loss in the current year.

The Disposal was completed on 8th April, 2020.

- (b) Loan note receivable represents the outstanding consideration in respect of the disposal of 50% equity interest in Dense Globe Group to an independent third party (the "Hotel Purchaser") as detailed in note 13 to the financial statements. The loan note receivable is interest-free, repayable on or before 31st March, 2020 and secured by the shares of Dense Globe held by the Hotel Purchaser.

Subsequent to the end of the reporting period, on 31st March, 2020, the loan note receivable was extended to 15th July, 2020 ("First Extension"). On the date of maturity of the First Extension, the Group entered into a letter agreement ("Second Extension Agreement") with the Hotel Purchaser to further amend the repayment terms of the loan note receivable. Pursuant to the Second Extension Agreement, (a) a sum of HK\$100,000,000 was received by the Group on 15th July, 2020; (b) a sum of HK\$35,000,000, together with the interest accrued at the rate of 4% per annum shall be repaid on or before 30th April, 2021; and (c) the remaining balance, together with the interest accrued at the rate of 4% per annum shall be repaid on or before 15th July, 2021.

- (c) The mortgage loans represent loans granted to purchasers in connection with the sale of the Group's properties. The loans are secured by mortgages over the properties sold and are repayable by instalments in 5 to 25 years (2018: 5 to 25 years). The mortgage loans bear interest at rates ranging from the Hong Kong dollar prime lending rate minus 2.75% to the Hong Kong dollar prime lending rate plus 2% per annum (2018: Hong Kong dollar prime lending rate minus 2.75% to the Hong Kong dollar prime lending rate plus 2% per annum).

Other than the short term secured loans (note 16(a)) which are classified in stage 3, the remaining loans receivable are classified in stage 1.

Impairment analysis is performed at each reporting date by considering the probability of default of counterparties. As at 31st December, 2019, the probability of default applied ranged from approximately 1% to 16% (2018: 1% to 16%) and loss given default was estimated to be in the range of 0% to 5% (2018: 0%) after taking into consideration of the value of collaterals or the subsequent selling price of the Proposed Disposal.

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17. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in deposits and prepayments under non-current assets as at 31st December 2018 were the deposits in an aggregate amount of RMB170,000,000 (HK\$193,613,000) paid in relation to a possible investment by the Cosmopolitan Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC. As at 31st December, 2019, such deposits in an aggregate amount of RMB170,000,000 (HK\$189,618,000) were included in current assets. Further details of which are disclosed in note 16(a) above.

Included in debtors, deposits, and prepayments under current assets is an amount of HK\$1,455,000 (2018: HK\$4,264,000) representing the trade debtors of the Group.

Trade debtors generally have credit terms of 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. The Group does not hold any collateral or other credit enhancements over these balances. Trade debtors are non-interest bearing.

The ageing analysis of the trade debtors as at the end of the reporting period, based on payment due date, is as follows:

	2019 HK\$'000	2018 HK\$'000
Current	499	-
Within 3 months past due	420	3,928
4 to 12 months past due	490	336
Over 1 year past due	46	-
Total	<u>1,455</u>	<u>4,264</u>

In the opinion of the directors, the expected credit loss on trade debtors is considered to be minimal.

Included in the balance is an amount of HK\$13,616,000 (2018: HK\$831,000) in relation to the prepaid commission for sales of properties which is classified as contract costs in accordance with HKFRS 15.

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18. GOODWILL

	2019 HK\$'000	2018 HK\$'000
Cost and carrying amount at 1st January and 31st December	<u>267,231</u>	<u>267,231</u>

No impairment was made on the goodwill as at 31st December, 2019 and 2018.

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the property development and investment cash-generating unit for impairment testing. The recoverable amount of the property development cash-generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been prepared to reflect the development plan of the property development projects, comprising residential, commercial and hotel buildings. The discount rate applied to the cash flow projections is 21.3% (2018: 24.2%).

Assumptions were used in the value in use calculation of the property development and investment cash-generating unit for the years ended 31st December, 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rate – Discount rate used is before tax and represents the current market assessment of the risks specific to the property development and investment cash-generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Property price – The basis used to determine the future selling price of the property development projects is with reference to recent market conditions and expected market development.

Construction materials price inflation – The basis used to determine the construction materials price inflation is the forecast price indices during the budget year for Mainland China from where the raw materials are sourced.

The values assigned to the key assumptions on market development of property development industry, discount rate, property price and construction materials price inflation are consistent with external information sources.

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19. INTANGIBLE ASSET

	Licenses HK\$'000
31st December, 2019	
Cost at 1st January, 2019, net of accumulated amortisation	-
Additions	2,832
Amortisation provided during the year	(755)
Exchange realignment	<u>(32)</u>
At 31st December, 2019	<u>2,045</u>
At 31st December, 2019:	
Cost	2,789
Accumulated amortisation	<u>(744)</u>
Net carrying amount	<u>2,045</u>

20. PROPERTIES HELD FOR SALE

At 31st December, 2019, the Group's properties held for sale with a carrying amount of HK\$5,003,390,000 (2018: HK\$5,147,213,000) were pledged to secure banking facilities granted to the Group.

In 2014, the Group entered into a development agreement ("Development Agreement") with the Urban Renewal Authority ("URA"), for a development project in Sham Shui Po, Kowloon, Hong Kong, in the form of a joint operation. Under the Development Agreement, the Group was mainly responsible for the construction of the development project. Sales proceeds arising from the sale of the development projects will be distributed between URA and the Group pursuant to the terms of the Development Agreement. At 31st December, 2019, the carrying amount of the unsold units of this project included in properties held for sale amounted to HK\$176,817,000 (2018: HK\$179,496,000)

21. RESTRICTED CASH

At 31st December, 2019, the Group had cash of approximately HK\$363,252,000 (2018: HK\$12,900,000) which was restricted to use as guarantee deposits for the construction costs of certain pre-sold properties.

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22. CREDITORS AND ACCRUALS

	2019 HK\$'000	2018 HK\$'000
Creditors	581,200	767,639
Loan from the non-controlling shareholder of a subsidiary	3,681	-
Due to a joint venture (note (a))	22,741	22,747
Due to Shareholders (note (a))	256,150	139,088
Deferred income	6,199	6,226
Accruals	<u>33,713</u>	<u>30,365</u>
	<u>903,684</u>	<u>966,065</u>
Analyse into:		
Current	871,063	937,092
Non-current	<u>32,621</u>	<u>28,973</u>
	<u>903,684</u>	<u>966,065</u>

Note:

- (a) The amounts due to a joint venture and Shareholders represents outstanding interest payable on advances from the joint venture and Shareholders which are unsecured, interest-free and not repayable within twelve months from the end of the reporting period.

23. CONTRACT LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Contract liabilities arising from:		
Sales of properties	1,204,160	284,096
Hotel operation	<u>501</u>	<u>-</u>
	<u>1,204,661</u>	<u>284,096</u>

Contract liabilities include (i) sales proceeds received in advance from buyers in connection with the Group's sale and pre-sale of properties and interest on the sales proceeds received; and (ii) consideration received from customers in advance for hotel services.

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24. OTHER BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Non-current		
Loan from a fellow subsidiary (note (a))	1,062,000	1,062,000
Loans from Shareholders (note (b))	<u>4,448,432</u>	<u>3,748,730</u>
	<u>5,510,432</u>	<u>4,810,730</u>
Current		
Loan from a fellow subsidiary (note (a))	301,472	267,303
Loans from Shareholders (note (b))	<u>1,002,822</u>	<u>1,002,822</u>
	<u>1,304,294</u>	<u>1,270,125</u>

Notes:

- (a) Loans from a fellow subsidiary, comprising term loan of HK\$1,062,000,000 (2018: HK\$1,062,000,000) and revolving loan of HK\$301,472,000 (2018: HK\$267,303,000) from a fellow subsidiary, are secured by the pledge over the equity interests in the relevant holding companies of the Group's property development projects and bear interest at 5% per annum. The term loan is repayable on 12th October, 2021 and is classified as non-current.
- (b) Loans from Shareholders, comprising interest-free loan of HK\$1,002,822,000 (2018: HK\$1,002,822,000) and revolving loans of HK\$4,448,432,000 (2018: HK\$3,748,730,000) from Shareholders, are unsecured. The interest-free loans are repayable on demand and are classified as current. The revolving loans bear interest at not more than 5% per annum or Hong Kong dollar prime lending rate per annum (2018: 4% per annum or Hong Kong dollar prime lending rate per annum) and are not repayable within one year.

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25. INTEREST BEARING BANK BORROWINGS

	2019		2018	
	Maturity	HK\$'000	Maturity	HK\$'000
Current				
Bank loans - secured	2020	635,482	2019	2,856,443
Non-current				
Bank loans - secured	2021 - 2022	<u>4,055,770</u>	2020 - 2021	<u>1,786,424</u>
		<u>4,691,252</u>		<u>4,642,867</u>

At 31st December, 2019, the interest bearing bank borrowings are denominated in Hong Kong dollars and borne interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus a margin ranged from 0.95% to 1.55% (2018: HIBOR plus a margin ranged from 0.95% to 1.50%) per annum.

As at 31st December, 2019, certain of the Group's property, plant and equipment, investment properties, leasehold land included in right-of-use assets, properties under development, properties held for sale, financial assets at fair value through profit or loss and bank balances in an aggregate amount of HK\$9,619,895,000 were pledged to secure general banking facilities granted to the Group.

As at 31st December, 2018, certain of the Group's property, plant and equipment, investment properties and properties held for sale in an aggregate amount of HK\$9,115,108,000 were pledged to secure general banking facilities granted to the Group.

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26. DEFERRED TAX

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

	Depreciation allowance in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Fair value adjustments arising from acquisition of business/subsidiaries HK\$'000	Total HK\$'000
Gross deferred tax liabilities at 1st January, 2018	-	-	(352,669)	(352,669)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 7)	<u>(5,770)</u>	<u>5,770</u>	<u>24,099</u>	<u>24,099</u>
Gross deferred tax assets/(liabilities) at 31st December, 2018 and 1st January, 2019	(5,770)	5,770	(328,570)	(328,570)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 7)	<u>(10,841)</u>	<u>10,841</u>	<u>(7,415)</u>	<u>(7,415)</u>
Exchange realignment	<u>-</u>	<u>-</u>	<u>146</u>	<u>146</u>
Gross deferred tax assets/(liabilities) at 31st December, 2019	<u>(16,611)</u>	<u>16,611</u>	<u>(335,839)</u>	<u>(335,839)</u>

The Group has unrecognised tax losses arising in Hong Kong amounting to HK\$825,683,000 (2018: HK\$515,121,000) as at 31st December, 2019. The tax losses arising in Hong Kong, subject to the agreement by the Hong Kong Inland Revenue Department, are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets in respect of the above tax losses amounting to HK\$136,238,000 (2018: HK\$84,995,000) have not been recognised on account of the unpredictability of future profit streams.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1st January, 2008 and applies to earnings after 31st December, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1st January, 2008.

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26. DEFERRED TAX (continued)

At 31st December, 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$592,710,000 at 31st December, 2018 (2018: HK\$623,367,000).

27. SHARE CAPITAL

	2019 HK\$'000	2018 HK\$'000
Authorised:		
50,000 ordinary shares of US\$1 each	<u>390</u>	<u>390</u>
Issued and fully paid:		
100 ordinary shares of US\$1 each	<u>1</u>	<u>1</u>

28. RESERVES

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity on page 7 and 8.

29. PARTLY OWNED SUBSIDIARY WITH A MATERIAL NON-CONTROLLING INTEREST

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

	2019	2018
Percentage of equity held by non-controlling interests of Cosmopolitan	<u>24.3%</u>	<u>24.3%</u>
	2019 HK\$'000	2018 HK\$'000
Profit/(Loss) for the year allocated to non-controlling interests of Cosmopolitan Group	<u>(39,575)</u>	<u>39,526</u>
Accumulated balances of non-controlling interests of the Cosmopolitan Group at the reporting date	<u>237,687</u>	<u>282,669</u>

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NOTES TO FINANCIAL STATEMENTS

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29. PARTLY OWNED SUBSIDIARY WITH A MATERIAL NON-CONTROLLING INTEREST
(continued)

The following table illustrates the summarised financial information of the Cosmopolitan Group. The amounts disclosed are before any intra-group eliminations:

	2019 HK\$'000	2018 HK\$'000
Revenue	119,567	2,147,250
Profit/(loss) for the year	(170,658)	208,773
Total comprehensive income/(loss) for the year	<u>(213,656)</u>	<u>102,341</u>
Non-current assets	1,389,708	1,561,769
Current assets	3,968,137	3,087,799
Current liabilities	(1,791,066)	(913,085)
Non-current liabilities	<u>(2,365,362)</u>	<u>(2,321,518)</u>
Net cash flows from operating activities	2,980	779
Net cash flows used in investing activities	(5,517)	(372,436)
Net cash flows from financing activities	<u>2,628</u>	<u>120,193</u>
Net increase/(decrease) in cash and cash equivalents	<u>91</u>	<u>(251,464)</u>

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NOTES TO FINANCIAL STATEMENTS

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30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Interest bearing bank borrowings HK\$'000	Other borrowings HK\$'000	Lease liabilities HK\$'000	Interest payable on bank borrowings and other borrowings HK\$'000
At 1st January, 2018	3,669,990	5,265,118	-	112,555
Changes from financing cash flows	959,076	815,737	-	(283,593)
Finance costs	13,801	-	-	329,108
At 31st December, 2018	4,642,867	6,080,855	2,454	158,070
Effect of adoption of HKFRS 16 (note 2.2)	-	-	-	-
At 1st January, 2019 (restated)	4,642,867	6,080,855	2,454	158,070
Changes from financing cash flows	387,064	733,871	(847)	(291,395)
Disposal of subsidiaries	(357,200)	-	-	(244)
Termination of a lease	-	-	(524)	-
Finance costs	18,521	-	80	407,620
Foreign exchange movement	-	-	(34)	-
At 31st December, 2019	4,691,252	6,814,726	1,129	274,051

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30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Disposal of subsidiaries

On 31st December, 2019, the Group disposed of 50% equity interest in the Dense Globe Group which beneficially holds a hotel development project at a net consideration of HK\$270,000,000 (before net assets adjustment of HK\$422,000). The Group also granted a call option to the Hotel Purchaser to acquire additional equity interests in the Dense Globe Group and the Hotel Purchaser granted a put option to the Group to sell further equity interests to the Hotel Purchaser.

	HK\$'000
Net assets disposed of:	
Property, plant and equipment	649,739
Deposits	1,087
Creditors	(244)
Interest bearing bank borrowings	(357,200)
Loan from the immediate holding company	(430,361)
	(136,979)
Fair value of retained investment	(142,860)
Gain on disposal of subsidiaries	550,261
	270,422
Satisfied by:	
Cash	60,000
Loan note receivable* (note 16)	210,422
	270,422

* Consideration included net assets adjustment of HK\$422,000

The fair values of the call and put option were not recognised as the Directors of the Company considered that they are not material.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries are as follows:

	HK\$'000
Net inflow of cash and cash equivalent in respect of the disposal of subsidiaries	60,000

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NOTES TO FINANCIAL STATEMENTS

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30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Major non-cash transactions

During the year ended 31st December, 2019, the Group had the following major non-cash transactions:

(i) In January 2019, the Group entered into share swap agreements with independent third parties ("Independent Third Parties"), pursuant to which the Group disposed an aggregate of 350 million ordinary shares of Cosmopolitan and acquired 200 million shares in a listed company (the "Listed Shares") with a market value of HK\$525,000,000. On the same date, the Group declared interim dividend of HK\$525,000,000, which was settled through the corresponding Listed Shares. The Group recognised an interim dividend of HK\$525,000,000 and corresponding increase in non-controlling interest and capital reserve.

(ii) In November 2019, the Shareholders transferred the Listed Shares to the Group at a market value of HK\$68,000,000. On the same date, the Group entered into share swap agreements with Independent Third Parties pursuant to which the Group disposed of the Listed Shares and acquired 350 million ordinary shares of Cosmopolitan. The Group recognised an increase in loans from the Shareholders of HK\$68,000,000 and corresponding decrease in non-controlling interest and capital reserve.

(d) Total cash outflow for leases
The total cashflow for leases within operating and financing activities are HK\$440,000 and HK\$847,000, respectively.

31. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material related party transactions during the year:

	Notes	2019 HK\$'000	2018 HK\$'000
Shareholders:			
Interest expense	(i)	190,276	149,940
Fellow subsidiaries:			
Interest expense	(i)	65,112	59,410
Management fees	(ii)	32,282	32,665
Reimbursement of lease payments	(iii)	28,282	21,194
Estate management fee	(iv)	2,467	2,557
Construction costs and development consultancy fee	(v)	27,964	246,864
Sales agency fees	(vi)	8,446	-

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31. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

- (i) The interest expenses were related to borrowings under the loan facilities granted to the Group, details of which are disclosed in note 24 to the financial statements.
- (ii) The management fees included rentals and other overheads allocated from a fellow subsidiary either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management based on the distribution of job responsibilities and the estimated time spent by the relevant staff.
- (iii) The reimbursement of lease payment was paid to a fellow subsidiary in respect of undertaking provided by the Group to reimburse the shortfall between the rental expense and the income derived by the respective subsidiaries.
- (iv) The estate management fee paid by the Group was charged at an agreed percentage of total operating expenses of the shopping mall owned by Group for estate management services received.
- (v) The construction costs and development consultancy fees were paid to fellow subsidiaries for various services provided, which include construction costs, advisory, supervisory, architectural and design services in connection with property development projects owned by the Group. The fees were charged at agreed rates of the estimated cost of individual projects.
- (vi) The agency fees were paid to a fellow subsidiary for the agency services rendered. The fees were charged at agreed rates of the proceeds from properties sold.

(b) Outstanding balances with related parties

	Notes	2019 HK\$'000	2018 HK\$'000
Due to fellow subsidiaries	(i)	(16,614)	(22,612)
Due to a joint venture	(ii)	(22,741)	(22,747)
Due to Shareholders	(ii)	(256,150)	(139,088)
Other borrowings	(iii)	<u>(6,814,726)</u>	<u>(6,080,855)</u>

Notes:

- (i) The amounts due to fellow subsidiaries are unsecured, interest-free and repayable on demand.
- (ii) The amount is included in "Creditors and accruals" in note 22 to the financial statements.
- (iii) The amounts are included in "Other borrowings" in note 24 to the financial statements.

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NOTES TO FINANCIAL STATEMENTS

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31. RELATED PARTY TRANSACTIONS (continued)

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

	2019 HK\$'000	2018 HK\$'000
Short-term employee benefits	5,773	5,837
Retirement scheme contributions	<u>373</u>	<u>349</u>
Total compensation paid to key management personnel	<u>6,146</u>	<u>6,186</u>

32. CONTINGENT LIABILITIES

A subsidiary of the Cosmopolitan Group received claims for compensation from certain purchasers of the residential units of the Cosmopolitan Group's property development project in Tianjin in relation to the alleged delay in handing over the completed units. The total amount of the claims amounted to approximately RMB2,135,000 (HK\$2,431,000) as at 31st December, 2018. The claims were subsequently either discharged or withdrawn and there was no outstanding claim as at 31st December, 2019.

In addition, at the end of the reporting period, the Cosmopolitan Group had provided guarantees to banks in connection with mortgage facilities granted to certain purchasers of its properties amounting to approximately RMB461,476,000 (HK\$514,730,000) (2018: RMB316,353,000 (HK\$360,086,000)). The Cosmopolitan Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates and the completion of the proper procedures to register the mortgages under the names of the relevant purchasers, which will generally complete within one to two years after the purchasers take possession of the relevant properties.

No provision has been made in the consolidated financial statements for the guarantees in connection with the mortgage facilities as management is of the view that the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interests and penalties in case of any default in payments.

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33. OPERATING LEASE COMMITMENTS

The Group leased certain office premises and staff quarters under operating lease arrangements. The leases were negotiated for terms ranging from 1 to 3 years.

At 31st December, 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$'000
Within one year	1,287
In the second to fifth years, inclusive	<u>1,466</u>
	<u>2,753</u>

34. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
Contracted but not yet provided for: Property development projects	<u>909,126</u>	<u>833,325</u>

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35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at fair value through profit or loss - mandatorily designated as such HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	339,445	-	339,445
Loans to an associate	-	430,361	430,361
Loans receivable	-	616,434	616,434
Financial assets included in debtors, deposits and prepayment	-	417,061	417,061
Restricted cash	-	363,252	363,252
Pledged bank balances	-	451	451
Time deposits	-	66,924	66,924
Cash and bank balances	-	382,959	382,959
	<u>339,445</u>	<u>2,277,442</u>	<u>2,616,887</u>

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Financial liabilities included in creditors and accruals	863,976
Due to fellow subsidiaries	16,614
Due to a joint venture	22,741
Other borrowings	6,814,726
Deposit received	74,680
Interest bearing bank borrowings	4,691,252
Lease liabilities	1,129
	<u>12,485,118</u>

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35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2018

Financial assets

	Financial assets at fair value through profit or loss - mandatorily designated as such HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	224,423	-	224,423
Loans receivable	-	309,435	309,435
Financial assets included in debtors, deposits and prepayment	-	382,663	382,663
Restricted cash	-	12,900	12,900
Time deposits	-	163,076	163,076
Cash and bank balances	-	470,157	470,157
	<u>224,423</u>	<u>1,338,231</u>	<u>1,562,654</u>

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Financial liabilities included in creditors and accruals	930,035
Due to fellow subsidiaries	22,612
Due to a joint venture	22,747
Other borrowings	6,080,855
Deposit received	19,842
Interest bearing bank borrowings	4,642,867
	<u>11,718,958</u>

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial assets and financial liabilities approximated to their fair values at the end of the reporting period.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. Independent professional valuers are engaged for the valuation as appropriate. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Fair value hierarchy

The following table illustrate the fair value measurement hierarchy of the Group's financial assets measured at fair value:

2019

	<u>Fair value measurement using</u>			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets at fair value through profit or loss:				
Listed equity investments	153,097	-	-	153,097
Unlisted equity investment	-	-	46,348	46,348
Assigned Right	-	-	140,000	140,000
	<u>153,097</u>	<u>-</u>	<u>186,348</u>	<u>339,445</u>

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)
2018

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets at fair value through profit or loss:				
Listed equity investments	177,748	-	-	177,748
Unlisted equity investment	-	-	46,675	46,675
	<u>177,748</u>	<u>-</u>	<u>46,675</u>	<u>224,423</u>

The movements in fair value measurements within Level 3 during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1st January	46,675	47,684
Additions	140,710	-
Total loss recognised in profit or loss	(1,037)	(1,009)
At 31st December	<u>186,348</u>	<u>46,675</u>

The Group did not have any financial liabilities measured at fair value as at 31st December, 2019 and 2018.

Valuation techniques

The fair values of listed equity investments are based on quoted market prices.

The fair value of unlisted equity investment is determined by reference to valuations provided by related administrators.

The fair value of Assigned Right is determined by reference to recent transaction price.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other borrowings, interest bearing bank borrowings, cash and bank balances and time deposits. The main purpose of these financial instruments is to finance the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The Directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group adopts prudent strategies on its risk management. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with floating interest rates. The interest rates and terms of repayment of the Group's interest bearing bank borrowings are disclosed in note 25 to the financial statements. Interest rate risk is managed on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Assuming the amount of bank borrowings outstanding at the end of the reporting period was outstanding for the whole year, a 100 basis point increase/decrease in interest rates would have decreased/increased the Group's profit before tax for the current year by HK\$46,306,000 (2018: HK\$23,255,000) and finance cost capitalised by HK\$888,000 (2018: HK\$23,428,000).

The sensitivity to the interest rates used above is considered reasonable with the other variables held constant.

Foreign currency risk

The Group's operations are mainly in Hong Kong and Mainland China. Entities within the Group are exposed to foreign exchange risk from future commercial transactions and monetary assets and liabilities that are denominated in currencies that are not the entities' functional currencies.

The Group currently does not have a foreign currency hedging policy. It manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and entering into foreign currency option contracts to reduce the exposure should the need arises.

Credit risk

The Group's major exposure to the credit risk arises from the default of the trade debtors, with a maximum exposure equal to their carrying amounts. The Group only grants credit after making credit risk assessments. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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NOTES TO FINANCIAL STATEMENTS

31st December, 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Credit risk (continued)**Maximum exposure and year-end staging*

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31st December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31st December, 2019

	12-month	Lifetime ECLs			Total HK\$'000
	ECLs	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Loans to an associate	430,361	-	-	-	430,361
Loans receivable					
- Normal*	449,124	-	-	-	449,124
- Doubtful*	-	-	167,310	-	167,310
Trade debtors	-	-	-	1,455	1,455
Other financial assets included in debtors, deposits and prepayments					
- Normal*	164,674	-	-	-	164,674
- Doubtful*	-	-	267,032	-	267,032
Restricted cash					
- Not yet past due	363,252	-	-	-	363,252
Pledged time deposits and bank balances					
- Not yet past due	451	-	-	-	451
Time deposits					
- Not yet past due	66,924	-	-	-	66,924
Cash and bank balances					
- Not yet past due	382,959	-	-	-	382,959
Guarantees given to banks in connection with mortgage facilities provided to certain purchasers of the Group's properties	514,730	-	-	-	514,730
	<u>2,372,475</u>	<u>-</u>	<u>434,342</u>	<u>1,455</u>	<u>2,808,272</u>

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NOTES TO FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)
As at 31st December, 2018

	12-month	Lifetime ECLs			Simplified approach	Total
	ECLs	Stage 1	Stage 2	Stage 3		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans receivable						
- Normal*	309,435	-	-	-	-	309,435
Trade debtors	-	-	-	-	4,264	4,264
Other financial assets included in debtors, deposits and prepayments						
- Normal*	382,663	-	-	-	-	382,663
Restricted cash						
- Not yet past due	12,900	-	-	-	-	12,900
Time deposits						
- Not yet past due	163,076	-	-	-	-	163,076
Cash and bank balances						
- Not yet past due	470,157	-	-	-	-	470,157
Guarantees given to banks in connection with mortgage facilities provided to certain purchasers of the Group's properties						
	<u>360,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>360,086</u>
	<u>1,698,317</u>	<u>-</u>	<u>-</u>	<u>4,264</u>	<u>-</u>	<u>1,702,581</u>

* The credit quality of the loans receivable and other financial assets included in debtors, deposits and prepayments is considered to be "normal" when they are not past due and there is no information indicating that the loans receivable and other financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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NOTES TO FINANCIAL STATEMENTS

31st December, 2019

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities and loan facilities from the Shareholders. In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group will raise funds from different sources, including through the financial market or realisation of its assets, if required.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2019

	Within 1 year or on demand HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Financial liabilities included in			
creditors and accruals	863,976	22,741	886,717
Due to fellow subsidiaries	16,614	-	16,614
Deposit received	4,208	16,137	20,345
Interest bearing bank borrowings	810,127	4,333,260	5,143,387
Lease liabilities	875	297	1,172
Other borrowings	1,304,294	5,510,432	6,814,726
Guarantee given to banks in connection with mortgage facilities provided to certain purchasers of the Group's properties	514,730	-	514,730
	<u>3,514,824</u>	<u>9,882,867</u>	<u>13,397,691</u>

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NOTES TO FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)
2018

	Within 1 year or on demand HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Financial liabilities included in creditors and accruals	930,035	22,747	952,782
Due to fellow subsidiaries	22,612	-	22,612
Deposit received	1,208	18,634	19,842
Interest bearing bank borrowings	3,025,328	1,887,007	4,912,335
Other borrowings	1,270,125	4,810,730	6,080,855
Guarantee given to banks in connection with mortgage facilities provided to certain purchasers of the Group's properties	360,086	-	360,086
	<u>5,609,394</u>	<u>6,739,118</u>	<u>12,348,512</u>

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as financial assets at fair value through profit or loss (note 15) at the end of the reporting period.

The following table demonstrates the sensitivity to a 5% change in the fair values of the equity investments that are carried at fair value, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments HK\$'000	Change in profit before tax HK\$'000
2019		
Hong Kong listed investments	<u>153,097</u>	<u>7,655</u>
2018		
Hong Kong listed investments	<u>177,748</u>	<u>8,887</u>

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

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

38. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group had the following significant events:

- (a) On 31st December, 2019, the Cosmopolitan Group entered into an agreement with an independent purchaser for the proposed disposal of its entire interests in certain wholly owned subsidiaries that directly and indirectly own the investment deposits and loans for a consideration of HK\$400,000,000, which was determined with reference to the total outstanding amount of those deposits and loans, together with the interest accrued on the loans up to 31st December, 2019. The consideration will be payable by the purchaser in cash and the proceeds will be applied by the Cosmopolitan Group to purchase 6,069,000 Class A ordinary shares of AMTD International Inc. ("AMTD") from AMTD Group Company Limited ("AMTD Group"), the controlling shareholder of AMTD, pursuant to another agreement entered into between Cosmopolitan Group and AMTD Group on 31st December, 2019. The Cosmopolitan Group intends to hold the AMTD shares as long-term investment and expects to be able to leverage on the strategic co-operative relationship with AMTD to explore and capture new business and investment opportunities through its extensive business network. The Disposal was completed on 8th April, 2020.
- (b) On 31st December, 2019, the Group entered into an agreement with an independent third party ("First Cosmo Shares Purchaser") for the sale of 220,000,000 ordinary shares of Cosmopolitan at a cash consideration of HK\$374,000,000. At the same time, the Group also entered into an agreement with AMTD Group for the purchase of 5,674,000 Class A ordinary shares of AMTD at a cash consideration of US\$47,900,000 (HK\$374,000,000). Both transactions were completed on 10th January, 2020.
- (c) On 24th January, 2020, the Group entered into agreements with AMTD Group and its wholly owned subsidiary for the sale of 368,320,000 ordinary shares of Cosmopolitan and the purchase of 9,500,000 Class A ordinary shares of AMTD at a consideration of US\$80,300,000 (HK\$626,100,000). The transaction was completed on 29th April, 2020.

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31st December, 2019

38. EVENTS AFTER THE REPORTING PERIOD (continued)

- (d) On 26th June, 2020, the Group exercised its conversion right under the convertible bonds issued by the Cosmopolitan Group in 2014, as a result of which, 1,428,571,428 ordinary shares of Cosmopolitan were issued to the Group. On the same date, the Company resolved to distribute a total of 1,066,666,664 ordinary shares of Cosmopolitan to its Shareholders by way of interim dividend. Upon completion of the conversion and distribution, the Group held 2,595,901,480 ordinary shares of Cosmopolitan, representing approximately 44.1% of the entire issued ordinary shares of Cosmopolitan.

39. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1st January, 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22nd July, 2020.