KOALA Financial Group Limited
樹 熊 金 融 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8226

Annual Report 2018

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Ms. Kwan Kar Ching *(Board Chairlady)*
Ms. Hsin Yi-Chin

Independent Non-executive Directors

Mr. Hung Cho Sing
Mr. Luk Kin Ting
Mr. Kam Hou Yin, John

COMPANY SECRETARY

Mr. Tse Chi Shing

AUDIT COMMITTEE

Mr. Kam Hou Yin, John *(Committee Chairman)*
Mr. Hung Cho Sing
Mr. Luk Kin Ting

NOMINATION COMMITTEE

Ms. Kwan Kar Ching *(Committee Chairlady)*
Mr. Hung Cho Sing
Mr. Kam Hou Yin, John

REMUNERATION COMMITTEE

Mr. Kam Hou Yin, John *(Committee Chairman)*
Ms. Kwan Kar Ching
Mr. Hung Cho Sing

AUTHORISED REPRESENTATIVES

Ms. Kwan Kar Ching
Mr. Tse Chi Shing

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Wan Chai, Hong Kong

COMPLIANCE OFFICER

Ms. Kwan Kar Ching

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. BOX 1586, Grand Cayman
KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road, North Point
Hong Kong

AUDITOR

CCTH CPA Limited

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

LISTING INFORMATION

GEM of the Stock of Exchange of Hong Kong Limited
Stock code: 8226

COMPANY'S WEBSITE

www.koala8226.com.hk

FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets, liabilities and equity attributable to owners of the Company:

CONSOLIDATED RESULTS OF THE GROUP

	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	49,022	87,011	63,906	15,960	**41,649**
Cost of sales and services	(47,418)	(87,178)	(57,691)	(3,059)	**(2,799)**
Gross profit/(loss)	1,604	(167)	6,215	12,901	**38,850**
Other income, gains and losses (net)	(23,269)	(206,853)	(47,009)	7,553	**5,719**
Selling and distribution expenses	(55)	(62)	(219)	(818)	**(78)**
Administrative expenses	(24,640)	(42,456)	(31,030)	(29,022)	**(25,016)**
Finance costs	(8,146)	(14,999)	(7,100)	(6,467)	**(3,350)**
Share of loss of associates	–	(76)	(91)	–	**–**
(Loss)/profit before tax	(54,506)	(264,613)	(79,234)	(15,853)	**16,125**
Income tax	(4,965)	(799)	875	1,330	**(2,849)**
(Loss)/profit for the year	(59,471)	(265,412)	(78,359)	(14,523)	**13,276**
Non-controlling interests	42,776	31,222	6,462	4,782	**(1,651)**
(Loss)/profit attributable to owners of the Company	(16,695)	(234,190)	(71,897)	(9,741)	**11,625**

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Total assets	147,594	193,241	230,786	499,322	**419,122**
Total liabilities	(116,995)	(133,732)	(124,501)	(298,132)	**(161,557)**
Total assets less total liabilities	30,599	59,509	106,285	201,190	**257,565**
Non-controlling interests	14,737	45,466	1,719	6,238	**(7,026)**
Equity attributable to owners of the Company	45,336	104,975	108,004	207,428	**250,539**

CHAIRLADY'S STATEMENT

Dear Shareholders,

On behalf of the board of the Directors (the "**Board**"), I am pleased to present the audited consolidated results of KOALA Financial Group Limited and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018.

OVERVIEW OF FINAL RESULTS

The Group is principally engaged in securities brokerage, share placements, underwriting services and money lending.

The Group recorded a net profit of approximately HK$13.3 million for the year ended 31 December 2018, representing a significant increase as compared with a net loss of approximately HK$14.5 million for the same period of 2017. The reasons for the improvement of the net profit were mainly due to:

(i) the increase of the segmental profit from the segment of securities brokerage, share placements, underwriting services from a loss of approximately HK$6.7 million for the year ended 31 December 2017 to a profit of approximately HK$13.1 million for the year;

(ii) the increase of the interest income from money lending service from approximately HK$7.1 million for the year ended 31 December 2017 to approximately HK$14.0 million for the year; and

(iii) the decrease in the finance cost from convertible bonds from approximately HK$5.4 million for the year ended 31 December 2017 to approximately HK$2.4 million for the year due to the full conversion of convertible bonds by its holder.

The improving business environment in recent years has provided a great opportunity for the Group to generate business growth, the Group will focus on its current business to maximise the return of the shareholders.

LOOKING AHEAD

Looking forward, the Group will continue to develop current businesses and at the same time proactively explore new business areas and seek suitable investment opportunities.

Besides, the Group will continue to strictly control risks, strengthen internal management, integrate dominant resources and develop a cautious investment strategy in order to create a better return for its shareholders.

APPRECIATION

I would like to express gratitude to the Group's staff for their unwavering dedication and hard work during the year. At last but not least, I would like to extend my thanks, to all of our business partners, customers and shareholders for their unflagging support.

Kwan Kar Ching
Chairlady

Hong Kong, 25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year, the Group's businesses were organised in four operation's segments namely (i) Securities brokerage, underwriting and placements; (ii) Money lending; (iii) Securities investment and (iv) Investment in properties.

Securities Brokerage, Underwriting and Placements

In November 2016, the Group completed the acquisition of 80% equity interest in KOALA Securities Limited ("**KOALA Securities**"). As at 31 December 2018, KOALA Securities is licensed to carry on Type 1 (Dealing in Securities) and Type 4 (Advising on Securities) regulated activities under the SFO. The Group is optimistic about the market condition of the securities brokerage, share placements, underwriting services and other related businesses. The Group will continue to allocate resources to this business segment. The Board expects such segment will become one of the major growth drivers to the Group.

Revenue from this business segment during the year was approximately HK$27.1 million, representing an increase of approximately HK$18.9 million as compared to approximately HK$8.2 million in the corresponding year of 2017. It accounted for approximately 65.2% (2017: 51.5%) of the Group's revenue during the year.

Money Lending

In February 2016, the Group, through an indirect wholly-owned subsidiary of the Group, obtained a money lender's licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). In developing the Group's money lending business, the Group targets corporations and individuals with financing needs. The Group will only advance new loans to those borrowers whose have good financial credit rating and all overdue balances are reviewed regularly by our senior management. The Board remains optimistic about the growth potentials in the money lending market of Hong Kong, and will take measures accordingly to improve our overall operational efficiency and strengthen our revenue base.

During the year, the Group recorded loan interest income of approximately HK$14.0 million (2017: HK$7.1 million) from granting loans to both corporate and individual clients. It accounted for approximately 33.5% of the Group's revenue during the year. The outstanding principal amount of loan receivables as at 31 December 2018 was HK$52.8 million (2017: HK$52.0 million). During the year, the Group did not record any doubtful or bad debt in its money lending activities.

BUSINESS REVIEW (Continued)

Securities Investment

This business activity started in the third quarter of 2015. The investment scope includes short-term investments in listed securities in Hong Kong and other recognised overseas securities markets as well as other related investment products offered by banks and financial institutions. The Board expects that this business activity can generate additional investment returns on available funds of the Company from time to time.

As at 31 December 2018, the Group managed a portfolio of listed equity investment with fair value of approximately HK$27.3 million (2017: approximately HK$12.2 million) which are classified as held-for-trading investments. During the year, the Group recorded a gain on fair value change of listed equity investments of approximately HK$3.8 million (2017: loss of approximately HK$0.2 million) and a realised loss of approximately HK$0.8 million (2017: gain of approximately HK$10.3 million).

Details of the Group's held-for-trading investments are set out in the section headed "Significant Investments".

Investment in Properties

In the third quarter of 2016, the Group had acquired commercial properties for investment purpose. The properties are located in Hong Kong. It is currently leased by a listed company. The Group believes that these properties could generate stable rental income to the Group.

As at 31 December 2018, the fair value of the investment properties amounted to approximately HK$19.9 million (2017: HK$17.3 million).

During the year, the rental income was approximately HK$0.5 million (2017: HK$0.5 million). It accounted for approximately 1.3% of the Group's revenue during the year.

FINANCIAL REVIEW

For the year ended 31 December 2018, the revenue of the Group increased to approximately HK$41.6 million (2017: HK$16.0 million), representing an increase of approximately 1.6 times when compared with that of 2017. The reason for the increase in turnover were mainly due to:

(i) the increase of the segmental profit from the segment of securities brokerage, share placements, underwriting services from a loss of approximately HK$6.7 million for the year ended 31 December 2017 to a profit of approximately HK$13.1 million for the year; and

(ii) the increase of the interest income from money lending service from approximately HK$7.1 million for the year ended 31 December 2017 to approximately HK$14.0 million for the year.

During the year ended 31 December 2018, the Group's administrative expenses were approximately HK$25.0 million (2017: HK$29.0 million), which decreased approximately 13.8% as compared with the corresponding period of last year.

During the year ended 31 December 2018, the Group's finance costs amounted to approximately HK$3.4 million (2017: HK$6.5 million), representing a significant decrease of approximately 47.7%. The decrease in finance costs was mainly caused by a full conversion of convertible bonds by the bondholder on 30 May 2018.

Due to the above reasons, the Group recorded a net profit of approximately HK$13.3 million for the year ended 31 December 2018, representing a significant increase as compared with a net loss of approximately HK$14.5 million for the same period of 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2018, the Group's major business operations took place in Hong Kong, financed mainly by the revenue generated from operating activities, corporate borrowings and issuance of new shares. As at 31 December 2018, the Group had cash and bank balances of approximately HK$118.2 million (2017: HK$133.2 million).

As at 31 December 2018, the Group's total indebtedness comprised of convertible bonds payable of nil (2017: HK$28.8 million), corporate bonds of approximately HK$16.2 million (2017: HK$15.2 million) and other borrowings of nil (2017: HK$1.0 million).

As at 31 December 2018, the Group's outstanding number of issued shares of HK$0.01 each was 2,783,359,958 shares (2017: 2,457,044,169 shares).

The Group's gearing ratio, as a percentage of total indebtedness over total indebtedness and total equity, as at 31 December 2018 was 5.9% (2017: 18.3%).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed in the Note 35 to the consolidated financial statements, the Group did not have other material acquisitions and disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS

As at 31 December 2018, the Group held approximately HK$27.3 million of equity investments which were classified as held for trading. Details of the significant investments are as follows:

	Notes	**Place of incorporation**	**Fair value gain/(loss)** HK$'000	**Market value** HK$'000	**Approximate percentage of held-for-trading investment** %	**Approximate percentage to the net asset** %
EJE (Hong Kong) Holdings Limited	*1*	Cayman Islands	1,770	5,880	21.6	2.3
Pantronics Holdings Limited	*2*	British Virgin Islands	2,868	6,133	22.5	2.4
Shun Wo Group Holdings Limited	*3*	Cayman Islands	(1.126)	4,675	17.1	1.8
Wang Yang Holdings Limited	*4*	Cayman Islands	1,514	5,256	19.3	2.0
Others		N/A	(1,202)	5,325	19.5	2.1
			3,824	27,269	100	10.6

Notes:

1. EJE (Hong Kong) Holdings Limited (stock code: 8101) is principally engaged in (i) manufacture of custom-made furniture in the PRC; (ii) design, manufacture and sale of mattress and soft bed products in the PRC and export mattress to overseas markets; (iii) securities investment in Hong Kong; (iv) property investment in Hong Kong; and (v) money lending in Hong Kong. No dividend was received during the year. According to the latest published financial statements of EJE (Hong Kong) Holdings Limited, it had net asset value of approximately HK$334.2 million as at 31 March 2018.

2. Pantronics Holdings Limited (stock code: 1611) is principally engaged in the contract manufacturing, on electronic manufacturing services basis, of a wide range of power-related and electrical/electronic products. No dividend was received during the year. According to the latest published financial statements of Pantronics Holdings Limited, it had net asset value of approximately HK$134.9 million as at 30 September 2018.

3. Shun Wo Group Holdings Limited (stock code: 1591) is principally engaged in undertaking foundation works in Hong Kong. No dividend was received during the year. According to the latest published financial statements of Shun Wo Group Holdings Limited, it had net asset value of approximately HK$162.9 million as at 30 September 2018.

4. Wang Yang Holdings Limited (stock code: 1735) is principally engaged in the business of foundation works and superstructure building works in Hong Kong. No dividend was received during the year. According to the latest published financial statements of Wang Yang Holdings Limited, it had net asset value of approximately HK$188.6 million as at 30 September 2018.

In view of the recent volatile in the securities market, the Board will adopt cautious measures to manage the Group's investment portfolio with an aim to provide positive return to the Group in the near future.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant capital commitments (2017: Nil).

Except as disclosed in the section headed "Legal Proceedings", as at 31 December 2017 and 2018, the Group did not have any significant contingent liabilities.

LEGAL PROCEEDINGS

Reference is made to the Company's announcement dated 25 July 2014 in relation to a writ of summons received by the Company. It was alleged in the writ that a total sum of HK$10,000,000 was advanced by Total Shares Limited (the "**Plaintiff**") to Mr. Shan Xiaochang ("**Mr. Shan**"), the former Board Chairman and Chief Executive Officer, pursuant to a loan agreement (the "**Loan Agreement**") dated 9 August 2013 made between the Plaintiff as the lender and Mr. Shan as the borrower, the repayment of which was guaranteed by the Company as a guarantor by a guarantee (the "**Guarantee**") signed by the Company in favour of the Plaintiff dated 9 August 2013. The amount of the claim specified in the writ was HK$10,000,000 plus the accrued unpaid interest under the Loan Agreement and other interest.

A consent order dated 12 July 2018 was duly signed by the Plaintiff and the Company and filed to High Court Registry. According to the consent order, the Plaintiff agreed to discontinue all proceedings in the action against the Company.

FOREIGN EXCHANGE EXPOSURE

During the year under review, the Group's transactions were mainly denominated in Hong Kong dollars. The Board do not consider that the Group was significantly exposed to any foreign currency exchange risk.

PLEDGE OF ASSETS

As at 31 December 2017 and 2018, the Group did not have any substantial pledge of assets.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2018, the Group had about 30 (2017: 28) employees. The Group's staff costs, including directors' emoluments, employees' salaries and retirement benefits scheme contribution amounted to approximately HK$11.9 million (2017: HK$13.9 million).

The Group believes that its staff is one of the Group's most important assets. Aiming at providing competitive salary packages, the Group adjusts employees' salary level in close association with the performance, qualifications and experience of individual staff as well as labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance. The Group is also committed to providing appropriate on-going training to staff members to equip them for future career development.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Ms. Kwan Kar Ching ("Ms. Kwan"), aged 29, was appointed as an executive Director and the chairlady of the Company in April 2015 and in June 2016 respectively. Ms. Kwan holds a bachelor degree of business administration in accounting and finance from the University of Hong Kong. Ms. Kwan had worked for international bank and financial institution. She has over 4 years of experience in banking, asset management and investment.

Ms. Hsin Yi-Chin ("Ms. Hsin"), aged 32, was appointed as an executive Director in April 2016. She holds a bachelor degree in Chinese Literature from Providence University and a master degree of Science in Management from University of Leicester. Ms. Hsin has several years' experience in educational sector and managerial experience in food and catering sector in Taiwan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hung Cho Sing ("Mr. Hung"), age 78, was appointed as an independent non-executive Director in May 2015. He has over 30 years of experience in the film distribution industry. Mr. Hung was the founder of Delon International Film Corporation and has been its General Manager since June 2004. Mr. Hung was the Organising Committee Chairman of the 11th and 12th Hong Kong Film Awards from 1991 to 1993. And from 1993 to 1995, Mr. Hung was the Chairman of Hong Kong Film Awards Association Limited. Mr. Hung is currently the Chairman of Hong Kong, Kowloon and New Territories Motion Picture Industry Association. In recognition of his contribution to the Hong Kong film industry, Mr. Hung was awarded the Bronze Bauhinia Star (BBS) by the Government of the Hong Kong Special Administrative Region ("**HKSAR**") in 2005. From April 2007 to March 2013, Mr. Hung was appointed by the Government of HKSAR as a member of the Hong Kong Film Development Council. Mr. Hung is also a member of HKSAR Election Committee and since January 2013, he has been appointed by the Government of HKSAR as a non-official member of the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission.

Currently, he is an executive director of EJE (Hong Kong) Holdings Limited (stock code: 8101). He is a non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046). He is also an independent non-executive director of China Star Entertainment Limited (stock code: 326), Enerchina Holdings Limited (stock code: 622), Miko International Holdings Limited (stock code: 1247) and Unity Investments Holdings Limited (stock code: 913).

Mr. Hung was a non-executive director of Capital VC Limited (stock code: 2324) from September 2011 to January 2014, an independent non-executive director of Freeman FinTech Corporation Limited (stock code: 279) from January 2013 to January 2017 and HengTen Networks Group Limited (stock code: 136) from January 2013 to October 2015.

Mr. Luk Kin Ting ("Mr. Luk"), aged 34, was appointed as an independent non-executive Director in June 2016. He obtained a juris doctor degree from the Chinese University of Hong Kong, a master degree of laws (Majoring in Corporate Law) from New York University and a bachelor degree of business administration in Economics and Accounting from Hong Kong University of Science and Technology. He was admitted as a solicitor of the High Court of Hong Kong and had experience in legal counseling and solicitor practice. He is currently an independent non-executive director of Janco Holdings Limited (stock code: 8035).

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Kam Hou Yin, John ("Mr. Kam"), aged 46, was appointed as an independent non-executive Director in September 2017. He holds a master's degree in Business Administration from The University of Manchester in the United Kingdom. He is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants.

Mr. Kam is a member of Standing Committee of the 5th Chinese People's Political Consultative Conference of Futian District, Shenzhen, a member of ACCA China Expert Forum, and he is an expert juror of the First batch of Hong Kong Expert Jurors of Qianhai Court. He was previously appointed as Vice President of 7th Director Board of Shenzhen Association of Enterprises with Foreign Investment and was a member of the Project Advisory Committee for the Authority of Qianhai Shenzhen- Hongkong Modern Service Industry Cooperation Zone and the 13th and 14th Chinese People's Political Consultative Conference of Xi'an.

Mr. Kam has 20 years' experience in corporate, personal and interbank business. He was Zone Manager – Corporate Banking Division and General Manager of Shenzhen Branch of The Bank of East Asia (China) Limited from July 2012 to March 2017 and Zone Manager (Western China) – Corporate Banking Division and General Manager of Xi'an Branch of The Bank of East Asia (China) Limited from November 2006 to June 2012.

Mr. Kam was an executive director and chief executive officer of Century Ginwa Retail Holdings Limited (stock code: 162) from May 2017 to October 2018.

SENIOR MANAGEMENT

Mr. Tse Chi Shing ("Mr. Tse"), aged 35, joined the Group in April 2011. He is the Chief Financial Officer and the Company Secretary of the Company. Mr. Tse holds a bachelor degree of arts in accountancy from the Hong Kong Polytechnic University. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and has over 10 years of experience in accounting and audit on Hong Kong listed companies and private companies.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board and senior management are committed to maintaining a high standard of corporate governance practices with a view to enhancing the management efficiency of the Company as well as preserving the interests of the shareholders. The Board believes that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

The Board is of the view that the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "**CG Code**") to the Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2018, except for the code provision A6.7 of the CG Code.

The code provision A6.7 of the CG Code stipulated that independent non-executive Directors should attend the general meetings of the Company. Two of the independent non-executive Directors were unable to attend the annual general meeting of the Company held on 5 June 2018 due to other business engagements.

The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealing as set out in rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2018. Having made specific enquiry of all Directors, the Directors have complied such code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board currently comprises:

Executive Directors:

Ms. Kwan Kar Ching *(Board Chairlady)*
Ms. Hsin Yi-Chin

Independent Non-executive Directors:

Mr. Hung Cho Sing
Mr. Luk Kin Ting
Mr. Kam Hou Yin, John

The Board is collectively responsible for the oversight of the management of the Company's business and affairs of the organisation with the objective of enhancing shareholder value. The Board approves and monitors the Group's business strategies and policies. The Board is also responsible to the shareholders of the Company for overseeing the Group's overall business, strategic decisions and directions, annual budget, and other major corporate matters. Besides, the Board delegates the management team with the authority and responsibility for the daily operations and administration of the Group.

The Board has normally scheduled 4 regular meetings a year each at quarterly intervals and meets as and when required. In addition, the Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Director. During the year ended 31 December 2018, the Board held 7 meetings and the attendance of each Director is as follows:

	Number of meetings attended/eligible to attend
Executive Directors:	
Ms. Kwan Kar Ching	7/7
Ms. Hsin Yi-Chin	7/7
Independent non-executive Directors:	
Mr. Hung Cho Sing	7/7
Mr. Luk Kin Ting	7/7
Mr. Kam Hou Yin, John	7/7

There is no family or other material relationship among members of the Board.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses, in order to discharge their duties to the Company.

Appropriate insurance cover has been arranged in respect of legal actions against the Directors.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All independent non-executive Directors are appointed for a specific term of not more than 2 years. All Directors are subject to re-election by shareholders at the annual general meeting following their appointment. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed 3 independent non-executive Directors, at least one of whom has appropriate professional qualifications on accounting or related financial management expertise. For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of the Directors, the Board follows the requirements set out in the GEM Listing Rules.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills so as to ensure their contributions to the Board remains informed and relevant. For the year ended 31 December 2018, the Directors participated in the following continuous professional development activities:

Directors	**Type of trainings** *(Note)*
Ms. Kwan Kar Ching	a, b
Ms. Hsin Yi-Chin	a, b
Mr. Hung Cho Sing	a, b
Mr. Luk Kin Ting	a, b
Mr. Kam Hou Yin, John	a, b

Note:

a. attending conferences, seminars and in-house training

b. reading newspapers, journals and updates relating to their duties, responsibilities and the Group's businesses

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

Ms. Kwan Kar Ching is the Chairlady of the Board. The Chairlady is responsible for ensuring that Board functions effectively, for providing leadership for the Board in setting goals and objectives for the Company and for ensuring that good corporate governance practices and procedures are established and enforced.

The Company does not have the role of chief executive officer. The Chief Executive Officer's duties have been undertaken by members of the Board. They are responsible for corporate planning, business development strategy and overall direction of the Group. The senior management is responsible for the day-to-day operations of the Group under the leadership of the Board.

REMUNERATION COMMITTEE

The remuneration committee of the Company currently comprises 1 executive Director, namely Ms. Kwan Kar Ching, and two independent non-executive Directors, namely Mr. Kam Hou Yin, John and Mr. Hung Cho Sing. Mr. Kam Hou Yin, John is the committee chairman. The main role and function of the remuneration committee include the formulation of the Company's remuneration policy, the approval or recommendation of remuneration packages for the Directors and senior management, and the review and approval of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

The remuneration committee meets regularly to determine the policy for the remuneration of Directors and assess the performance of the executive Directors. For the year ended 31 December 2018, 1 meeting of the remuneration committee have been held with the following attendances:

	Number of meetings attended/eligible to attend
Mr. Hung Cho Sing	1/1
Ms. Kwan Kar Ching	1/1
Mr. Kam Hou Yin, John	1/1

Details of the Director's remuneration are set out in Note 10 to the consolidated financial statements.

NOMINATION COMMITTEE

The nomination committee of the Company currently comprises 1 executive Director, namely Ms. Kwan Kar Ching and two independent non-executive Directors, namely Mr. Hung Cho Sing and Mr. Kam Hou Yin, John. Ms. Kwan Kar Ching is the committee chairlady. The works carried out by the nomination committee members are set out below:

(a) to review the structure, size and composition (including the skills, knowledge and experience) and to make recommendations to the Board after such review;

(b) to assess the suitability and qualification of candidates put forward by the Chief Executive Officer and to become new board members and to report to the Board on their assessment;

(c) to assess the independence of independent non-executive Directors, having regard to the requirements under the GEM Listing Rules; and

(d) to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors, in particular, the Chairlady and the Chief Executive Officer.

For the year ended 31 December 2018, 1 meeting of the nomination committee have been held with the following attendances:

	Number of meetings attended/eligible to attend
Ms. Kwan Kar Ching	1/1
Mr. Hung Cho Sing	1/1
Mr. Kam Hou Yin, John	1/1

BOARD DIVERSITY POLICY

The Board adopts a diversity policy (the "**Diversity Policy**") and discusses all measurable objectives set for implementing the policy. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

BOARD NOMINATION POLICY

The Board also adopts a nomination policy (the "**Nomination Policy**") which sets out the selection criteria and procedure of appointing and re-appointing a Director. The selection criteria used in assessing the suitability of a candidate include, inter alia, his/her academic background and professional qualifications, relevant experience in the industry, character and integrity and whether he/she can contribute to the diversity of the Board as detailed in the Diversity Policy. The procedure of appointing and re-appointing a Director is summarised as follows:

- nomination and invitation of suitable candidates by any member of the Nomination Committee or the Board;
- evaluation of the candidate by the Board based on all selection criteria as set out in the Nomination Policy;
- performing due diligence in respect of each candidate and making recommendation for the Board's consideration and approval;
- in case of nomination of an independent non-executive Director, assessing the candidate's independence under the relevant Code Provisions and the GEM Listing Rules;
- where nominating an independent non-executive Director for election at general meetings, having due consideration of matters under code provision A.5.5 of the CG Code;
- in the context of re-appointment of retiring Directors, reviewing the candidate's overall contribution and performance and making recommendations to the Board and/or the shareholders for consideration in connection with his/her re-election at general meetings; and
- convening a meeting of the Board to consider the appointment or re-appointment of the candidate as a Director.

AUDIT COMMITTEE

The audit committee of the Company comprises 3 independent non-executive Directors, namely Mr. Kam Hou Yin, John, Mr. Hung Cho Sing and Mr. Luk Kin Ting with Mr. Kam Hou Yin, John as the committee chairman.

The primary role and function of the audit committee are to oversee the relationship with the external auditor, to review the Group's preliminary quarterly results, interim results and annual results and to monitor compliance with statutory and listing requirements. The committee shall engage independent legal or other advisers as it determines is necessary to perform any investigations.

For the year ended 31 December 2018, 4 meetings of the audit committee have been held for the purpose of reviewing the Company's accounts and reports, and providing advices and recommendations to the Board, with the following attendances:

	Number of meetings attended/eligible to attend
Mr. Hung Cho Sing	4/4
Mr. Luk Kin Ting	4/4
Mr. Kam Hou Yin, John	4/4

ACCOUNTABILITY AND AUDIT

The Board acknowledges their responsibility for preparing the financial statements of the Group and ensures the financial statements have adopted the accounting principles generally accepted in Hong Kong and complied with the requirements of Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The statement of the external auditor of the Company about the responsibilities on the financial statements of the Group is set out in the independent auditor's report.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the fees paid and payable to the external auditor in respect of audit services to the Group were approximately HK$655,000 (2017: HK$620,000). The fees for non-audit related services performed by the external auditor were Nil (2017: HK$138,000).

INVESTMENT COMMITTEE

The investment committee of the Company was established on 14 October 2015. The investment committee is responsible for formulating investment policies while reviewing and determining the investment portfolio of the Group.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

In accordance with article 64 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty- one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/(themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders' enquiries

The Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's principal place of business in Hong Kong.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness. The Board is also responsible for establishing and maintaining appropriate and effective risk management and internal control systems. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. During the year under review, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering material controls, including financial, operational, compliance and risk management aspects of the Group. The systems were considered effective and adequate.

The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

The Group also has an internal audit function, which is governed by an appointed professional with related qualification. The internal audit function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness. The results are reported to the audit committee and the Board.

In 1 of the audit committee meeting, internal audit report and other supporting documents have been discussed for the review of risk management and internal control systems and the effectiveness of internal audit function.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

With respect to the handling and dissemination of inside information, the Group has adopted various procedures and measures on disclosure of inside information with an aim to ensure that the insiders abide by the confidentiality requirement and that inside information is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations. Such procedures include, among others, notification of regular blackout period and securities dealing restrictions to the Directors and employees, dissemination of information to specified persons on a need-to-know basis and use of code to identify projects.

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which the Company may distribute dividends to the shareholders of the Company by way of cash or shares. The Board shall take into account of the following factors before declaring dividends:

- the Company's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and internal or external factors that may have an impact on the business, financial results and position of the Company; and
- other factors that the Board deems appropriate and relevant.

Any distribution of dividends shall be in accordance with all relevant applicable laws, rules and regulations in the Cayman Islands and Hong Kong, and the Articles of Association of the Company.

The dividend policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are set out in Note 42 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by operating segments is set out in Note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 33 and 34.

The Directors do not recommend the payment of any dividends in respect of the year (2017: Nil).

BUSINESS REVIEW AND PROSPECTS

The business review of the Group for the year ended 31 December 2018 is set out in the "Chairlady's Statement" and "Management Discussion and Analysis" on page 4 and pages 5 to 9 respectively of this annual report.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 3 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 32 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 37.

DISTRIBUTABLE RESERVES

Under the provisions of the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ENVIRONMENTAL POLICIES

A separate environmental, social and governance report is expected to be published on the website of the Stock Exchange and the Company no later than 3 months after the publication of this report.

DIRECTORS

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

Executive Directors:

Ms. Kwan Kar Ching
Ms. Hsin Yi-Chin

Independent non-executive Directors:

Mr. Hung Cho Sing
Mr. Luk Kin Ting
Mr. Kam Hou Yin, John

In accordance with article 108(A) of the articles of association of the Company, Ms. Hsin Yi-Chin and Mr. Luk Kin Ting shall retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 11 of this annual report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in information of Directors subsequent to the date of the 2018 interim report of the Company are set out below:

Mr. Kam Hou Yin, John, ("**Mr. Kam**") an independent non-executive Director, has tendered his resignation as the executive director and chief executive officer of the board of directors of Century Ginwa Retail Holdings Limited, a company listed on the Stock Exchange (stock code: 162), with effect from 31 October 2018.

Mr. Kam has also tendered his resignation as the independent non-executive director of the Company, the chairman of audit committee, the member of nomination committee and the chairman of remuneration committee with effect from 12 April 2019.

Mr. Hung Cho Sing, an independent non-executive Director, has been re-designated to the position of non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046) from executive director, with effect from 1 February 2019.

Save for the information above, the Company is not aware of any other change in Directors' information which are required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules subsequent to the date of the 2018 interim report.

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Kwan Kar Ching and Ms. Hsin Yi-Chin entered into an appointment letter with the Company. They have no fixed term of service with the Company save that they are subject to retirement by rotation in accordance with the articles of association of the Company.

Each of Mr. Hung Cho Sing, Mr. Luk Kin Ting and Mr. Kam Hou Yin, John entered into a 2-year service contract with the Company and they are subject to retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of its independent non-executive Directors the written confirmation of independence pursuant to rule 5.09 of the GEM Listing Rules. The Company based on such confirmation, considers that all of the independent non-executive Directors are independent.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the section "Connected/Related Party Transactions" below and Note 38 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MATERIAL CONTRACTS WITH CONTROLLING SHAREHOLDERS

There is no material contract between the Group and the controlling shareholder or its subsidiaries during the year.

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

None of the Directors nor chief executives of the Company had interests or short positions in any shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2018.

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

As at 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Percentage of issued share capital of the Company
Ms. Wong Ka Man	Beneficial owner	530,667,261	–	530,667,261	19.07%

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2018.

SHARE OPTIONS

The Company operates a share option scheme for the purpose of enabling the Company to grant share options to the eligible participants as incentives or rewards for their contribution to the Group. Eligible participants include any employees, directors, consultants or professional advisors, shareholders and suppliers or customers of the Group.

The share option scheme effective on 8 July 2002 (the "**2002 Share Option Scheme**") was terminated and a new share option scheme (the "**New Share Option Scheme**") was adopted and became effective for a period of 10 years commencing from 15 June 2012. Shares options granted prior to the expiry of the 2002 Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the 2002 Share Option Scheme. As at 31 December 2018, the Company had 21,200,000 (31 December 2017: 21,200,000) share options outstanding under the 2002 Share Option Scheme, which represented approximately 0.8% (31 December 2017: 0.9%) of its issued share capital on that date. No share option was granted under the New Share Option Scheme.

The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. As at 31 December 2018, the number of securities available for issue under the New Share Option Scheme was 43,176,497 shares, which represented approximately 1.6% (31 December 2017: 1.8%) of its issued share capital on that date.

The maximum number of share issued and which may fall to be issued upon exercise of the share options granted under the share option scheme to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue unless it is approved by shareholders (other than the grantees and/or their respective associates) in a general meeting of the Company. Any share option granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in general meeting of the Company.

The offer of a grant of share option under the share option scheme may be accepted, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option granted under the share option scheme may be exercised in whole or in part in the manner provided in the share option scheme by a grantee giving notice in writing to the Company at any time during a period not exceed 10 years from the date an share option granted under the share option scheme is offered.

The exercise price of the share options is a price determined by the Board, in its absolute discretion, but in any case is not less than whichever is the highest of (1) the closing price of the Shares as stated in the Exchange's daily quotation sheet on the date of grant, which must be a trading day; (2) the average closing price of the Shares as stated in the Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of the Shares.

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

Name or category of participant	Exercisable period	Exercise price per share of the Company HK$	Outstanding at 1 January 2018	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 31 December 2018
Others							
In aggregate	25 November 2010 to 24 November 2020	0.666	21,200,000	–	–	–	21,200,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above and in Note 33 to the consolidated financial statements, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED/RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in Note 38 to the consolidated financial statements. All the related party transactions did not constitute connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. There is appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUAL

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 10 and 11 to the consolidated financial statements respectively.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set out by the human resources department of the Group on the basis of their merits, qualifications and competence.

The emolument policy of the Directors is decided by the remuneration committee of the Company, having regard to the Company's operating results, individual duties and performance and comparable market statistics.

The Company has adopted a share options scheme as an incentive to the Directors and eligible employees. Details of the scheme are set out in Note 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the Group's five largest customers accounted for 43.4% (2017: 37.2%) of the Group's total turnover. The largest customer accounted for 13.9% (2017: 8.8%) of the Group's total turnover. The Group had no major supplier due to the nature of principal activities of the Group.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE REPORT

Corporate governance report of the Company is set out on pages 12 to 19 of the annual report.

AUDITOR

The accompanying financial statements have been audited by CCTH CPA Limited who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Kwan Kar Ching
Chairlady

25 March 2019

INDEPENDENT AUDITOR'S REPORT

CCTH CPA LIMITED
中正天恒會計師有限公司

TO THE SHAREHOLDERS OF
KOALA FINANCIAL GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of KOALA Financial Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 33 to 116, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessments of goodwill and intangible assets with indefinite useful lives	
Refer to Notes 17 and 18 to the consolidated financial statements. The Group recognised goodwill and other intangible assets with indefinite useful lives in connection with the acquisition of securities placing and brokerage business undertaken by KOALA Securities Limited during the year ended 31 December 2016. We focused on the impairment assessment of the goodwill balance (HK$18,302,000 as at 31 December 2018) and the intangible assets (HK$20,000,000 as at 31 December 2018) as management's assessment of the "value in use" of the cash-generating units (CGUs) of this business involves judgments and estimates about the future results of the business, key assumptions including revenue growth rate and gross profit margin, long-term growth rate and the discount rates applied to future cash flow forecast.	• We evaluated and challenged the composition of the Group's future cash flow forecasts in each CGU, and the process by which they were drawn up, including testing the underlying value in use calculation. • We challenged the key assumptions including revenue growth rate and gross profit margin by comparing the current year's actual results with the future plans. We considered the appropriateness of the discount rates adopted by management. • We have also considered the adequacy of the disclosure of impairment assessments of the goodwill and other intangible assets set out in Notes 17 and 18 to the consolidated financial statements. • We assessed the appropriateness of expected credit loss positioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit loss.

Key audit matter	How our audit addressed the key audit matter
Recoverability of loans receivable and accounts receivable	
Refer to Notes 19 and 20 to the consolidated financial statements. As at 31 December 2018, the Group had loans receivable with the carrying amount of approximately HK$54,800,000. As at that date, the Group had gross accounts receivable amounted to approximately HK$54,210,000 of which no impairment provision has been made. Recoverability of the loans receivable and accounts receivable involved management judgment in assessing the allowance for doubtful debts for individual receivables. The ability of the debtors to repay the Group depends on customer-specific and market conditions which involve inherent uncertainty. We have identified impairment assessment of loans receivable and accounts receivable as a key audit matter due to the magnitude of the receivables and the estimation and judgments involved in the determination of the recoverable amounts of these receivables.	Our procedures in relation to management's impairment assessment of loans receivable and accounts receivable included: • We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts. • We reviewed the agreements and other relevant documents relating to the loans made by the Group. • We assessed the classification and accuracy of individual balances in accounts receivable, ageing report by testing the underlying clients' advices on a sample basis. • We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgments about the recoverability of the outstanding receivables and evaluate the allowance for doubtful debts made by management for these individual balances. • We assessed the historical accuracy of the estimates made by the management for the allowance for doubtful debts.

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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 contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 25 March 2019
Yim Kai Pung
Practising Certificate Number: P02324

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	**41,649**	15,960
Cost of sales and services		**(2,799)**	(3,059)
Gross profit		**38,850**	12,901
Other income and gains	6	**6,049**	11,861
Gain on change in fair value of investment properties	16	**2,600**	948
Selling and distribution expenses		**(78)**	(818)
Administrative expenses		**(25,016)**	(29,022)
Other operating expenses	7	**(2,930)**	(5,256)
Finance costs	8	**(3,350)**	(6,467)
Profit/(loss) before taxation	9	**16,125**	(15,853)
Taxation (charge)/credit	12	**(2,849)**	1,330
Profit/(loss) for the year		**13,276**	(14,523)
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations			
Exchange difference arising during the year		**913**	37
Reclassification adjustments relating to subsidiaries disposed of during the year		**(176)**	–
Other comprehensive income for the year		**737**	37
Total comprehensive income/(expense) for the year		**14,013**	(14,486)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit/(loss) for the year attributable to:			
Owners of the Company		**11,625**	(9,741)
Non-controlling interests		**1,651**	(4,782)
		13,276	(14,523)
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**11,917**	(9,722)
Non-controlling interests		**2,096**	(4,764)
		14,013	(14,486)
		2018	2017
		HK cent	HK cent
Earnings/(loss) per share	*14*		
Basic		**0.44**	(0.42)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	15	**3,413**	4,368
Investment properties	16	**19,900**	17,300
Goodwill	17	**18,302**	18,302
Other intangible assets	18	**20,000**	20,000
Loans receivable	19	**–**	10,300
		61,615	70,270
Current assets			
Accounts receivable	20	**54,210**	43,986
Loans receivable	19	**54,800**	45,230
Prepayments, deposits and other receivables	21	**2,718**	2,563
Amount due from non-controlling interests	22	**245**	245
Financial assets at fair value through profit or loss	23	**27,269**	12,226
Bank balances – trust accounts	24	**100,113**	191,648
Bank balances and cash – general accounts	24	**118,152**	133,154
		357,507	429,052
Current liabilities			
Accounts payable	25	**112,688**	222,274
Other payables and accruals	26	**10,899**	9,292
Deposits received		**135**	135
Amount due to non-controlling interests	27	**10,400**	10,400
Convertible bonds payable	28	**–**	28,795
Other borrowings	29	**–**	1,000
Income tax payable		**7,899**	7,553
		142,021	279,449
Net current assets		**215,486**	149,603
Total assets less current liabilities		**277,101**	219,873

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
Non-current liabilities			
Corporate bonds payable	*30*	**16,160**	15,209
Deferred tax liabilities	*31*	**3,376**	3,474
		19,536	18,683
Net assets		**257,565**	201,190
Capital and reserves			
Share capital	*32*	**27,833**	24,570
Reserves		**222,706**	182,858
Equity attributable to owners of the Company		**250,539**	207,428
Non-controlling interests		**7,026**	(6,238)
Total equity		**257,565**	201,190

The consolidated financial statements on pages 33 to 116 were approved and authorised for issue by the Board of Directors on 25 March 2019 and are signed on its behalf by:

Kwan Kar Ching	**Hsin Yi-Chin**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium account HK$'000	Convertible bonds reserve HK$'000 *(Note 28)*	Share option reserve HK$'000 *(Note 33)*	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	16,380	450,226	74,286	7,410	(311)	(439,987)	108,004	(1,719)	106,285
Loss for the year	–	–	–	–	–	(9,741)	(9,741)	(4,782)	(14,523)
Other comprehensive income for the year	–	–	–	–	19	–	19	18	37
Total comprehensive income/(expense) for the year	–	–	–	–	19	(9,741)	(9,722)	(4,764)	(14,486)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	245	245
Issue of shares upon open offer	8,190	106,472	–	–	–	–	114,662	–	114,662
Share issue expenses	–	(5,516)	–	–	–	–	(5,516)	–	(5,516)
At 31 December 2017 and 1 January 2018	**24,570**	**551,182**	**74,286**	**7,410**	**(292)**	**(449,728)**	**207,428**	**(6,238)**	**201,190**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**11,625**	**11,625**	**1,651**	**13,276**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**292**	**–**	**292**	**445**	**737**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**292**	**11,625**	**11,917**	**2,096**	**14,013**
Issue of shares upon conversion of convertible bonds	**3,263**	**102,217**	**(74,286)**	**–**	**–**	**–**	**31,194**	**–**	**31,194**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,168**	**11,168**
At 31 December 2018	**27,833**	**653,399**	**–**	**7,410**	**–**	**(438,103)**	**250,539**	**7,026**	**257,565**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Profit/(loss) for the year		**13,276**	(14,523)
Adjustments for:			
Taxation charge/(credit) recognised in profit or loss		**2,849**	(1,330)
Interest income included in other income and gains		**(1,844)**	(834)
Finance costs		**3,350**	6,467
Depreciation of property, plant and equipment		**1,627**	2,409
Gain on change in fair value of investment properties		**(2,600)**	(948)
Impairment losses on:			
Property, plant and equipment		**–**	4,031
Inventories		**–**	619
Other receivables		**623**	388
Loss on disposal of property, plant and equipment		**5**	5
Loss on disposal of subsidiaries	*35*	**1,528**	–
Net foreign exchange losses		**913**	–
Operating cash flows before movements in working capital		**19,727**	(3,716)
Decrease in inventories		**–**	97
(Increase)/decrease in accounts receivable		**(10,327)**	10,886
Decrease/(increase) in loans receivable		**730**	(45,238)
(Increase)/decrease in prepayments, deposits and other receivables		**(1,026)**	3,756
Increase in amount due from non-controlling interests		**–**	(245)
(Increase)/decrease in financial assets at fair value through profit or loss		**(15,043)**	13,919
Decrease/(increase) in bank balances – trust accounts		**91,535**	(148,381)
(Decrease)/increase in accounts payable		**(103,787)**	158,996
Increase in other payables and accruals		**4,647**	697
Increase in amount due to non-controlling interests		**–**	9,560
Cash (used in)/generated from operations		**(13,544)**	331
Income taxes paid		**(2,597)**	–
Net cash (used in)/generated from operating activities		**(16,141)**	331

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Interest received		**1,844**	834
Purchase of property, plant and equipment		**(677)**	(208)
Proceeds from disposal of property, plant and equipment		**–**	758
Cash outflow from disposal of subsidiaries	35	**(28)**	–
Net cash generated from investing activities		**1,139**	1,384
Cash flows from financing activities			
Interest paid	36	**–**	(930)
Proceeds from issue of shares		**–**	114,662
Share issue expenses		**–**	(5,516)
Capital contribution to a subsidiary by non-controlling interest		**–**	245
Net cash generated from financing activities		**–**	108,461
Net (decrease)/increase in cash and cash equivalents		**(15,002)**	110,176
Cash and cash equivalents at beginning of the year		**133,154**	22,986
Effects of exchange rate changes		**–**	(8)
Cash and cash equivalents at end of the year		**118,152**	133,154
Analysis of cash and cash equivalents at end of the year:			
Bank balances and cash – general accounts		**118,152**	133,154

1. GENERAL

KOALA Financial Group Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands, and the issued shares of the Company are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is principally engaged in investment holding. The principal activities of the Company's principal subsidiaries are set out in Note 42 to the financial statements.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) -Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, and the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Securities investments;
- Provision of securities placing and brokerage services;
- Leasing of investment properties;
- Loans to customers.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information is not restated.

The application of HKFRS 15 has no significant impact on the Group's accumulated losses at 1 January 2018 and the Group's assets, liabilities and other components of equity as at that date.

HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Group has applied HKFRS 9 "Financial Instruments", Amendments to HKFRS 9 "Prepayment Features with Negative Compensation" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("**ECL**") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and (iii) general hedge accounting.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Any difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018·are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

The application of HKFRS 9 has no significant impact on the classification and measurement of financial assets and financial liabilities arid other items subject to ECL at the date of initial application, 1 January 2018.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

Amendments to HKAS 40 "Transfers of Investment Property"

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

The application of the other new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs in issue but not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted for as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

HKFRS 16 "Leases" (Continued)

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group as lessee has non-cancellable operating lease commitments of HK$2,774,000 as disclosed in note 37(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,084,000 and refundable rental deposits received of HK$135,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

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

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Investment properties

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on intangible and tangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets within indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(ii) Financial assets designated as at FVTOCI

Investments in financial assets at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the financial assets, and will be taken to accumulated losses.

Dividends from these financial assets are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and gains " line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial assets.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts receivable, loans receivable, other receivables, amount due from non-controlling interests, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for accounts receivable. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

(a) significant financial-difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial assets because of financial difficulties.

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans receivable are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain recognised in profit or loss excludes any interest earned on the financial assets and is included in other income and gains. Fair value is determined in the manner described in Note 40(c).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans receivable, accounts receivable, other receivables, amount due from non-controlling interests and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest and principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When accounts receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, if any, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities (including accounts payable, other payables and accruals, amount due to non-controlling interests, corporate bonds payable, and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of available-for-sale financial asset, the cumulative gain or loss previously accumulated in reserves is reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

Based on the historical pattern, revenue from provision of securities placing and brokerage services is recognised at a point of time when the services are rendered by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods
Revenue from sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the cost incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

Provision of securities placing and brokerage services

Income from provision of securities placing and brokerage services is recognised when the relevant services have been rendered by the Group.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (which is dealt with separately below), that management of the Group has made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment properties and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amount of investment properties measured using the fair value model is recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties above cost.

Key sources of estimation uncertainties

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each 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.

(a) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indications of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. In addition, intangible assets within indefinite useful lives are tested for impairment at least annually. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available information 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 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.

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

Key sources of estimation uncertainties (Continued)

(b) 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 units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2018, the carrying amount of goodwill amounted to approximately HK$18,302,000 (2017: HK$18,302,000). No impairment of goodwill was recognised in profit or loss in respect of both of the years ended 31 December 2018 and 31 December 2017.

(c) Useful life and residual value of property, plant and equipment

The Group determines the depreciation amount of property, plant and equipment based on the estimated useful life and residual value, which are reviewed at the end of each reporting period. The principal assumptions for the Group's estimation of the useful life and residual value include those related to the mode of operations, government regulations and scrap value of property, plant and equipment in future.

(d) Impairment of accounts receivables

The loss allowances for accounts receivable are based on assumptions about risk of default and expected loss rates. The Group use judgments in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in notes 20 and 40(b). As at 31 December 2018, the carrying amount of accounts receivable is HK$54,210,000 (2017: HK$43,986,000).

(e) Impairment loss on loans receivable

Before the application of HKFRS 9 on 1 January 2018, when there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Upon application of HKFRS9, impairment of loan receivables is assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition. Assessment are done based on the Group's historical credit loss experience, general conditions, internal credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's loans receivable are disclosed in notes 19 and 40(b).

As at 31 December 2018, the carrying amount of loans receivable is HK$54,800,000 (2017: HK$55,530,000).

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

Key sources of estimation uncertainties (Continued)

(f) Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to establish the appropriate valuation techniques and inputs to the model. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of the investment properties. Detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets is set out in Notes 16 and 40(c).

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into the following reportable operating segments based on their products and services:

– Securities investments

– Provision of securities placing and brokerage services

– Leasing of investment properties

– Money lending business

– Manufacture and sales of LED digital display products

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before taxation. The adjusted profit/loss before taxation is measured consistently with the Group's profit/loss before taxation except that bank interest income, loss on disposal of property, plant and equipment and subsidiaries, gain on change in fair value of listed equity securities, finance costs, as well as other head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

5. OPERATING SEGMENT INFORMATION (Continued)

(a) Segment revenue and results

	Segment revenue		Segment profit/(loss)	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Securities investments	**–**	–	**3,045**	10,308
Provision of securities placing and brokerage services	**27,143**	8,218	**13,091**	(6,698)
Leasing of investment properties	**540**	540	**3,073**	1,477
Money lending business	**13,966**	7,085	**12,186**	7,073
Manufacture and sales of LED digital display products	**–**	117	**(33)**	(5,555)
Others	**–**	–	**(370)**	(289)
	41,649	15,960	**30,992**	6,316

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2017: Nil).

	2018	2017
	HK$'000	HK$'000
Segment profit reported above	**30,992**	6,316
Interest income from bank deposits	**1,822**	834
Other interest income	**22**	–
Loss on disposal of subsidiaries	**(1,528)**	–
Corporate and other unallocated expenses – net	**(11,833)**	(16,536)
Finance costs	**(3,350)**	(6,467)
Profit/(loss) before taxation	**16,125**	(15,853)
Income tax (charge)/credit	**(2,849)**	1,330
Profit/(loss) for the year	**13,276**	(14,523)

5. OPERATING SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

	2018 HK$'000	2017 HK$'000
Segment assets		
Securities investments	**27,269**	12,103
Provision of securities placing and brokerage services	**235,102**	322,886
Leasing of investment properties	**19,904**	17,304
Money lending business	**56,446**	58,225
Manufacture and sales of LED digital display products	**–**	452
Others	**3**	11
Total segment assets	**338,724**	410,981
Corporate and other unallocated assets	**80,398**	88,341
Total assets	**419,122**	499,322

	2018 HK$'000	2017 HK$'000
Segment liabilities		
Securities investments	**–**	–
Provision of securities placing and brokerage services	**126,916**	227,135
Leasing of investment properties	**180**	180
Money lending business	**–**	–
Manufacture and sales of LED digital display products	**–**	1,816
Others	**–**	8,379
Total segment liabilities	**127,096**	237,510
Corporate and other unallocated liabilities	**34,461**	60,622
Total liabilities	**161,557**	298,132

5. OPERATING SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities (Continued)

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

- all assets are allocated to operating segments other than certain property, plant and equipment, other deposits and prepayments, other receivables, certain bank balances and cash and assets used jointly by reportable segments. Goodwill is allocated to segments as described in Note 17. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to operating segments other than certain other payables and accruals, corporate bonds payable, convertible bonds payables, other borrowings, income tax payable and deferred tax liabilities and liabilities for which reportable segments are jointly liable. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

(c) Other segment information

	Depreciation and amortisation		**Additions to non-current assets**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Securities investments	**–**	–	**674**	–
Provision of securities placing and brokerage services	**172**	361	**3**	208
Leasing of investment properties	**–**	–	**–**	–
Money lending business	**–**	–	**–**	–
Manufacture and sales of LED digital display products	**–**	486	**–**	–
Others	**–**	57	**–**	–
	172	904	**677**	208
Unallocated	**1,455**	1,505	**–**	–
Consolidated total	**1,627**	2,409	**677**	208

The additions to non-current assets consist of additions to property, plant and equipment and exclude assets from the acquisition of subsidiaries and financial assets.

5. OPERATING SEGMENT INFORMATION (Continued)

(c) Other segment information (Continued)

In addition to the depreciation and amortisation reported above, impairment losses totalling HK$Nil (2017: HK$5,038,000) were recognised in respect of inventories, trade and other receivables and property, plant and equipment. These impairment losses were attributable to the following segments:

(i) Impairment loss in respect of inventories

	2018 **HK$'000**	2017 HK$'000
Manufacture and sales of LED digital display products	–	619

(ii) Impairment loss in respect of trade and other receivables

	2018 **HK$'000**	2017 HK$'000
Others	–	23
Unallocated	**623**	365
	623	388

(iii) Impairment loss in respect of property, plant and equipment

	2018 **HK$'000**	2017 HK$'000
Manufacture and sales of LED digital display products	–	3,843
Others	–	188
	–	4,031

5. OPERATING SEGMENT INFORMATION (Continued)

(d) Geographical information

(i) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Hong Kong	**41,649**	15,843
Mainland China	**–**	117
	41,649	15,960

The revenue information above is based on the locations of the customers.

(ii) Non-current assets

	2018 HK$'000	2017 HK$'000
Hong Kong	**43,313**	51,968
Mainland China	**–**	–
	43,313	51,968

The non-current assets information is based on the locations of the assets and excludes goodwill.

(e) Information about major customers

Revenue from individual customers contributing over 10% of the revenue of the Group is as follows:

	2018 HK$'000	2017 HK$'000
Customer A	**5,789**	N/A*

* The revenue from customer A for the year ended 31 December 2017 does not exceed 10% of the total revenue of the Group for that year.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of income from provision of securities placing and brokerage services, rental income from lease of investment properties and interest from loans receivable, analysed as follows:

	2018 HK$'000	2017 HK$'000
Revenue		
Provision of securities placing and brokerage services *(Note)*	**27,143**	8,218
Rental income from leasing of investment properties	**540**	540
Interest income from loans receivable	**13,966**	7,085
Sales of goods	**–**	117
Total revenue	**41,649**	15,960

Note: Revenue from provision of securities placing and brokerage services is recognised at a point of time when the services are rendered by the Group.

	2018 HK$'000	2017 HK$'000
Other income and gains		
Gain on change in fair value of financial assets at fair value through profit or loss		
– Net realised gain on sale of listed securities	**–**	10,316
– Net unrealised gain on listed securities	**3,824**	–
	3,824	10,316
Dividend income	**–**	210
Exchange gains, net	**3**	8
Interest income from		
– Bank deposits	**1,822**	834
– Others	**22**	–
Rental income	**–**	264
Sundry income	**378**	229
Total other income and gains	**6,049**	11,861

7. OTHER OPERATING EXPENSES

	2018 HK$'000	2017 HK$'000
Impairment losses recognised in respect of:		
– Property, plant and equipment *(Note 15)*	–	4,031
– Inventories	–	619
– Other receivables *(Note 21)*	623	388
Loss on disposal of subsidiaries *(Note 35)*	1,528	–
Loss on change in fair value of financial assets at fair value through profit or loss		
– Net realised loss on sale of listed securities	779	–
– Net unrealised loss on listed securities	–	218
	2,930	5,256

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on:		
– Convertible bonds payable *(Note 28)*	2,399	5,356
– Corporate bonds payable *(Note 30)*	951	897
– Other borrowings *(Note 29)*	–	214
	3,350	6,467

9. PROFIT/(LOSS) BEFORE TAXATION

The Group's profit/(loss) before taxation is arrived at after charging:

	2018 **HK$'000**	2017 HK$'000
Directors' remuneration *(Note 10)*	**2,275**	3,164
Other staff costs (excluding directors' remuneration):		
Wages, salaries and allowances	**9,492**	10,393
Contribution to retirement schemes	**102**	351
Total staff costs	**11,869**	13,908
Auditor's remuneration		
– audit services	**655**	620
Cost of inventories sold	**–**	115
Depreciation of property, plant and equipment	**1,627**	2,409
Loss on disposal of property, plant and equipment	**5**	5
Rental charges on land and buildings under operating leases	**2,414**	3,739

10. DIRECTORS' REMUNERATION

Details of emoluments paid by the Group to the directors of the Company are as follows:

2018	**Fees HK$'000**	**Salaries, allowances and benefits in kind HK$'000**	**Pension scheme contribution HK$'000**	**Total remuneration HK$'000**
Executive directors:				
Ms. Kwan Kar Ching	**–**	**1,057**	**18**	**1,075**
Ms. Hsin Yi-Chin	**–**	**840**	**–**	**840**
Independent non-executive directors:				
Mr. Hung Cho Sing	**120**	**–**	**–**	**120**
Mr. Luk Kin Ting	**120**	**–**	**–**	**120**
Mr. Kam Hou Yin, John *(note iv)*	**120**	**–**	**–**	**120**
	360	**1,897**	**18**	**2,275**

2017	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contribution HK$'000	Total remuneration HK$'000
Executive directors:				
Ms. Kwan Kar Ching	–	1,188	18	1,206
Ms. Hsin Yi-Chin	–	840	–	840
Mr. Ma Arthur On-hing *(note i)*	–	650	9	659
Mr. Mui Wai Sum *(note ii)*	–	100	–	100
Independent non-executive directors:				
Mr. Hung Cho Sing	120	–	–	120
Mr. Luk Kin Ting	120	–	–	120
Ms. Wong Ka Yan *(note iii)*	20	–	–	20
Mr. Kam Hou Yin, John *(note iv)*	34	–	–	34
Mr. Ong King Keung *(note v)*	65	–	–	65
	359	2,778	27	3,164

Notes:

(i) Mr. Ma Arthur On-hing was resigned executive director of the Company on 30 June 2017.

(ii) Mr. Mui Wai Sum was resigned executive director of the Company on 19 May 2017.

(iii) Ms. Wong Ka Yan resigned on 28 February 2017.

(iv) Mr. Kam Hou Yin, John was appointed independent non-executive director of the Company on 18 September 2017.

(v) Mr. Ong King Keung was appointed independent non-executive director of the Company on 28 February 2017 and resigned on 15 September 2017.

11. FIVE HIGHEST PAID EMPLOYEES

The 5 highest paid employees during the year included 2 directors (2017: 2 directors) whose remuneration are included in directors' remuneration as set out in Note 10 above. Details of the remuneration of the remaining 3 highest paid employees (2017: 3 employees) are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and other benefits	**3,207**	2,629
Pension scheme contribution	**54**	54
	3,261	2,683

The remuneration of these 3 highest paid employees (2017: 3 employees) fell within the following bands:

	2018 **Number of** **employees**	2017 Number of employees
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	3	3

12. TAXATION (CHARGE)/CREDIT

	2018 Total HK$'000	2017 Total HK$'000
Current tax		
Hong Kong profits tax		
– current year	**(2,977)**	(77)
– over-provision in prior years	**30**	1,116
Current tax (charge)/credit	**(2,947)**	1,039
Deferred tax credit *(Note 31)*	**98**	291
Taxation (charge)/credit	**(2,849)**	1,330

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

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

	2018 HK$'000	2017 HK$'000
Profit/(loss) before taxation	**16,125**	(15,853)
Tax calculated at the tax rate of 16.5% (2017: 16.5%)	**2,660**	(2,615)
Tax effect of expenses not deductible for tax	**619**	937
Tax effect of income not subject to tax	**(869)**	(206)
Tax effect of tax loss not recognised	**439**	554
Taxation charge/(credit)	**2,849**	(1,330)

13. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting date (2017: Nil).

14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the owners of the Company is as follows:

	2018 **HK$'000**	2017 HK$'000
Profit/(loss)		
Profit/(loss) for the purpose of basic earnings/loss per share		
Profit/(loss) for the year attributable to owners of the Company	**11,625**	(9,741)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of tax effects	**2,003**	4,472
Profit/(loss) for the purpose of diluted earnings/loss per share	**N/A**	N/A

	2018 **'000**	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/loss per share	**2,649,258**	2,345,382
Effect of dilutive potential ordinary shares:		
Convertible bonds	**134,102**	326,316
Weighted average number of ordinary shares for the purpose of diluted earnings/loss per share	**2,783,360**	2,671,698

The computation of diluted earnings/loss per share does not assume the exercise of the Company's share options granted because the exercise price of those share options was higher than the average market price for shares of the Company for both of the years ended 31 December 2018 and 31 December 2017.

Diluted earnings per share for the year ended 31 December 2018 is not presented because the impact of conversion of convertible bonds during the year is regarded as anti-dilutive. Diluted loss per share for the year ended 31 December 2017 is not presented because the Group sustained a loss for that year and the impact of conversion of convertible bonds is regarded as anti-dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Machinery, furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1 January 2017	5,486	7,377	4,423	17,286
Additions	191	17	–	208
Disposals	(3,926)	(6,566)	–	(10,492)
Exchange realignment	108	72	–	180
At 31 December 2017 and 1 January 2018	**1,859**	**900**	**4,423**	**7,182**
Additions	**3**	**–**	**674**	**677**
Disposals	**–**	**(9)**	**–**	**(9)**
At 31 December 2018	**1,862**	**891**	**5,097**	**7,850**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2017	1,794	4,109	162	6,065
Depreciation for the year	1,169	355	885	2,409
Impairment losses recognised in profit or loss *(Note 7)*	2,207	1,824	–	4,031
Eliminated on disposals	(3,921)	(5,808)	–	(9,729)
Exchange realignment	26	12	–	38
At 31 December 2017 and 1 January 2018	**1,275**	**492**	**1,047**	**2,814**
Depreciation for the year	**509**	**144**	**974**	**1,627**
Eliminated on disposals	**–**	**(4)**	**–**	**(4)**
At 31 December 2018	**1,784**	**632**	**2,021**	**4,437**
CARRYING AMOUNTS				
At 31 December 2018	**78**	**259**	**3,076**	**3,413**
At 31 December 2017	584	408	3,376	4,368

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, less their residual values as follows:

Leasehold improvements	2–5 years
Machinery, furniture and equipment	3–10 years
Motor vehicles	5 years

During the prior year ended 31 December 2017, a fire accident occurred at the production line of LED digital display products which resulted in the suspension of the manufacture of such products. Impairment loss on certain property, plant and equipment of the production line has been made based on their estimated selling prices, comprising impairment losses on leasehold improvements and machinery, and furniture and equipment amounted to approximately HK$2,207,000 and HK$1,824,000 respectively. The impairment loss totalled HK$4,031,000 was recognised in profit or loss in respect of the year ended 31 December 2017 and was included in other operating expenses *(Note 7)*.

16. INVESTMENT PROPERTIES

The Group's investment properties comprise:

	2018 **HK$'000**	2017 HK$'000
Investment properties in Hong Kong	**19,900**	17,300

Note:

The Group's investment properties represent office premises which are located in Hong Kong held under land on long lease and were rented out under operating leases as at 31 December 2018.

The fair values of the Group's investment properties at 31 December 2018 and 31 December 2017 have been arrived at on the basis of valuations carried out at those dates by Chung Hin Appraisals Limited, which is independent qualified professional valuers not connected with the Group.

The fair value of investment properties is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below.

	2018 **HK$'000**	2017 HK$'000
At the beginning of the year	**17,300**	16,352
Change in fair value	**2,600**	948
At the end of the year	**19,900**	17,300

16. INVESTMENT PROPERTIES (Continued)

The investment properties were revalued on direct comparison approach by making reference to comparable sale evidence as available in the relevant market or, wherever appropriate, the investment approach by taking into account the current rents passing and the reversionary income potential of the tenancies.

The significant unobservable inputs into the valuation technique include:

Estimated rental value	Based on the actual view, type and quality of the properties and supported by the terms of any existence lease, other contracts and external evidence such as current market rents for similar properties
Discount rate	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows
Premium or discount for quality of properties	Quality of properties, such as view, time, location, size, level and condition of the properties

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used):

Properties and location	Fair value	Valuation techniques	Significant unobservable inputs	Range of significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
Office premises located in Hong Kong	31 December 2018: HK$19,900,000 31 December 2017: HK$17,300,000	investment approach	unit rent and market yield	2018: HK$54 to 65 (unit rent) and 2.6% to 3.2% (yield) 2017: HK$42 to 59 (unit rent) and 2.6% to 3.1% yield	the higher the rental the higher the market value; the higher the market yield the lower the market value

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

17. GOODWILL

	2018	2017
	HK$'000	HK$'000
Cost		
At the beginning of the year	**18,811**	18,811
Disposal of subsidiaries *(Note 35)*	**(509)**	–
At the end of the year	**18,302**	18,811
Accumulated impairment losses		
At the beginning of the year	**509**	509
Derecognised on disposal of subsidiaries *(Note 35)*	**(509)**	–
At the end of the year	**–**	509
Carrying amounts		
At end of the year	**18,302**	18,302

The carrying amount of the goodwill has been allocated for impairment testing purposes to the cash-generating unit ("**CGU**") of provision of securities placing and brokerage services undertaken by a subsidiary, KOALA Securities Limited ("**KOALA Securities**").

	2018	2017
	HK$'000	HK$'000
KOALA Securities	**18,302**	18,302

17. GOODWILL (Continued)

The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below.

KOALA Securities

The recoverable amount of this group of cash generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management of the Group covering a five-year period, and a discount rate of 24.01% (2017: 24.01%) per annum.

Cash flow projection during the budget period are based on the same expected gross margins throughout the budget period. The cash flows beyond that five-year period have been extrapolated using a steady growth rate of 2% (2017: 2%) per annum which is projected long-term average growth rate. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the group of units to exceed the aggregate recoverable amount.

18. OTHER INTANGIBLE ASSETS

	Securities brokerage licence	
	2018	2017
	HK$'000	HK$'000
COST		
At the beginning of the year and end of the year	**20,000**	20,000

The securities brokerage licence is held by a subsidiary, KOALA Securities. Under the securities brokerage licence, KOALA Securities is entitled to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance.

18. OTHER INTANGIBLE ASSETS (Continued)

Impairment assessments for securities brokerage licence with indefinite useful life

Management assesses impairment of securities brokerage licence with indefinite useful life annually using the value in use method calculated based on cash flow projections of the business of provision of securities placing and brokerage services undertaken by KOALA Securities (Note 17) to which the intangible asset relates.

Based on the impairment assessment, management considers that no impairment loss on the intangible asset is required to be made in the consolidated financial statements.

19. LOANS RECEIVABLE

	2018	2017
	HK$'000	HK$'000
Loans and interests thereon		
– receivable within one year	**54,800**	45,230
– receivable in the second to fifth years	**–**	10,300
	54,800	55,530

	2018	2017
	HK$'000	HK$'000
Analysed for reporting purposes:		
Classified under		
– non-current assets	**–**	10,300
– current assets	**54,800**	45,230
	54,800	55,530

Movements during the year are as follows:

	2018	2017
	HK$'000	HK$'000
At 1 January	**55,530**	10,292
Loan made by the Group	**18,800**	109,000
Interest on loans receivable	**13,966**	7,085
Loans and interest repaid	**(33,496)**	(70,847)
At 31 December	**54,800**	55,530

19. LOANS RECEIVABLE (Continued)

Details of the loans receivable from each of the borrowers as at 31 December 2018 are as follows:

Loan principal amount HK$'000	Interest rate	Maturity date	Security pledged
6,800	10% per annum	1 June 2019	Nil
5,000	24% per annum	2 April 2019	Nil
3,000	48% per annum	2 February 2019	Nil
2,000	36% per annum	13 May 2019	Nil
2,000	12% per annum	4 March 2019	Nil
4,000	24% per annum	28 February 2019	Nil
10,000	24% per annum	30 June 2019	Nil
10,000	36% per annum	15 August 2019	Nil
10,000	30% per annum	5 September 2019	Nil
52,800			

Details of the loans receivable from each of the borrowers as at 31 December 2017 are as follows:

Loan principal amount HK$'000	Interest rate	Maturity date	Security pledged
3,000	20% per annum	3 February 2017	Nil
2,000	12% per annum	18 August 2017	62.5% equity interest in a subsidiary of the borrower
3,000	20% per annum	19 August 2017	Nil
4,000	24% per annum	28 February 2018	Nil
10,000	24% per annum	30 June 2018	Nil
10,000	36% per annum	14 August 2018	Nil
10,000	30% per annum	5 September 2018	Nil
10,000	36% per annum	1 December 2019	Personal guarantee by the director of the borrower
52,000			

Loans and interest receivable are to be settled by the borrowers at the respective maturity dates.

The loans and interest receivable as at 31 December 2018 are not yet past due as at that date. Included in loans and interest receivable at 31 December 2017 are past due receivables amounted to HK$10,880,000 which were fully settled by the borrowers subsequent to that date.

The carrying amounts as at 31 December 2018 and 1 January 2018, have been assessed by the management of their expected credit losses on an individual basis. The measurement of such losses is based on accounting policy. The related amounts are immaterial on both dates.

20. ACCOUNTS RECEIVABLE

	2018 HK$'000	2017 HK$'000
Trade receivables	–	5,319
Less: Impairment losses recognised	–	(5,210)
	–	109
Accounts receivable from the business of securities brokerage:		
Clearing house, brokers and cash clients	**54,210**	43,877
	54,210	43,986

The table below reconciled the impairment of trade receivables for the year:

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**5,210**	26,573
Derecognised upon disposal of subsidiaries	**(5,210)**	–
Eliminated on repayment	–	(21,363)
Balance at end of the year	–	5,210

Trade receivables

The ageing analysis of trade receivables, net of impairment loss, based on delivery date is as follows:

	2018 HK$'000	2017 HK$'000
From 181 days to 365 days	–	16
More than 365 days	–	93
	–	109

The majority of the Group's sales are on open account in accordance with terms specified in the contracts governing relevant transactions. An average credit period of 180 days (2017: 180 days) is granted to customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. An aging analysis of the Group's trade receivables, that are past due but not impaired, is as follows:

	2018 HK$'000	2017 HK$'000
Past due:		
within 180 days	–	16
more than 180 days	–	93
	–	109

20. ACCOUNTS RECEIVABLE (Continued)

Accounts receivable from the business of securities brokerage

The settlement terms of accounts receivable from clearing house, brokers and cash clients, which arose from the business of securities brokerage, are two days after trade date. The accounts receivable from the business of securities brokerage at 31 December 2018 and 31 December 2017 are not past due as at those respective dates based on settlement terms and are not impaired. Such amounts have been settled subsequent to 31 December 2018.

No ageing analysis of the accounts receivable from clearing house, brokers and cash clients is disclosed as management of the Group is of the view that the ageing analysis does not give additional value in view of the nature of this business.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Other deposits and prepayments	**2,718**	2,261
Other receivables	**–**	302
	2,718	2,563

An analysis of other receivables is as follows:

	2018 **HK$'000**	2017 HK$'000
Other receivables	**–**	8,244
Less: Impairment loss recognised	**–**	(7,942)
	–	302

The table below reconciled the impairment of other receivables:

	2018 **HK$'000**	2017 HK$'000
Balance at beginning of the year	**7,942**	7,554
Impairment loss recognised *(Note 7)*	**623**	388
Eliminated on disposal of subsidiaries	**(656)**	–
Write-off of other receivables	**(7,909)**	–
Balance at end of the year	**–**	7,942

22. AMOUNT DUE FROM NON-CONTROLLING INTERESTS

The amount due from non-controlling interests is unsecured, interest free and repayable on demand.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Equity securities listed in Hong Kong, at fair value *(Note 40(c)(i))*	**27,269**	12,226

24. BANK BALANCES AND CASH

	2018 HK$'000	2017 HK$'000
Bank balances and cash		
– trust accounts *(note a)*	**100,113**	191,648
– general accounts and cash *(note b)*	**118,152**	133,154
	218,265	324,802

Notes:

(a) The Group receives and holds money deposited by clients and other institutions during the course of its regulated securities brokerage business. These clients' monies are maintained in one or more trust bank accounts and bear interest at commercial rates. The Group has recognised the corresponding accounts payable to respective clients and other institutions. The Group currently does not have an enforceable right to offset those payables with the deposits placed.

(b) The general accounts and cash comprise cash held by the Group and bank deposits bearing interest at commercial rates with original maturity of three months or less.

25. ACCOUNTS PAYABLE

	2018 HK$'000	2017 HK$'000
Trade payables	–	5,805
Accounts payable from the business of securities brokerage:		
Clearing house, brokers and cash clients	**112,688**	216,469
	112,688	222,274

25. ACCOUNTS PAYABLE (Continued)

In general, the credit period on purchase of goods granted by suppliers ranged from 30 to 180 days. An ageing analysis of the Group's trade payables, based on invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
From 181 days to 365 days	–	6
More than 365 days	–	5,799
	–	5,805

The settlement terms of accounts payable arising from the business of securities brokerage are two days after trade date. No ageing analysis of these accounts payable is disclosed as management of the Group is of the view that the ageing analysis does not give additional value in view of the nature of this business.

26. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Other payables	**7,076**	2,786
Accrued charges	**3,823**	6,506
	10,899	9,292

27. AMOUNT DUE TO NON-CONTROLLING INTERESTS

The amount due to non-controlling interests is unsecured, interest free and repayable on demand.

28. CONVERTIBLE BONDS PAYABLE

	2018 HK$'000	2017 HK$'000
Liability component of convertible bonds payable	–	28,795
Analysed for reporting purpose:		
Classified under current liabilities	–	28,795

On 16 July 2015, the Company issued 3% convertible bonds due on 15 July 2018 at the principal amount of HK$80,000,000 to a third party for a cash consideration of HK$80,000,000. The convertible bonds can be converted into ordinary shares at an initial conversion price of HK$0.095 per share from the day immediately following the date of the issue of convertible bonds to the maturity date of 15 July 2018. If the convertible bonds have not been converted, they will be redeemed at par on the maturity date.

As at 31 December 2017, the convertible bonds with an aggregate principal amount of HK$31,000,000 remained outstanding.

During the current year, the convertible bonds with an aggregate principal amount of HK$31,000,000 (2017: Nil) were converted into approximately 326,316,000 (2017: Nil) new shares of the Company at the conversion price of HK$0.095 per share on 30 May 2018 and no convertible bonds remained outstanding as at the maturity date.

The convertible bonds contained two components: liability and equity elements. The fair value of the liability component at the date of issue was calculated using the discount rate of 22.11% per annum, being the estimated market rates for a similar non-convertible bonds at that date. The fair value of the equity component at the date of issue was valued using the Binomial Model.

28. CONVERTIBLE BONDS PAYABLE (Continued)

Movements of the liability component and equity component of the convertible bonds are set out below:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
Carrying amount at 1 January 2017	24,369	74,286	98,655
Interest expense accrued *(Note 8)*	5,356	–	5,356
Interest paid	(930)	–	(930)
Carrying amount at 31 December 2017 and 1 January 2018	**28,795**	**74,286**	**103,081**
Interest expense accrued *(Note 8)*	**2,399**	**–**	**2,399**
Conversion of convertible bonds	**(31,194)**	**(74,286)**	**(105,480)**
Carrying amount at 31 December 2018	**–**	**–**	**–**

The effective interest rate at 31 December 2017 in respect of the liability component of the convertible bonds is 22.37% per annum.

29. OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Unsecured loans from third parties	**–**	1,000

During the year ended 31 December 2016, a subsidiary of the Company obtained unsecured short term loan amounted to HK$1,000,000 from a third party which carried interests at 12% per annum and was repayable on 25 January 2017. Such loan remained outstanding as at 31 December 2017 which carried interests at 20% per annum, being the default interest rate specified in the relevant loan agreement. During the current year, the loan was derecognised following the disposal of the subsidiary *(Note 35)*.

30. CORPORATE BONDS PAYABLE

	2018 HK$'000	2017 HK$'000
Carrying amount of corporate bonds due on:		
– 29 September 2021	**7,361**	7,066
– 9 March 2022	**8,799**	8,143
	16,160	15,209

	2018 HK$'000	2017 HK$'000
Analysed for reporting purposes:		
Classified under non-current liabilities		
– payable in the second to fifth years	**16,160**	15,209
	16,160	15,209

Movements in the corporate bonds payable are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of the year	**15,209**	14,312
Interest on bonds accrued *(Note 8)*	**951**	897
At end of the year	**16,160**	15,209

At 31 December 2018, the corporate bonds with the principal amount of HK$20,000,000 (2017: HK$20,000,000) remained outstanding. Interests on the bonds due on 29 September 2021 and due on 9 March 2022 is calculated at the effective interest rate of 8.78% (2017: 8.78%) per annum and 4.92% (2017: 4.92%) per annum respectively. Details of the corporate bonds outstanding at 31 December 2018 and 31 December 2017 are as follows:

	Corporate bonds due on	
	29 September 2021	**9 March 2022**
Date of issue	30 September 2014	10 September 2014
Principal amount	HK$10,000,000	HK$10,000,000
Interest rate	5% per annum	4% per annum
Maturity period	7 years	7.5 years

31. DEFERRED TAX LIABILITIES

Movements in the deferred tax liabilities during the year are as follows:

	Fair value adjustments on business combination	Accelerated depreciation allowance	Unrealised gain on listed securities	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	(3,217)	(429)	(119)	(3,765)
Credited to profit or loss	–	172	119	291
At 31 December 2017 and 1 January 2018	**(3,217)**	**(257)**	**–**	**(3,474)**
Credited to profit or loss	**–**	**98**	**–**	**98**
At 31 December 2018	**(3,217)**	**(159)**	**–**	**(3,376)**

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of the PRC subsidiaries from 1 January 2008 onwards. No significant profits have been earned by the PRC subsidiaries up to 31 December 2018 (2017: Nil), accordingly deferred tax has not been provided for in the consolidated financial statements.

At the end of the reporting period, the Group has unused tax losses and other deductible temporary differences totalling approximately HK$11,146,000 (2017: HK$13,179,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams.

32. SHARE CAPITAL

	Number of ordinary shares HK$0.01 each '000	Nominal amount HK$'000
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	20,000,000	200,000
Issued and fully paid:		
At 1 January 2017	1,638,029	16,380
Issue of shares upon open offer *(Note (i))*	819,015	8,190
At 31 December 2017 and 1 January 2018	**2,457,044**	**24,570**
Issue of shares upon conversion of convertible bonds *(Note (ii))*	**326,316**	**3,263**
At 31 December 2018	**2,783,360**	**27,833**

Notes:

(i) On 23 December 2016, the Company announced a proposed open offer to shareholders for the subscription of new shares of the Company on the basis of one offer share for every two existing shares held at the subscription price of HK$0.14 per share (the "**Open Offer**"). On 20 February 2017, the Company issued 819,014,723 ordinary shares of HK$0.01 each at the subscription price of HK$0.14 per share under the Open Offer, giving rise to a proceed of approximately HK$114,662,000 (before expense).

(ii) On 30 May 2018, the convertible bonds with the principal amount of HK$31,000,000 were converted into 326,316,000 new shares of the Company at the conversion price of HK$0.095 per share.

33. SHARE OPTION SCHEME

The Group adopted a share option scheme (the "**Scheme**") which has become effective on 15 June 2012. In accordance with the Scheme, share options may be granted to any employees, consultants or professional advisors, and suppliers or customers of the Group.

The exercise price of the options granted is the highest of (i) the closing price of the Company's shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share. The options are exercisable at the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

33. SHARE OPTION SCHEME (Continued)

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

The maximum number of shares of the Company which may be issued upon exercise of all options granted under the Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company.

No share option was granted, exercised, lapsed or forfeited during both of the years ended 31 December 2017 and 31 December 2018.

The number of share options outstanding and their exercise prices are as follows:

	2018		2017	
	Weighted average exercise price HK$	**Number of share options granted to parties other than directors and employees ’000**	Weighted average exercise price HK$	Number of share options granted to parties other than directors and employees ’000
Outstanding at the beginning and the end of the year	**0.666**	**21,200**	0.666	21,200
Exercisable at the end of the year	**0.666**	**21,200**	0.666	21,200

No share option expense has been recognised by the Group for the year ended 31 December 2018 (2017: Nil) in relation to share options granted by the Company. The share options granted can be exercised during the period from 25 November 2010 to 24 November 2020 at the exercise price of HK$0.666 per share.

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK$0.666 (2017: HK$0.666) per share. The weighted average remaining contractual life of share options granted and outstanding at the end of the reporting period is 1.9 years (2017: 2.9 years).

34. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participate in social insurance schemes operated by the relevant local government authorities. The insurance premium is borne by the Group and is calculated based on a specified proportion of the employee's salaries in accordance with the relevant PRC laws and regulations.

The contribution paid or payable to the schemes by the Group in respect of the year which were charged to profit or loss amounted to approximately HK$102,000 (2017: HK$378,000).

Apart from the above, the Group has no significant obligations under retirement benefit schemes at the end of both of the years presented.

35. DISPOSAL OF SUBSIDIARIES

Disposal took place during the year ended 31 December 2018

On 30 September 2018, the Company disposed of 51% equity interest in and amount due to the Group by a subsidiary, Mark Wish Limited, to a third party, for nil consideration. Mark Wish Limited and its subsidiaries, were engaged in manufacture and trading of garment accessories, manufacturing and trading of LED components.

Consideration for the disposal:	HK$'000
Consideration receivable	–

Analysis of assets and liabilities at the date of disposal over which control was lost:	HK$'000
Accounts receivable	103
Prepayments, deposits and other receivables	248
Bank balances and cash	28
Accounts payables	(5,799)
Other payables and accruals	(3,040)
Other borrowings	(1,000)
Income tax payable	(4)
Net liabilities disposed of	(9,464)

35. DISPOSAL OF SUBSIDIARIES (Continued)

Disposal took place during the year ended 31 December 2018 (Continued)

Loss on disposal of subsidiaries	HK$'000
Consideration	–
Net liabilities disposed of	9,464
Cumulative exchange gains in respect of the disposed subsidiaries	176
Non-controlling interests	(11,168)
Loss on disposal of subsidiaries *(Note 7)*	(1,528)

Net cash outflow on disposal of subsidiaries	HK$'000
Consideration received	–
Less: Bank balances and cash disposed of	(28)
	(28)

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Interest payable (included in other payables and accruals)	**Corporate bonds payable**	**Convertible bonds payable**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	112	14,312	24,369	38,793
Financing cash outflows	–	–	(930)	(930)
Finance costs	214	897	5,356	6,467
At 31 December 2017 and 1 January 2018	326	15,209	28,795	44,330
Financing cash outflows	–	–	–	–
Finance costs	–	951	2,399	3,350
Issue of shares upon conversion of convertible bonds	–	–	(31,194)	(31,194)
Derecognised upon disposal of subsidiaries	(326)	–	–	(326)
At 31 December 2018	–	16,160	–	16,160

37. CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2018, the Group had the following contingent liabilities and commitments:

(a) Contingent liabilities

In prior years, a writ of summon dated 16 July 2014, was issued by a third party, Total Share Limited (**"Total Shares"**), claiming against the Company and Mr. Shan Xiaochang, a former director of the Company, in respect of a sum of HK$10,000,000 which was advanced by Total Shares to Mr. Shan, the repayment of which was guaranteed by the Company. During the current year, a consent order dated 12 July 2018 was signed by Total Shares and the Company, under which Total Shares has agreed to discontinue all proceedings against the Company. Accordingly, the directors of the opinion that the claim made by Total Shares against the Company would not result in any material adverse impact against the Group and provision for loss in this respect is not required to be made in the consolidated financial statements.

(b) Operating leases

As lessee

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**2,435**	1,588
In the second to fifth year inclusive	**339**	–
	2,774	1,588

Operating lease payments represent rental payable by the Group for its office and factory premises. Leases and rentals are negotiated and fixed respectively for an average of three years.

38. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	2018	2017
	HK$'000	HK$'000
Salaries and other short-term benefits	**3,600**	2,778
Pension scheme contribution	**77**	27
	3,677	2,805

39. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debts (bank and other borrowings less bank balances and cash (general account)) and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking consideration of future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting dates are categorised as follows:

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at FVTPL	**27,269**	12,226
Financial assets at amortised cost/loans and receivables		
Loans receivable	**54,800**	55,530
Accounts receivable and other receivables	**54,210**	44,288
Amount due from non-controlling interests	**245**	245
Bank balances – trust accounts	**100,113**	191,648
Bank balances and cash – general accounts	**118,152**	133,154
	327,520	424,865
	354,789	437,091
Financial liabilities		
Financial liabilities at amortised costs		
Accounts payables, other payables and accruals	**123,587**	231,566
Corporate bonds payable	**16,160**	15,209
Other borrowings	**–**	1,000
Amount due to non-controlling interests	**10,400**	10,400
Convertible bonds payable	**–**	28,795
	150,147	286,970

40. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, loans receivable, accounts receivable, other receivables, amount due from non-controlling interests, bank balances and cash, accounts payable, other payables and accruals, corporate bonds payable, other borrowings, amount due to non-controlling interests and convertible bonds payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner. There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Currency risk

Foreign exchange risk arises when the group entities enter into transactions denominated in a currency other than their functional currency. The Group's monetary assets and liabilities are mainly denominated in United States dollars and Hong Kong dollars. The exchanges rates between these currencies are pegged, and there are no significant fluctuations of exchange rates of these currencies.

No significant monetary assets and monetary liabilities of the companies in the Group at the reporting date were denominated in currencies other than functional currencies of the related entities.

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

Sensitivity analysis

No sensitivity analysis on currency risk is presented as there were no significant impacts on the Group's profit/loss after taxation in response to reasonably possible changes in the foreign exchange rates to which the Group has exposure at the end of reporting period.

Interest rate risk

The Group is exposed to interest rate risk as the group entities may borrow funds at both fixed interest rates and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate borrowings. Although the board of directors accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

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

The directors consider that the Group's exposure to interest rate risk of bank deposits, which are short term in nature, is not significant, accordingly no sensitivity analysis is presented.

40. FINANCIAL INSTRUMENTS (Continued)

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

The Group's loans receivable and borrowings carry interests at fixed interest rates, analysed below:

The Group

	2018		2017	
	Effective interest rate	**Carrying amount HK$'000**	Effective interest rate	Carrying amount HK$'000
Loans receivable *(Note 19)*	**10%–48%**	**54,800**	12%–36%	55,530
Fixed rate borrowings				
– corporate bonds payable *(Note 30)*	**4.92%–8.78%**	**16,160**	4.92%–8.78%	15,209
– convertible bonds payable *(Note 28)*	**–**	**–**	22.37%	28,795
– other borrowings *(Note 29)*	**–**	**–**	20%	1,000

Sensitivity analysis

The Group had no floating rate borrowings at end of each of the reporting periods presented. Accordingly, there would be no impact on the results of the Group for the year (2017: Nil) upon any change in interest rate on floating rate borrowings assuming that no floating rate borrowings were outstanding during the year.

Price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. Management of the Company manages this exposure by maintaining a portfolio of investments with different risk and return profiles. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices had been 10% higher/lower, the post-tax profit for the year would increase/decrease by HK$2,277,000 respectively (2017: post tax-loss for the year would decrease/increase by HK$1,021,000). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

40. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment provision

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of respective financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on accounts receivable individually or based on provision matrix.

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on loans receivables and bank balances based on 12m ECL.

The credit risk on loans receivable together interests thereon are limited because the directors consider the borrowers are financially sound with reputation.

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

Based on the Group's internal credit rating, no material impairment loss allowance is recognised for loans receivables and bank balances.

The Group is exposed to concentration of credit risk on:

- Loan receivables which are provided to individual third parties with no history of default; and

- Liquid funds which are deposited with several banks with high credit ratings.

The Group's concentration of credit risk by geographical locations is in Hong Kong as all receivables are substantially arisen in Hong Kong for both years.

Other than above, the Group does not have any other significant concentration of credit risk.

40. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment provision (Continued)

The tables below is the internal credit policy of the Group:

Internal credit rating	Description	Accounts receivables	Other financial assets /other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

At 31 December 2018	*Notes*	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amounts HK'000
Accounts receivable	20	N/A	*(Note)*	Lifetime ECL (provision matrix)	54,210
Loans receivable	19	N/A	Low risk	12-month ECL	54,800
Other receivables	21	N/A	Write-off	Amount in written off	–
Bank balances – trust accounts	24	AA+	N/A	12-month ECL	100,113
Bank balances – general accounts	24	AA+	N/A	12-month ECL	118,152

Note: For accounts receivable, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime expected credit loss. Except for debtors with significant outstanding balances, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and borrowers and are adjusted for forward-looking information that is available without undue cost or effort. For the year ended 31 December 2018, no material impairment allowance on accounts receivables and loans receivable is provided based on the provision matrix.

40. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on corporate bonds payable as a significant source of liquidity. As at 31 December 2018, the Group has no available unutilised banking facilities (2017: Nil).

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

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

The amounts included below for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

The Group

At 31 December 2018	Weighted average interest rate	Within 1 year HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Non-derivative financial assets						
Loans receivable	10%–48%	59,403	–	–	59,403	54,800
Accounts receivable and other receivables	–	54,210	–	–	54,210	54,210
Amount due from non-controlling interests	–	245	–	–	245	245
Bank balances						
– trust accounts	0.5%	100,113	–	–	100,113	100,113
Bank balances and cash						
– general accounts	0.5%	118,152	–	–	118,152	118,152
		332,123	–	–	332,123	327,520
Non-derivative financial liabilities						
Accounts payable, other payables and accruals	–	123,587	–	–	123,587	123,587
Corporate bonds payable	4% & 5%	–	23,522	–	23,522	16,160
Other borrowings	–	–	–	–	–	–
Amount due to non-controlling interests	–	10,400	–	–	10,400	10,400
Convertible bonds payable	–	–	–	–	–	–
		133,987	23,522	–	157,509	150,147

40. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

At 31 December 2017	Weighted average interest rate	Within 1 year	More than 1 year but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial assets						
Loans receivable	12%–36%	54,490	13,600	–	68,090	55,530
Accounts receivable and other receivables	–	44,288	–	–	44,288	44,288
Amount due from non-controlling interests	–	245	–	–	245	245
Bank balances						
– trust accounts	0.5%	191,648	–	–	191,648	191,648
Bank balances and cash						
– general accounts	0.5%	133,154	–	–	133,154	133,154
		423,825	13,600	–	437,425	424,865
Non-derivative financial liabilities						
Accounts payable, other payables and accruals	–	231,566	–	–	231,566	231,566
Corporate bonds payable	4% & 5%	–	24,575	–	24,575	15,209
Other borrowings	20%	1,326	–	–	1,326	1,000
Amount due to non-controlling interests	–	10,400	–	–	10,400	10,400
Convertible bonds payable *(note)*	3%	31,930	–	–	31,930	28,795
		275,222	24,575	–	299,797	286,970

Note: This is categorised based on contractual term of redemption at maturity on the assumption that there were no redemption or conversion of the convertible bonds outstanding at the end of the respective reporting periods before the maturity date.

40. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurement

(i) **Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

The Group's financial assets at FVTPL, representing equity securities listed in Hong Kong, are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined in particular, the valuation technique(s) and input used.

	Fair value as at 31 December 2018 HK$'000	2017 HK$'000	Fair value hierarchy	Valuation technical(s) and key inputs
Financial assets at FVTPL				
Listed securities *(Note 23)*	**27,269**	12,226	Level 1	Quoted bid prices in an active market

The fair value of all the listed securities at 31 December 2018 is measured based on the quoted closing prices as at that date.

There were no transfer of the financial assets between the levels in both of the years presented.

(ii) **Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

The directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the consolidated financial statements approximate their fair values. The fair values, which are included in Level 3 categories, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflect the credit risk of counterparties.

(iii) **Reconciliation of Level 3 fair value measurements**

The financial assets at FVTPL are measured at fair value on Level 1 fair value measurement. Reconciliation of Level 3 fair value measurements is not presented.

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	–	–
	–	–
Current assets		
Loans receivable	–	10,880
Prepayments, deposits and other receivables	1,411	889
Amounts due from subsidiaries	256,187	242,259
Bank balances and cash – general accounts	10,142	10,711
	267,740	264,739
Current liabilities		
Other payables and accruals	1,396	2,119
Convertible bonds payable	–	28,795
Income tax payable	5,005	5,077
	6,401	35,991
Net current assets	261,339	228,748
Total assets less current liabilities	261,339	228,748
Non-current liabilities		
Corporate bonds payable	16,160	15,209
	16,160	15,209
Net assets	245,179	213,539
Capital and reserves		
Share capital	27,833	24,570
Reserves	217,346	188,969
Total equity	245,179	213,539

The Company's statement of financial position was approved and authorised for issue by the board of directors on 25 March 2019 and is signed on its behalf by:

Kwan Kar Ching	**Hsin Yi-Chin**
Director	*Director*

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movements of the reserves of the Company are as follows:

	Share premium	Share option reserve	Convertible bonds reserve	Merger reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	450,226	7,410	74,286	19,550	(428,801)	122,671
Loss and total comprehensive expense for the year	–	–	–	–	(34,658)	(34,658)
Issue of shares upon open offer	106,472	–	–	–	–	106,472
Share issue expenses	(5,516)	–	–	–	–	(5,516)
At 31 December 2017 and at 1 January 2018	**551,182**	**7,410**	**74,286**	**19,550**	**(463,459)**	**188,969**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**446**	**446**
Issue of shares upon conversion of convertible bonds	**102,217**	**–**	**(74,286)**	**–**	**–**	**27,931**
At 31 December 2018	**653,399**	**7,410**	**–**	**19,550**	**(463,013)**	**217,346**

42. SUBSIDIARIES

Details of the Group's subsidiaries at the end of the reporting period:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company – Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017	Proportion of voting power held by the Company 2018	2017	Principal activities
Modern World Group Limited	British Virgin Islands ("**BVI**")	Ordinary	US$5	**100**	100	**–**	–	**100**	100	Investment holding and trading of commodities
Ever Wealth Capital Holdings Limited	BVI	Ordinary	US$2	**100**	100	**–**	–	**100**	100	Investment holding
Era Smart Trading Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Inactive
Honest Smart Investment Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Provision of management services to group companies and securities investment
Frame Holding Limited	BVI	Ordinary	US$1	**100**	100	**–**	–	**100**	100	Investment holding
Winning Force Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Trading of commodities
Mark Wish Limited	BVI	Ordinary	US$10,000	**–**	51	**–**	–	**–**	51	Investment holding
Pudong Investment Development Limited	Hong Kong	Ordinary	HK$10,000	**–**	–	**–**	51	**–**	51	Investment holding
Guss International Trading Limited	Hong Kong	Ordinary	HK$1,500,000	**–**	–	**–**	51	**–**	51	Trading of garment accessories
漢宵(上海)投資管理有限公司	PRC	Registered capital	–	**–**	–	**–**	51	**–**	51	Investment holding
東莞格斯光電有限公司	PRC	Registered capital	–	**–**	–	**–**	51	**–**	51	Manufacture and trading of LED components
Leading Nation Investment Limited	BVI	Ordinary	US$1	**100**	100	**–**	–	**100**	100	Investment holding
Honest Smart Finance Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Money lending
Prime Paradise Limited	BVI	Ordinary	US$100	**–**	–	**80**	80	**80**	80	Investment holding
KOALA Securities Limited	Hong Kong	Ordinary	HK$60,000,000	**–**	–	**80**	80	**89**	80	Provision of securities placing and brokerage services
KOALA Capital Management Limited	Hong Kong	Ordinary	HK$500,100	**–**	–	**41** *(note)*	41	**41** *(note)*	41	Asset management
Ever Up Capital Investment Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Inactive
Genius Founder Limited	BVI	Ordinary	US$1	**100**	100	**–**	–	**100**	100	Properties leasing
KOALA Land Limited	Hong Kong	Ordinary	HK$1	**–**	–	**100**	100	**100**	100	Inactive

42. SUBSIDIARIES (Continued)

Note:

KOALA Capital Management Limited is 51% owned by Prime Paradise Limited which is in turn 80% owned by the Company.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
		%	%	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prime Paradise	*(note a)*	**20**	20	**1,667**	(1,822)	**7,026**	5,358
Mark Wish	*(note b)*	**N/A**	49	**(16)**	(2,960)	**–**	(11,596)
				1,651	(4,782)	**7,026**	(6,238)

Notes:

a. Prime Paradise was incorporated in the BVI and, through its subsidiaries, is principally engaged in provision of securities placing and brokerage services.

b. Mark Wish was incorporated in the BVI and, through its subsidiaries, was principally engaged in trading of garment accessories and manufacture and sales of LED components. Mark Wish was disposed of during the current year.

42. SUBSIDIARIES (Continued)

Summarised financial information in respect of the Company's subsidiaries at 31 December 2018 that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Prime Paradise

	In respect of the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Current assets	**196,575**	284,185
Non-current assets	**20,226**	20,400
Current liabilities *(note)*	**(174,117)**	(274,254)
Non-current liabilities	**(3,222)**	(3,217)
Equity attributable to owners of the Company	**32,436**	21,756
Non-controlling interests	**7,026**	5,358
Revenue	**27,143**	8,218
Expenses	**(14,795)**	(16,027)
Profit/(loss) for the year	**12,348**	(7,809)
Profit/(loss) attributable to owners of the Company	**10,681**	(5,987)
Profit/(loss) attributable to non-controlling interests	**1,667**	(1,822)
Profit/(loss) for the year	**12,348**	(7,809)
Total comprehensive income/(expense) attributable to owners of the Company	**10,681**	(5,987)
Total comprehensive income/(expense) attributable to non-controlling interests	**1,667**	(1,822)
Total comprehensive income/(expense) for the year	**12,348**	(7,809)
Net cash inflow from operating activities	**92,030**	18,633
Net cash inflow from investing activities	**1,820**	613
Net cash inflow from financing activities	**–**	9,560
Net cash inflow	**93,850**	28,806

Note: The current liabilities include amounts due to intragroup companies amounted to HK$44,646,000 (2017: HK$44,646,000) which have been eliminated in the preparation of the Group's consolidated financial statements.