China Gem Holdings Limited
中國中石控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1191)

Annual Report 2018

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liu Jieshan, *Chairman*
Mr. Cui Lei, *Chief Executive*
Mr. Yang Huaijun, *Vice Chief Executive*
Mr. Han Litie, *Chief Financial Officer*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Su Xihe
Mr. Wong Wai Chun Alex
Mr. He Yaode

BOARD COMMITTEES

Audit Committee

Mr. Wong Wai Chun Alex *(Chairman)*
Mr. Su Xihe
Mr. He Yaode

Remuneration Committee

Mr. Su Xihe *(Chairman)*
Mr. Wong Wai Chun Alex
Mr. He Yaode

Nomination Committee

Mr. Liu Jieshan *(Chairman)*
Mr. Su Xihe
Mr. Wong Wai Chun Alex
Mr. He Yaode

Executive Committee

Mr. Cui Lei *(Chairman)*
Mr. Liu Jieshan
Mr. Yang Huaijun
Mr. Han Litie

COMPANY SECRETARY

Mr. Liu Wai Kin

AUTHORISED REPRESENTATIVES

Mr. Cui Lei
Mr. Liu Wai Kin

AUDITOR

BDO Limited
Certified Public Accountants
25/F., Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Chiyu Banking Corporation Ltd.

LEGAL ADVISER

On Bermuda Law
Conyers Dill & Pearman
29th Floor, One Exchange Square
8 Connaught Place, Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

CORPORATE INFORMATION

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2606B, 26/F.
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

WEBSITE

www.1191hk.com

STOCK CODE

1191

LETTER TO SHAREHOLDERS

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of China Gem Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 (the "Year").

REVIEW OF RESULTS

The financial market in Hong Kong is highly correlated to US and mainland China. In 2018, US banks raised the 10-year U.S. treasury bond interest rates, resulting in the increase of market risk-free interest rate and cost of capital. In addition, under the strong regulation of Chinese government, the fund-raising ability of private enterprises and the capital market liquidity were impaired. Although the year-on-year growth of social financing in February 2019 was higher than that of the end of 2018 for two consecutive months and inhibited the continuous decline, the Group believes that there will be various uncertainties in the future, which will affect its business to some extent.

During the Year, the Group's total revenue from its principal business was approximately HK$99,532,000, representing a decrease of 9.5% compared with last year, of which the revenue was related to money lending, license and financial services business, fund investment and property development. During the Year, the Group recorded net loss attributable to owners of the Company amounted to HK$67.6 million (seventeen months ended 31 December 2017: net profit attributable to owners of the Company HK$41.5 million). The turnaround from profit to loss is mainly due to i) a significant increase in finance costs (including interest on other borrowings and interest on senior notes) due to full year effect; (ii) fair value loss on financial assets through profit or loss amounting to HK$26.9 million during the Year whereas fair value gain on financial assets through profit or loss amounting to HK$21.5 million for the seventeen months ended 31 December 2017; and (iii) the expected credit loss on financial assets amounting to HK$18.4 million due to the adoption of Hong Kong Financial Reporting Standard 9 ("HKFRS 9").

PROSPECTS

The Group will adhere to the business philosophy of "Professionalism, Dedication, Devotion" and "Customer First, Efficiency Priority, Synergic Development, Pursuit of Excellence", actively seize the historical development opportunities made available by the "One Belt, One Road" initiative and the national strategy of Guangdong-Hong Kong-Macao Greater Bay Area, and continue to focus on the existing business while actively giving full play to the special strengths of its team in the disposal of non-performing assets, gradually developing special opportunity real estate and special opportunity debt business and forming a new asset management business mode in the future.

We expect to make meaningful progress in year 2019 toward to a stable growth targets. We are committed to do everything we can to deliver consistent, reliable, balanced and sustainable growth and value creation for you and our shareholders.

LETTER TO SHAREHOLDERS

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to our shareholders for the trust and support. I would also like to express my gratitude to our management team and all staff for their dedication and contributions in the execution of the Group's strategies and operations during the Year.

Mr. Liu Jieshan
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the year under review, the Group recorded revenue from operations of approximately HK$99,532,000 (seventeen months ended 31 December 2017: HK$109,933,000), representing a year-on-year decrease of 9.5%.

Other losses, net

Other losses of HK$2.4 million was mainly attributable to net foreign exchange loss arising from depreciation of Renminbi during the Year.

Administrative expenses

Administrative expenses decreased by 8.1% to HK$52,499,000 (seventeen months ended 31 December 2017: HK$57,116,000). The decrease was mainly due to decrease in staff cost by HK$1.5 million and legal and professional fee by HK$7.9 million during the Year.

Finance cost

Finance costs were increased from HK$8,006,000 for the seventeen months ended 31 December 2017 to HK$57,605,000 for the year ended 31 December 2018. The increase mainly due to the full year effect. HK$38,356,000 and HK$15,759,000 were the interest and cost in relation to the loan facility from China Huarong International Holdings Limited with an aggregate principal amount up to US$60 million 9.7% due 2022 (as of 31 December 2018, the Company had drawn US$50 million from the facility), and senior notes with an aggregated principal of HK$180 million 8% due in the last quarter of 2019 issued on 3 November 2017 respectively.

Income tax expenses

For the year ended 31 December 2018, income tax expenses of the Group amounted to HK$7.7 million (seventeen months ended 31 December 2017: income tax credit: HK$9.1 million). It mainly arose from the Land Appreciation Tax and Enterprise Income Tax of the PRC subsidiaries.

Net loss for the year

For the year ended 31 December 2018, the Group recorded net loss attributable to owners of the Company amounted to HK$67.6 million (seventeen months ended 31 December 2017: net profit attributable to owners of the Company HK$41.5 million). The turnaround from profit to loss is mainly due to (i) a significant increase in finance costs (including interest on other borrowings and interest on senior notes) due to full year effect; (ii) fair value loss on financial assets through profit or loss amounting to HK$26.9 million during the year 2018 whereas fair value gain on financial assets through profit or loss amounting to HK$21.5 million for the seventeen months ended 31 December 2017; and (iii) the expected credit loss on financial assets amounting to HK$18.5 million due to adoption of HKFRS 9.

Dividend

The Board did not recommend the declaration of any final dividend for the year ended 31 December 2018 (seventeen months ended 31 December 2017: nil).

Business review on each segment are as follows:

i) **Money lending**

The Group has provided a wide range of loans with gross loan amount of approximately HK$262.2 million as of 31 December 2018 (2017: HK$85 million). Interest rates ranging from 7.5%-15% (2017: 10%-15%). The Group devoted more resources to expand the money lending sector during the Year. Customers are mainly from corporate who have been carefully evaluated by the Group on their repayment capabilities and securities pledged. As a result, revenue generated from this segment was approximately HK$23,594,000 during the Year (seventeen months ended 31 December 2017: HK$6,780,000), representing an increase of 248% compare to the corresponding period.

ii) **License and Financial Service Business**

During the Year, the Group provided administrative services to other investment managers of funds domiciled in Cayman Island. The license and financial business has generated revenue of approximately HK$2,405,000 (seventeen months ended 31 December 2017: HK$82,756,000), mainly from provision of administrative services to China Gem L.P., in which a fellow subsidiary of the Group was the general partner of the fund during the Year. Decrease in revenue from the license and financial business mainly due to the Group completed three single businesses in the corresponding period whereas only one services provided during the Year.

iii) **Strategic financial investment**

In order to increase the efficiency of the use of the funds of the Company and match the resources with the business, the Group seizes opportunities in fund investment, efficiently and fully utilizes the financial resources of the Group, utilizes the professional advantages, talent advantages and management advantages of the fund companies, and makes portfolio investments through the subscription of private equity funds to spread risks, aiming to earn a higher return on investment.

The investment targets include high yield private bonds, private equity investments, other convertible bonds, debt instruments, etc.

Our objective is to deliver long-term capital growth to our shareholders by leveraging a diverse yet complementary portfolio of businesses, investments and multiple asset classes. In relation to the strategic financial investment segment, we work with external partners and investment funds, which are selected based on their medium-to-long-term track record, strategic fit and access to co-investment opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

As of 31 December 2018, the total subscribed amount of investment the Group made to five investments funds was approximately to HK$646.65 million. The Group did not further invest or early redeem any investment during the Year.

The table below sets forth the movement of underlying investments of the five investments funds during the Year.

	Amount *(in millions of HK$)*
Fair value at 1 January 2018	664.0
Change in fair value	(26.9)
Fair value at 31 December 2018	637.1

The table below sets forth the breakdown of fair value of underlying investments of the five investments funds, by investment type, as at the dates indicated.

	As of 31 December 2018	
	Amount (in millions of HK$)	*Percentage*
Debt securities	512.7	80.5%
Convertible bonds	124.4	19.5%
	637.1	100%

During the Year, the revenue generated from funds amounted to approximately HK$69,754,000 (seventeen months ended 31 December 2017: HK$15,491,000) and a fair value loss on financial assets through profit and loss amounted to approximately HK$26,915,000 (seventeen months ended 31 December 2017: fair value gain on financial assets through profit and loss amounted to HK$21,518,000). The segment result for the year was HK$25,508,000 (seventeen months ended 31 December 2017: HK$34,978,000), representing a 27.1% decrease compared to the corresponding period.

iv) Property development

Revenue in this segment was derived from leasing of properties and building management fee income in Shunde, the PRC. During the Year, the Group recorded the rental, management and related fee income of approximately HK$3,779,000 (seventeen months ended 31 December 2017: HK$4,906,000). The segment profit for the year was HK$4,893,000 (seventeen months ended 31 December 2017: segment loss HK$19,309,000). The reason of turnaround from segment loss to segment profit was mainly due to fair value losses on investment properties amounted to HK$17,051,000 recognised in the seventeen months ended 31 December 2017 whereas fair value gains on investment properties amounted to HK$812,000 for the year 2018.

During the Year, the Group acquired China Gem (Shenzhen) Investment Consulting Limited (中石（深圳）投資諮詢有限公司), which currently owns a portion of residential properties inside No. 3 Building under the Golden Dragon Project, which is situated in Taiping Lake Scene Zone in Huangshan District, Huangshan City, Anhui Province. As of 31 December 2018, this portion comprises a total of 47 residential units with an area amounting to 4,718.73 square meters at a valuation of RMB 46,800,000 (equivalent to approximately HK$53,274,000).

FUTURE PLANS

Looking forward, the Group will continue to focus on the development of money lending, license and financial service business, fund investment and property development while gradually carrying out special opportunity real estate and special opportunity debt business. Under the complicated macro-economic environment, the Group will adhere to the business philosophy of "Professionalism, Dedication, Devotion" and "Customer First, Efficiency Priority, Synergic Development, Pursuit of Excellence ", and will strive for our overall business development by fully exploring the synergy and interconnection between our existing business segments. The Board and management of the Company believe that, with a clear position, a team of professionals and effective execution capabilities, the Company will continue to enhance its core competitiveness and overall profitability to create greater value for the shareholders.

i) Money lending

Under current economic environment, in order to protect shareholders' interests and avoid risks, the Group will exercise prudent approach in assessing money lending projects and conduct proper control over the scale of money lending business. Besides improving our credit policies, we will continue to optimize the overall credit quality of our loan portfolios.

ii) License and Financial Service Business

For license business, the Group will continue to study the establishment of Special Opportunity Investment Fund and actively carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

In addition, for non-license financial service business, the Group will give full play to its talent advantages and intellectual output, provide tailor-made professional and comprehensive financial service solutions for customers. The Group will seek investment and growth opportunities in order to generate additional revenue through the linkage between domestic and overseas business, and the asset-light strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

iii) Strategic financial investment

The Group will continue to seize opportunity in fund investments in order to utilize the Group's financial resources more efficiently and effectively. To yield better investment returns, the Group will strengthen its original investment fund management, deepen its understanding of fund operations, and fully tap into the experience and expertise of the management team and general partners in its investment funds.

iv) Property development

In view of restrictions imposed on property projects in Mainland China, the Group will prepare appropriate entry and exit strategies in the interest of the Company and its shareholders as a whole. As for projects that underperform our expectations, we will elect to exit when timing is right. Furthermore, we will continue to explore other property development opportunities to expand our investment property portfolio and consolidate our revenue base, safeguarding the potential of capital appreciation for the Group. Acquisition of investment properties in Huangshan District was one of our important steps to strengthen our income base from property development segment.

v) Special opportunity real estate and special opportunity debt business

In 2018, under the low status of China's macro economy, coupled with structural deleveraging, corporate debt defaults took place frequently and the scale of non-performing assets sharply increased, which created good investment opportunities for the counter-cyclical investment of special opportunity funds. The Group could make flexible use of various disposal methods of non-performings assets, including debt restructuring, securitization, conversion of debt to equity to rebuild the business model of enterprises, or carry out business transformation of the subject enterprise, explore new markets, customers and business in an value-added way, and reshape the intrinsic value of enterprises, which will revitalize non-performing assets while achieving good investment returns for investors. The Company will utilise its expertise on the non-performing assets, gradually develop special opportunity real estate and special opportunity debt business and form a new asset management business mode in the future.

Liquidity and capital resources

As of 31 December 2018, the Group had total cash and cash equivalents amounted to HK$6,887,000 (2017: HK$171,081,000), while net current assets amounted to HK$646,724,000 (2017: HK$708,844,000). The current ratio as a ratio of current assets to current liabilities was 2.55 times (2017: 4.44 times). The decrease in the current ratio is mainly due to the outstanding principal of the senior notes will be matured in the last quarter of 2019 and thus is reclassified from "non-current liabilities" to "current liabilities".

At the end of the Year, total debts (including loans from shareholders, other borrowings and senior notes) of the Group amounted to HK$656.1 million (2017: HK$616.9 million). Of this amount, 46.4% is repayable within one year (2017: 16.6%). All debts are charged at fixed interest rates, denominated in the Hong Kong dollars, US dollars and Renminbi. The gearing ratio, represents the ratio of total debts to the total equity of the Group, was 135.7% (2017: 127.5%).

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 31 December 2018, none of the Group's asset was pledged or charged.

Material Acquisitions, Disposals and Significant Investments

During the Year, the Group acquired 47 residential units in Huangshan District through acquisition of China Gem (Shenzhen) Investment Consulting Limited. No material disposal of investments during the year.

During the seventeen months ended 31 December 2017, significant investments are mainly fund investments amounted to HK$595.3 million.

Foreign Currency Exposure

Borrowings and sales and purchases of the Group are generally transacted in Hong Kong dollars, US dollars and Renminbi. For the year ended 31 December 2018, the Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed.

Contingent liabilities

Details of contingent liabilities are set out in Note 46 to the Consolidated Financial Statements.

Capital Commitments

The Group had no capital commitments as at 31 December 2018 (2017: Nil).

Employees

As at 31 December 2018, the Group had 32 employees in Hong Kong and China (2017: 34) and the total staff costs amounted to HK$33,165,000 for the year ended 31 December 2018 (seventeen months ended 31 December 2017: HK$34,696,000). Remuneration package of the employees includes monthly salary and medical claims. The remuneration policies are formulated on the basis of their performance, duties and responsibilities with the Company and the market condition. As to our investment on human resources, education subsidies would be granted to the Group's employees, with a view to reinforcing the competence of all levels of our employees.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Liu Jieshan ("Mr. Liu"), aged 45, joined the Company as the Chairman of the board and an executive director of the Company in February 2017. Mr. Liu is also the chairman of the nomination committee of the Company and a member of the executive committee of the Company. Mr. Liu graduated from the China University of Political Science and Law with a Doctor of Philosophy in Law degree. Mr. Liu holds the qualification and the licence of lawyer in mainland China. He led a number of acquisition projects, revamped business models, and led his team to generate several billions of dollars in business profits in the past years. Mr. Liu has extensive experience in financial and business sectors in Hong Kong and China. From July 2005 to January 2013, Mr. Liu worked on legal and internal risk control matters at a Chinese state-owned asset management company. From February 2013 to July 2014, Mr. Liu served as the general manager of the risk and compliance department of Huarong International Trust Co., Ltd.. From August 2014 to January 2015, Mr. Liu served as the general manager of the risk compliance department of Huarong (HK) International Holdings Limited. From January 2015 to August 2016, Mr. Liu served as the chief risk officer and associate chief executive officer of China Huarong International Holdings Limited. From August 2016 to December 2016, Mr. Liu served as the Deputy General Manager of Huarong Rongde (Hong Kong) Investment Management Co., Ltd.. Mr. Liu is also a director of China Gem Financial Group Limited (a substantial shareholder of the Company) and China Gem Group Limited since May 2017.

Cui Lei ("Mr. Cui"), aged 35, joined the Company as the chief executive officer, an executive director and an authorized representative of the Company in February 2017, and is also the chairman of the executive committee of the Company and a director of certain subsidiaries of the Company. He graduated from the Brock University in Canada with a Master of Business Administration degree in June 2008. Mr. Cui has been engaged in financing services and is familiar with both the Chinese and international markets. He has extensive experience in team and project diversification management. He also has extensive experience in various businesses including corporate financing, private equity investment, mezzanine investment, private equity funds, marketing of listed companies, mergers and acquisitions, privatisations, share buyback and share allotment. From May 2008 to January 2013, Mr. Cui served as the senior customer manager at the corporate department of Ping An Bank. From January 2013 to November 2016, Mr. Cui served as the investment banking director of China Huarong International Holdings Limited. Mr. Cui is also a director of China Gem Financial Group Limited (a substantial shareholder of the Company) and China Gem Group Limited since May 2017.

Yang Huaijun ("Mr. Yang"), aged 46, joined the Company as an executive director and the vice chief executive of the Company in May 2017, and is also a member of the executive committee of the Company and a director of certain subsidiaries of the Company. He graduated from the Business Administration School of the Renmin University of China with a Master Degree in Management in 2000. Mr. Yang has been engaged in asset management services and is familiar with the Chinese market. He has extensive experience in corporate management and asset management. From April 2000 to March 2016, Mr. Yang served as the project manager and the departmental general manager at the Beijing Branch of China Huarong Asset Management Co., Ltd. respectively. From March 2016 to February 2017, Mr. Yang served as the managing director of Huarong Jiantou Asset Management Co., Ltd (華融建投資產管理有限公司).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Han Litie ("Mr. Han"), aged 37, joined the Company as an executive director and the chief financial officer of the Company since in May 2017, and is also a member of the executive committee of the Company and a director of two subsidiaries of the Company. He graduated from the accounting department of School of Business, University of International Business and Economics and obtained a Master Degree in Management in 2006. He is a member of the Association of Chartered Certified Accountants. Mr. Han has extensive experience in accounting, auditing and finance field, and is very familiar with financial management, credit business, investment business, international business and negotiating translation. From July 2006 to June 2007, he was engaged in the audit work at Deloitte Touche Tohmatsu CPA Ltd. (Beijing). From June 2007 to March 2016, he served various positions including the commissioner of residential mission in Belgium and Netherlands, the deputy director of the accounting department, the commissioner of FX Facility Agreements Reviewing Committee, the independent commissioner of Road Show Committee at the Shenzhen Branch of China Development Bank Corporation. From March 2016 to March 2017, he was a director of the investment management department at China Huarong International Holdings Limited.

Independent Non-executive Directors

Su Xihe ("Mr. Su"), aged 64, joined the Company as an independent non-executive director in May 2017, also the Chairman of the remuneration committee, a member of the audit committee and the nomination committee of the Company. He obtained a Master Degree in Economics from Wuhan University in China in 2002. He worked in Henan Industrial and Commercial Bank for more than 13 years and held various positions, including the president of Yanjin County Branch, the head of the provincial credit department and the president of Xinxiang City Branch. He joined China Huarong Asset Management in April 2000 and retired in February 2015, during which he has served as deputy general manager of Zhengzhou office, general manager of audit department at head office, general manager of Shenyang office, general manager of Fuzhou office and others. He was the general manager at the Beijing Branch of China Huarong Asset Management Co., Ltd. upon retirement. Mr. Su has over 36 years of experience in finance and asset management.

Wong Wai Chun Alex ("Mr. Wong"), aged 41, joined the Company as an independent non-executive director in May 2017, also the Chairman of the audit committee, a member of the remuneration committee and the nomination committee of the Company. He obtained a bachelor degree in Accounting and Finance at the University of Glamorgan (now known as the University of South Wales) in the United Kingdom in 2001. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has over 7 years' experience in auditing and accounting field. He is also a director of Grand Moore Capital Ltd.

Mr. He Yaode ("Mr. He"), aged 50, joined the Company as an independent non-executive director in May 2018, also a member of the audit committee, the remuneration committee and the nomination committee of the Company. He obtained his doctoral degree in civil law and commercial law from Renmin University of China in 2010. He has over 25 years of experience as legal counsel. Starting his career as a practicing lawyer in 1993, Mr. He accumulated extensive experience in legal practices and developed a strong foundation of legal theories. In 2001, Mr. He began to serve as a retained legal counsel for various business entities in Beijing due to his extensive research and unique insight into contract laws, company laws, securities laws, laws governing foreign investments, financing for projects (including financing for road construction projects, real estate, large-size tender and bidding projects), capital operation and disputes related to intellectual property rights (including patents, trademarks and trade secrets), as well as his ample practical experiences in handling significant, complicated and difficult cases.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Sun Xuguo, aged 38, joined the Company as the vice president in October 2017, also the deputy general manager of China Gem Financial Group Limited. Mr. Sun Xuguo has extensive experience in the financial industry and is responsible for the planning, implementation, and post-management of various types of trust projects such as real estate, coal energy and government financing platform. He has also extensive professional knowledge and practical experience in various business sectors including equity investment, mezzanine investment, trust loans, SME collective trust, equity yield rights trust, specific asset yield rights trust and property rights trust. From February 2010 to June 2017, Mr. Sun Xuguo served as departmental general manager of Huarong International Trust Co., Ltd.. During the period for more than seven years, he has provided financing services for several estate companies, coal energy companies and industrial and commercial companies, and the cumulative amount of financing has reached tens of billions of dollars.

Liu Likai, aged 37, joined the Company as the vice president in October 2017, also the deputy general manager of China Gem Financial Group Limited. Mr. Liu Likai has 11 years of experience in the financial industry and the cumulative amount of assets under his management reaches tens of billions of dollars. The investment scope includes real estate, mineral resources, public utilities, industrial and commercial companies, and securities investment. From September 2008 to December 2010, Mr. Liu Likai served as the trust manager and assistant to departmental general manager at Trust Operations Division III of Huarong International Trust Co., Ltd. respectively. From January 2011 to May 2017, Mr. Liu Likai served as the general manager at Trust Operations Division II and the general manager at Asset Management Division II of Huarong International Trust Co., Ltd. respectively.

COMPANY SECRETARY

Mr. Liu Wai Kin was appointed as the company secretary and an authorised representative of the Company with effect from 5 November 2017. He holds a Master's Degree in Professional Accounting and Corporate Governance. He is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators of the United Kingdom.

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of China Gem Holdings Limited (the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2018 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are providing money lending, license and financial service business, fund investment and property development. The principal activities of the Company's principal subsidiaries are set out in note 37 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is provided in the Management Discussion and Analysis of this annual report.

SEGMENT INFORMATION

An analysis to the Group's turnover and contribution to results by principal activities for the year ended 31 December 2018 is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2018 and the statements of financial position of the Group as at 31 December 2018 are set out in the consolidated financial statements on pages 53 to 54.

FINAL DIVIDEND

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining entitlement of the Shareholders to attend and vote at the AGM, the register of members is scheduled to be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, Shareholders must lodge all transfer documents accompanied by the relevant share certificates with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 21 May 2019.

DIRECTORS' REPORT

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets, liabilities and non-controlling interests of the Group for the last five years is set out on page 149. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 34 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 38 to the consolidated financial statements and in the consolidated statement of changes in equity on page 55 of the annual report respectively.

DISTRIBUTABLE RESERVES

The Company has no reserves, comprise share premium and accumulated losses, available for distribution to shareholders as at 31 December 2018 (31 December 2017: no reserves available for distribution).

Pursuant to the Companies Act 1981 of Bermuda, the Company's share premium account of HK$1,888,560,000 (31 December 2017: HK$1,829,665,000) can be distributed in the form of fully paid shares.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the Year are set out in note 18 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 17 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Liu Jieshan, *Chairman*
Mr. Cui Lei, *Chief Executive*
Mr. Yang Huaijun, *Vice Chief Executive*
Mr. Han Litie, *Chief Financial Officer*

Independent Non-executive Directors

Mr. Su Xihe
Mr. Wong Wai Chun Alex
Mr. He Yaode (appointed on 30 May 2018)
Mr. Wu Shiming (resigned on 30 May 2018)

Biographical details of the existing Directors are set out on pages 12 to 13.

In accordance with bye-laws 87(1) and 87(2) of the Bye-laws of the Company, Mr. Liu Jieshan and Mr. Cui Lei, shall retire from office by rotation and being eligible, will offer themselves for re-election at the AGM. In accordance with bye-laws 86(2), Mr. He Yaode, being newly appointed Director, shall retire from office at the AGM and being eligible, offer himself for re-election at the AGM.

DIRECTOR'S SERVICE AGREEMENTS

Mr. Liu Jieshan was appointed as the Chairman of the Board and an executive Director under a renewed service agreement for a term of two years commencing from 9 February 2019 unless terminated by at least three month's written notice served by either party at any time during the then existing term.

Mr. Cui Lei was appointed as an executive Director and the Chief Executive under a renewed service agreement for a term of two years commencing from 9 February 2019 unless terminated by at least three month's written notice served by either party at any time during the then existing term.

Mr. Yang Huaijun and Mr. Han Litie were appointed as executive Directors under service agreements for a term of two years commencing from 8 May 2017 unless terminated by at least three month's written notice served by either party at any time during the then existing term.

Mr. Su Xihe and Mr. Wong Wai Chun Alex were appointed as independent non-executive Directors under service agreements for a term of two years commencing from 8 May 2017 unless terminated by at least three month's written notice served by either party at any time during the then existing term.

Mr. He Yaode was appointed as independent non-executive Director under a service agreement with the Company for a term of two year commencing from 30 May 2018 unless terminated by at least three month's written notice served by either party at any time during the then existing term.

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The term of office of each of the non-executive Directors (including the independent non-executive Directors) appointed from time to time is fixed subject to retirement by rotation and re-election in accordance with the requirements of code provisions A.4.1 and A.4.2 of the CG Code which state that non-executive directors should be appointed for a specific term, subject to re-election, and that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year. The Company has arranged insurance coverage in respect of legal action against its Directors during the Year.

CHANGE OF DIRECTORS

With effect from 30 May 2018. Mr. Wu Shiming resigned as an independent non-executive director of the Company and ceased to be the chairman of each of the audit committee and the remuneration committee and a member of the nomination committee of the Company due to his other personal commitments; and Mr. He Yaode was appointed as an independent non-executive director of the Company, a member of each of the audit committee, the remuneration committee and the nomination committee of the Company.

CHANGES IN INFORMATION ON DIRECTORS

There is no change in information on the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's last published 2018 interim report and up to the date of this report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of "Directors' and chief executives' interests in shares" and the "Share option scheme" as disclosed below, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

MANAGEMENT CONTRACTS

Save for the service agreements, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

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

As at 31 December 2018, none of the Directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required to be recorded in the register required to be kept by the Company under section 352 of the SFO; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

SHARE OPTION SCHEME

The existing share option scheme of the Company (the "Scheme") was approved and adopted by the Shareholders pursuant to an ordinary resolution passed on 28 July 2010 with scheme mandate limit refreshed on 25 May 2016. The primary purpose of the Scheme is providing incentive to the eligible employees and Directors. Under the terms of the Scheme, the Board may, at their discretion, grant options to the participants who fall within the definition prescribed in the Scheme including the directors and employees of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding to the offer date; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, which is 41,353,733 shares as at 31 December 2018 without prior approval from the Shareholders. Any grant of options to substantial Shareholders or independent non-executive Directors in excess of 0.1% of the Company's issued shares and with a value in excess of HK$5,000,000 must be approved in advance by the Shareholders. A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The Scheme shall be valid and effective for a period of ten (10) years commencing from its date of adoption on 28 July 2010 and expiring on 27 July 2020.

Share options were granted under the Scheme and their movements during the Year were set out in the table below:

	Number of share options				
Category and name of participant	Outstanding as at 1 January 2018	Granted during the Year	Exercised during the Year	Cancelled/ lapsed during the Year	Outstanding as at 31 December 2018
Directors					
Mr. Liu Jieshan	–	41,340,000	–	–	41,340,000
Mr. Cui Lei	–	41,340,000	–	–	41,340,000
Mr. Yang Huaijun	–	41,340,000	–	–	41,340,000
Mr. Han Litie	–	41,340,000	–	–	41,340,000
	–	165,360,000	–	–	165,360,000
Employees	–	82,680,000	–	–	82,680,000
Total	–	248,040,000	–	–	248,040,000

On 23 November 2018, the Company granted a total of 248,040,000 share options under the Scheme with an exercise price of HK$0.108 per share with a validity period of which (i) 10% of share options is exercisable from 23 November 2018 to 22 November 2023; (ii) 40% of share options is exercisable from 23 February 2019 to 22 November 2023; and (iii) 50% of share options is exercisable from 23 May 2019 to 22 November 2023.

No share options were exercised during the year ended 31 December 2018. Accordingly, as at the date of this report, there were a total of 248,040,000 share options outstanding under the Scheme and the total number of Shares available for issue under the Scheme was 248,040,000 shares, representing approximately 6.00% of the existing total number of issued Shares.

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "Share Option Scheme" above, no equity-linked agreements were entered into by the Company during the year ended 31 December 2018 or subsisted at the end of the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Scheme as disclosed above, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors, nor chief executive of the Company, or any of their spouses or children under the age of 18 had any interests in, or had been granted, any rights to subscribe for any securities in or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2018, interests of Directors in competing businesses of the Group were as follows:

Name of Director	Nature of competing business	Nature of interest	Name of company
Mr. Liu Jieshan	Providing financial services	As a director	China Gem Financial Group Limited
Mr. Cui Lei	Providing financial services	As a director	China Gem Financial Group Limited

Save as disclosed above, as at 31 December 2018, none of the Directors or their respective close associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 40 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, holding companies, or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as being known to the Directors or chief executive of the Company, as at 31 December 2018, the interests and short positions of the substantial Shareholders or other persons (other than the Directors or chief executive of the Company) in the Shares and underlying Shares which have been disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Capacity	Number of Shares held in long position (L)/ short position (S)	Approximate percentage of the total issued Shares *(Note g)*
(I) Substantial Shareholders			
China Gem Financial Group Limited	Beneficial owner	820,092,952 (L)	19.83% (L)
		511,281,872 (S)	12.36% (S)
China Gem Group Limited *(Note a)*	Interests in controlled corporation	820,092,952 (L)	19.83% (L)
		511,281,872 (S)	12.36% (S)
Zhong Ling *(Note b)*	Interests in controlled corporation	820,092,952 (L)	19.83% (L)
		511,281,872 (S)	12.36% (S)
Hua Tai Investment Co. Ltd.	Beneficial owner	848,878,128 (L)	20.53% (L)
		338,718,128 (S)	8.19% (S)
An Hong *(Note c)*	Interests in controlled corporation	848,878,128 (L)	20.53% (L)
		338,718,128 (S)	8.19% (S)
(II) Other Persons			
Fen River Capital Limited	Person having a security interest in shares	513,122,667 (L)	12.41% (L)
Huang Zhengxiong *(Note d)*	Interests in controlled corporation	513,122,667 (L)	12.41% (L)
至卓飛高企業管理諮詢服務(韶關)有限公司	Person having a security interest in shares	493,160,000 (L)	11.93% (L)
Topsearch Printed Circuits (HK) Limited *(Note e)*	Interests in controlled corporation	493,160,000 (L)	11.93% (L)
Topsearch Industries (Holdings) Limited *(Note e)*	Interests in controlled corporation	493,160,000 (L)	11.93% (L)
Topsearch Industries (BVI) Limited *(Note e)*	Interests in controlled corporation	493,160,000 (L)	11.93% (L)
China HKBridge Holdings Limited *(Note e)*	Interests in controlled corporation	493,160,000 (L)	11.93% (L)
Prosper Talent Limited *(Note f)*	Person having a security interest in shares	359,537,333 (L)	8.69% (L)
CCBI Investments Limited *(Note f)*	Interests in controlled corporation	359,537,333 (L)	8.69% (L)

Name	Capacity	Number of Shares held in long position (L)/ short position (S)	Approximate percentage of the total issued Shares *(Note g)*
(II) Other Persons (Cont'd)			
CCB International (Holdings) Limited *(Note f)*	Interests in controlled corporation	359,537,333 (L)	8.69% (L)
CCB Financial Holdings Limited *(Note f)*	Interests in controlled corporation	359,537,333 (L)	8.69% (L)
CCB International Group Holdings Limited *(Note f)*	Interests in controlled corporation	359,537,333 (L)	8.69% (L)
China Construction Bank Corporation *(Note f)*	Interests in controlled corporation	359,537,333 (L)	8.69% (L)
Central Huijin Investment Ltd. *(Note f)*	Interests in controlled corporation	359,537,333 (L)	8.69% (L)

Notes:

(a) China Gem Group Limited was deemed to be interested in the 820,092,952 shares as it directly held 100% of the issued shares of China Gem Financial Group Limited.

(b) Mr. Zhong Ling was deemed to be interested in the 820,092,952 shares as he indirectly held 100% of the issued shares of China Gem Financial Group Limited.

(c) Mr. An Hong was deemed to be interested in the 848,878,128 shares as he directly held 100% of the issued shares of Hua Tai Investment Co. Ltd.

(d) Mr. Huang Zhengxiong was deemed to be interested in the 513,122,667 shares as he directly held 100% of the issued shares of Fen River Capital Limited.

(e) 至卓飛高企業管理諮詢服務(韶關)有限公司 is a wholly-owned subsidiary of Topsearch Printed Circuits (HK) Limited, which in turn is a wholly-owned subsidiary of Topsearch Industries (Holdings) Limited, which in turn is a wholly-owned subsidiary of Topsearch Industries (BVI) Limited, which in turn is a wholly-owned subsidiary of China HKBridge Holdings Limited.

(f) On 3 November 2017, the Company entered into a note purchase agreement with Prosper Talent Limited in relation to two-year notes in an aggregate principal amount of HK$180 million. China Gem Financial Group Limited charged 359,537,333 shares in favour of the Prosper Talent Limited as security for the notes.

Prosper Talent Limited is a wholly-owned subsidiary of CCBI Investments Limited, which in turn is a wholly-owned subsidiary of CCB International (Holdings) Limited, which in turn is a wholly-owned subsidiary of CCB Financial Holdings Limited, which in turn is a wholly-owned subsidiary of CCB International Group Holdings Limited, which in turn is a wholly-owned subsidiary of China Construction Bank Corporation, which is 57.11% held by Central Huijin Investment Ltd..

(g) These percentages are calculated on the basis of 4,135,373,330 issued shares of the Company as at 31 December 2018.

Save as disclosed above, the Company has not been notified of any persons other than substantial shareholders who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO as at 31 December 2018.

ADVANCE TO AN ENTITY

On 27 December 2017, Professional Wealth Creation Limited (the "Lender", a wholly-owned subsidiary of the Company) entered into the First Facility Agreement with Debao Property Development (HK) Limited (the "Borrower", an independent third party), pursuant to which the Lender agreed to grant to the Borrower a facility in the principal amount of HK$30,000,000, bearing interest at a rate of 15% per annum for a period of three months (the "First Facility"). The Borrower paid all the interest on the First Facility on drawdown date and repaid the principal of the First Facility in full to the Lender on the repayment date.

On 7 February 2018, the Lender entered into the Second Facility Agreement with the Borrower and Debao Property Development Ltd. (the "Corporate Guarantor"), pursuant to which the Lender agreed to further grant to the Borrower a facility in the principal amount of HK$23,000,000 or the equivalent amount in US dollars, bearing interest at a rate of 15% per annum for a period of two months (the "Second Facility") and the Corporate Guarantor agreed to guarantee the obligations of the Borrower under the Second Facility Agreement. The Borrower paid all the interest and repaid the principal of the Second Facility in full to the Lender on the repayment date.

On 9 April 2018, the Lender entered into the Third Facility Agreement with the Borrower and the Corporate Guarantor, pursuant to which the Lender agreed to further grant to the Borrower a facility in the principal amount of HK$50,000,000 or the equivalent amount in US dollars, bearing interest at a rate of 15% per annum for a period of six months (the "Third Facility") and the Corporate Guarantor agreed to guarantee the obligations of the Borrower under the Third Facility Agreement. The Borrower has not paid any the interest and has not repaid the principal of the Third Facility to the Lender as of the date hereof.

CONTINUING CONNECTED TRANSACTION

On 14 April 2017, Old Peak Capital Limited ("Old Peak"), an indirect wholly-owned subsidiary of the Company, as administrator entered into an administration agreement (the "First Administration Agreement") with China Gem L.P., as client in respect of provision of administration services to China Gem L.P. for the period from 14 April 2017 to 13 April 2018. The total amount of the service fees received by Old Peak under the First Administration Agreement did not exceed HK$3,000,000. The transaction has been conducted on normal commercial terms.

On 15 June 2018, Old Peak entered into a new administration agreement with China Gem L.P. (the "Second Administration Agreement"), pursuant to which China Gem L.P. agreed to appoint Old Peak and Old Peak agreed to provide administration services to China Gem L.P. for the period from 15 June 2018 to 14 June 2019. The total amount of the service fees receivable by Old Peak under the Second Administration Agreement would not exceed HK$3,000,000. The transaction has been conducted on normal commercial terms. Details of the transaction were set out in the announcement of the Company dated 15 June 2018.

China Gem Financial Group Limited ("CG Finance") was directly interested in approximately 28.52% and 29.80% of the issued shares capital of the Company as at the date of the First Administration Agreement and the Second Administration Agreement respectively, and approximately 19.83% of the issued share capital of the Company as at 31 December 2018. CG Finance directly wholly own China Gem Investment Management Limited which is the general partner of the partnership of the China Gem L.P.. Accordingly, China Gem L.P. was a connected person of the Company as at the date of the First Administration Agreement, the Second Administration Agreement and 31 December 2018. The First Administration Agreement and the Second Administration Agreement, both of which were carried out on a continuing basis and in the ordinary and usual course of business of the Company, constituted the continuing connected transactions for the Company under Rule 14A.31 of the Listing Rules.

The independent non-executive Directors reviewed the above continuing connected transaction and confirmed that such transaction has been entered into by the Group in the ordinary and usual course of business of the Group, on normal commercial terms, and in accordance with the relevant agreement governing such transaction on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

Save as disclosed above, there is no connected transaction or continuing connected transaction undertaken by the Company during the year ended 31 December 2018 and up to the date of this report which is required to be disclosed pursuant to Chapter 14A of the Listing Rules.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 20 April 2018, the Company and Partners Capital Securities Limited ("Placing Agent") entered into a placing agreement, pursuant to which the Company agreed to place, through the Placing Agent on a best effort basis, up to 719,000,000 new shares at placing price of HK$0.12 per share to not less than six placees, who are independent of and not connected with the Company, the connected persons of the Company and their respective associates. The placing was completed on 15 May 2018, an aggregate of 540,000,000 new shares at HK$0.12 per share was issued and the net proceeds from the placing amounted to approximately HK$64.3 million.

The proceeds were initially intended to be utilised for the property development related business (approximately HK$25 million) and for general working capital (approximately HK$39.3 million). To align with the Group's expansion plan on our money lending business, the directors change the use of the proceeds from property development related business to money lending business. During the placing to 31 December 2018, all proceeds were used as general working capital. The directors considered that such change in the use of the proceeds was a more efficient and effective deployment of the Group's financial resources were in the best interests of the Group and the Shareholders as a whole.

MAJOR SUPPLIERS AND CUSTOMERS

The amount of revenue attributable to the Group's largest customer represented 20.41% of the Group's total revenue.

The aggregate amount of revenue attributable to the Group's five largest customers represented 73.51% of the Group's total revenue.

In addition, the nature of the activities of the Group is such that the Group has no purchases during the Year.

As far as the Directors are aware, neither the Directors, their close associates nor those shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's five largest customers.

PRE-EMPTIVE RIGHTS

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

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Company is aware, save as disclosed in note 22 to the consolidated financial statements, there was no material breach of or non-compliance with all applicable laws and regulations that had a significant impact on the businesses and operation of the Group during the Year.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 28 to 38 of the annual report.

EVENT AFTER THE REPORTING PERIOD

Issue Of Convertible Bonds Under General Mandate

On 11 March 2019, the Company entered into the subscription agreement (the "Subscription Agreement") with Pearl River Capital Limited (the "Subscriber"), pursuant to which the Subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to issue, 8% coupon convertible bonds due 2022 in the principal amount of HK$115 million (the "Convertible Bonds").

Assuming the conversion rights attaching to the Convertible Bonds are exercised in full at the conversion price of HK$0.14, a maximum number of 821,428,571 conversion shares will be allotted and issued, representing (i) approximately 19.86% of the existing issued share capital of the Company as at the date hereof; and (ii) approximately 16.57% of the issued share capital of the Company as enlarged by the issue of the conversion shares under the Convertible Bonds.

The net proceeds from the Subscription are expected to be approximately HK$115 million, which are intended to be used for supplement working capital of the Company and develop existing business of the Company.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by BDO Limited ("BDO") whose term of office will expire upon the AGM. BDO was re-appointed as the auditor of the Company by shareholders of the Company at the last annual general meeting and to hold office until the conclusion of the next annual general meeting of the Company. A resolution for the appointment of BDO as the auditors of the Company for the subsequent year is to be proposed at the AGM.

The consolidated financial statements of the Group for the year ended 31 July 2016 and the seventeen months ended 31 December 2017 were audited by BDO.

On Behalf of the Board

Mr. Liu Jieshan
Chairman

Hong Kong, 29 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Compliance with the Corporate Governance Code

The Board is committed to establish and maintain high standards of corporate governance practices and procedures to enhance shareholders' interest and promote sustainable development. The Company has adopted the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance.

Throughout the year ended 31 December 2018, the Company has complied with the code provisions of the CG Code.

The corporate governance principles of the Company emphasis an effective Board, sound internal control, appropriate independence policy, transparency and accountability to the shareholders of the Company. The Board will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies may meet the general rules and standards required by the Listing Rules. Throughout the year ended 31 December 2018 (the"Year"), the Company has complied with the code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. In response to specific enquiry made by the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2018. The Company also adopted a code of conduct governing securities transactions by its employees who may access to inside information relating to the Company.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises seven Directors, including four Executive Directors and three Independent Non-executive Directors. The biographical details of the Directors are set out in the section entitled "Biographies of Directors and Senior Management" on pages 12 to 13 in this Annual Report. Each of the Directors had signed a service agreement setting out the key terms and conditions of his service. A list containing the names of all the Directors and their role and function has been published on the respective websites of the Stock Exchange and the Company pursuant to code provision A.3.2 of the CG Code, and will be updated from time to time as and when there are any changes.

The Company maintained a sufficient number of independent non-executive Directors representing more than one-third of the Board as required under the Listing Rules. The three independent non-executive Directors possessed professional expertise and a diverse range of experience. The Board can effectively and efficiently exercise independent judgment, give independent advice to the management of the Company and make decisions objectively to the benefits and in the interests of the Company and the Shareholders as a whole.

The Board delegated its functions to various Board committees (including the Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee), with specific written terms of reference which clearly define their respective roles, authorities and functions while specifically reserving certain important matters and decisions for the Board's approval.

Regular Board meetings are held at least four times a year with at least fourteen days prior notice being given to all the Directors. Additional Board meeting(s) will be arranged and held as and when required. The Directors may attend the Board meetings either in person or through electronic means of communication. A total of 11 Board meetings were held during the year ended 31 December 2018.

The Directors are provided with all relevant information in advance to enable them to make informed decisions and appropriate arrangements to ensure that they are given every opportunity to include matters in the agendas for the regular Board meetings. All Directors have separate and independent access to the advice and services of the Group's senior management and consultants to ensure the Board complying with all applicable laws, rules and regulations.

The attendance record of each individual Board member at Board meetings, various Board committee meetings and general meetings of the Company held during the Year are as follows:

	Attendance/Number of Meetings					
Name of Directors	**Board**	**Audit**	**Remuneration**	**Nomination**	**Executive**	**AGM**
Executive Directors						
Mr. Liu Jieshan *(Chairman)*	10/11	–	–	2/3	11/11	1/1
Mr. Cui Lei	11/11	–	–	–	11/11	1/1
Mr. Yang Huaijun	11/11	–	–	–	11/11	1/1
Mr. Han Litie	10/11	–	–	–	11/11	1/1
Independent Non-executive Directors						
Mr. Su Xihe	10/11	3/3	4/4	3/3	–	1/1
Mr. Wong Wai Chun Alex	11/11	3/3	4/4	3/3	–	1/1
Mr. He Yaode (appointed on 30 May 2018)	3/4	0/1	2/2	1/1	–	–
Mr. Wu Shiming (resigned on 30 May 2018)	6/6	2/2	2/2	2/2	–	1/1

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive, held by separate individuals, Mr. Liu Jieshan and Mr. Cui Lei respectively, are clearly segregated with an aim to providing a balance of power and authority. The Chairman is principally responsible for the strategic planning of the Group and the management of the operations of the Board. The Chief Executive is mainly responsible for the operations and business development of the Group.

Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Bye- laws. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-Executive Directors.

Pursuant to the bye-laws of the Company (the "Bye-laws") and the CG Code, every Director is subject to re-election and retirement by rotation at least once every three (3) years. All the non-executive Directors are subject to the aforesaid retirement requirements and are appointed for a specific term of not more than three (3) years.

Non-executive Directors

The Board has three (3) independent non-executive Directors with at least one (1) of whom has the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

Directors' Continuous Professional Development

All Directors are provided with training, updates and written materials on relevant laws, rules and regulations to ensure that Directors are aware of the latest changes in the commercial and regulatory environment in which the Company conducts its business. The Directors are encouraged to participate in various professional development programmes especially in relation to latest updates on relevant rules, regulations and compliance requirements to develop and refresh their knowledge and skills in order to ensure that the Directors' contribution to the Board remains informed and relevant.

According to the records of training provided by each Director to the Company, training received by all Directors is summarized in the following table:

	Types of Continuous Professional Development Programme		
	Updates on laws, rules and regulations or corporate governance matters	Updates on directors' roles, function and duties	Updates on accounting, financial or other professional skills
Executive Directors			
Mr. Liu Jieshan	✓	✓	
Mr. Cui Lei	✓	✓	
Mr. Yang Huaijun	✓	✓	
Mr. Han Litie			✓
Independent Non-executive Directors			
Mr. Su Xihe	✓	✓	
Mr. Wong Wai Chun Alex	✓	✓	
Mr. He Yaode		✓	

Directors' Insurance

During the Year, the Company has arranged insurance coverage in respect of legal action against the Directors and officers arising out of their duties. Such insurance coverage will be reviewed at least annually to ensure the adequacy of its coverage.

AUDIT COMMITTEE

The Audit Committee was set up with the responsibilities of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Su Xihe, Mr. He Yaode and Mr. Wong Wai Chun Alex who is the chairman of this committee.

The audited consolidated results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

The Audit Committee reviews the interim and annual reports before submission to the Board. At least one member has an appropriate professional qualification or accounting or related financial management expertise. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Senior representatives of the external auditor, Executive Directors and senior executives are invited to attend the meetings, if required. Each of the Audit Committee members has unrestricted access to the Group's external auditor and the management.

Summary of works

Audit Committee held three meetings during the Year. The Audit Committee reviewed the annual and interim results; made recommendations to the Board on the terms of engagement of the external and internal auditors; and reviewed the systems of risk management and internal control and its other duties in accordance with the Audit Committee's terms of reference.

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee with specific written terms of reference which clearly define its role, authority and function. As at the date of this report, the Remuneration Committee comprises three members, all being independent non-executive Directors, namely Mr. Su Xihe (Chairman of the Remuneration Committee), Mr. Wong Wai Chun Alex and Mr. He Yaode.

The Remuneration Committee is authorized to investigate any matter within its terms of reference and seeks any information it requires from any employee or Director of the Company and obtains outside legal or other independent professional advice at the cost of the Company if it considers necessary.

Summary of works

The Remuneration Committee held four meetings during the Year. The Remuneration Committee reviewed the remuneration packages of the all the Directors and the senior management, made recommendations to the Board on the remuneration of the newly appointed Directors and the senior management and the grant of share options in accordance with the terms of reference of the Remuneration Committee.

Remuneration Policy

The remuneration policy regarding the Directors and senior management of the Group was formulated and will be reviewed by the Remuneration Committee from time to time. Directors, senior management and other employees are remunerated according to their qualifications and experience, job nature and performance and under the pay scales aligned with market conditions. In addition to the contractual remuneration, other benefits including discretionary bonus, medical benefits, insurance coverage and share options may also be offered upon the determination of the Group.

The Company has adopted the Share Option Scheme as an incentive to the Directors and eligible employees of the Group. Details of the Share Option Scheme are set out in the section headed "Share Option Scheme" in the Directors' Report.

Pursuant to code provision B1.5 of the CG Code, the details of the annual remuneration of the Directors and the members of the senior management by band for the year ended 31 December 2018 is as follows:

	Number of individuals
Nil to HK$1,000,000	4
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	–
HK$2,000,001 to HK$2,500,000	–
HK$2,500,001 to HK$3,000,000	–
HK$3,000,001 to HK$3,500,000	6
	10

Details of the remuneration of each Director for the year ended 31 December 2018 are set out in note 12 to the consolidated financial statements.

NOMINATION COMMITTEE

The Board has established the Nomination Committee with specific written terms of reference which clearly define its role, authority and function. As at the date of this report, the Nomination Committee comprises four members, namely Mr. Liu Jieshan (Chairman of the Nomination Committee), Mr. Su Xihe, Mr. Wong Wai Chun Alex and Mr. He Yaode. With the exception of Mr. Liu Jieshan who is an executive Director, all the other members of the Nomination Committee are independent non-executive Directors.

The Nomination Committee is scheduled to meet at least once a year for the review of the structure, size and composition (including skills, knowledge and experience) of the Board. In addition, the Nomination Committee also meets as it is required to consider nomination of related matters.

Summary of works

Nomination Committee held three meetings during the Year. The Nomination Committee made recommendations to the Board on the appointment of the newly appointed Directors and the senior management in accordance with the terms of reference of the Nomination Committee, reviewed the board diversity policy, the structure, size and composition of the Board and made recommendations on any proposed changes to the Board to complement the Company's strategy.

Nomination Policy

The Board approved and adopted a nomination policy (the "Nomination Policy"). The Nomination Policy sets out the principles which guide the Nomination Committee to identify and evaluate a candidate for nomination to (i) the board of Directors for appointment and (ii) shareholders of the Company for election, as a Director.

Selection Criteria

1. The Committee shall consider a number of factors in assessing the suitability of a proposed candidate:

    (a) Reputation for integrity;
    (b) Experience and Professional Expertise, in particular in the financial industry;
    (c) Commitment in respect of available time, interest and attention to the Company's business;
    (d) Diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
    (e) Compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive director; and
    (f) Any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and shareholders of the Company.

2. The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's Bye-laws and other applicable rules and regulations.

Nomination Procedures

1. The Secretary of the Nomination Committee shall convene a meeting, and invite nominations of candidates from Board members (if any), for consideration by the Committee. The Nomination Committee may also nominate candidates for Board's consideration.
2. In the context of appointment of any proposed candidate to the Board, the Committee shall undertake adequate due diligence in respect of such individual and make recommendations for the Board's consideration and approval.
3. In the context of re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting.
4. If a shareholder wishes to propose a person for election as a director of the Company at a general meeting, he/she can deposit a written notice at the Company's principal office in Hong Kong for the attention of the Board or the company secretary of the Company or at the branch share registrar in Hong Kong within the lodgment period.
5. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

Board Diversity Policy

The Nomination Committee adopted a board diversity policy (the "Board Diversity Policy"). A summary of this policy, together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives are disclosed as below:

The Company recognized and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including gender, age, cultural and education background, professional experience and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Implementation and Monitoring

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

As at the date of this report, the Board comprises seven Directors. Three of them are INEDs, and thereby to promote critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of age, length of services, professional background and skills.

The Nomination Committee has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy.

EXECUTIVE COMMITTEE

The Board has established the Executive Committee with specific written terms of reference which clearly define its role, authority and function. As at the date of this report, the Executive Committee comprises four members, all being Executive Directors, namely Mr. Cui Lei (Chairman of the Executive Committee), Mr. Liu Jieshan, Mr. Yang Huaijun and Mr. Han Litie.

The Executive Committee managed the day-to-day operations and control of the business of the Group in conformity with its policies and procedures adopted by the Group from time to time.

COMPANY SECRETARY

The Company Secretary is responsible for ensuring that Board procedures are followed and Board activities are effectively and efficiently conducted and for the Company's compliance with all obligations of the Listing Rules and all other relevant rules and regulations, including but not limited to the preparation, publication and despatch of the Company's annual and interim reports within the prescribed time limit as required by the Listing Rules and arrangement of Directors' CPD training as required by the CG Code.

Mr. Liu Wai Kin ("Mr. Liu") was appointed as the Company Secretary with effect from 5 November 2017. Mr. Liu is an employee of the Group and confirmed that he had complied with all the qualifications, experience and training requirements as required by the Listing Rules since his appointment.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibility for preparing the financial statements for each financial period to give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. In preparing the financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are fair and reasonable and prepared the financial statements on a going concern basis.

AUDITOR'S INDEPENDENCE AND REMUNERATION

The Audit Committee is mandated to monitor the independence of the external auditor to ensure the objectivity in the financial statements. BDO Limited ("BDO") has been re-appointed as the independent auditor of the Company by shareholders at the last annual general meeting. During the year ended 31 December 2018, BDO provided the following audit and non-audit services to the Group:

Nature of Services	**Amount**
	HK$'000
External Audit Services	1,200
Others	150

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control systems of the Group and for reviewing their effectiveness. The Board is committed to implementing an effective and sound risk management and internal controls systems to safeguard the interests of the shareholders and the Group's assets.

The Company has not established an internal audit department and the Directors are of the view that given the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professional firms to perform the internal audit function for the Group in order to meet its needs.

The Company had engaged an independent internal control consultant (the "IC Consultant") to perform an annual review of the internal control systems (including accounting and management systems) of the Group. Based on its internal control review, the IC Consultant recommended certain internal control improvement measures to the Group and the Group has adopted them.

The Board has, through the Audit Committee, conducted annual review of the effectiveness of the risk management and internal control systems of the Group. The review covered the budget of the Group's accounting and financial reporting function, adequacy of resources, staff qualifications and experience and training programmers during the Year. The Board considers that the Group's risk management and internal control systems are adequate and effective.

The Company has also established and maintained appropriate procedures for the handling and dissemination of inside information. Disclosure policy was adopted by the Company, providing a general guide to directors, senior management and relevant employees of the Group in the handling and/or monitoring of inside information disclosure pursuant to the relevant rules and regulations.

DIVIDEND POLICY

The Board approved and adopted a dividend policy (the "Dividend Policy"). According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:

(a) the Company's actual and expected financial performance;
(b) retained earnings and distributable reserves of the Company and each of the members of the Group;
(c) the Group's working capital requirements, capital expenditure requirements and future expansion plans;
(d) the Group's liquidity position;
(e) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
(f) other factors that the Board may considered relevant.

The payment of dividend by the Company is also subject to any restrictions under the laws of Bermuda and the Company's Bye-laws.

The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders could enhance the confidence of investors. The primary communication channel between the Company and its shareholders include the publication of interim and annual reports, announcements and circulars, annual general meeting and other general meetings; the Company encourages all shareholders to attend annual general meeting. The Company's website also provides regularly updated Group information to shareholders; enquires on matters relating to shareholdings and the businesses of the Group are welcome, and are dealt with in an informative and timely manner.

SHAREHOLDERS' RIGHT

Pursuant to bye-law 58 of the Bye-laws, 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 meeting of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. 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 requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

According to Sections 79 and 80 of the Companies Act 1981 of Bermuda, shareholder(s) of the Company, at his/their own expense, holding (i) not less than one-twentieth of the total voting rights of all shareholders having at the date of requisition the right to vote at general meeting; or (ii) of not less than 100 in number, can submit a written request stating the resolution intended to be moved at the next annual general meeting. The requisition signed by the relevant shareholder(s) must be deposited at the head office of the Company at Room 2606B, 26/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong for the attention to the Company Secretary not less than six weeks before the meeting. The request will be verified with the Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the notice for such general meeting.

CONSTITUTIONAL DOCUMENTS

There are no significant changes in the Company's constitutional documents during the Year.

China Gem Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in money lending, license and financial services business, fund investment and property development. The Company is committed to improving our Environmental, Social and Governance performance by upholding good corporate governance standards, protecting our environment, engaging the community and promoting social integration. This Environmental, Social and Governance Report of the Group ("ESG Report") for the year ended 31 December 2018 (the "Year") was prepared in accordance with ESG Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

A. ENVIRONMENTAL

A.1 Emissions

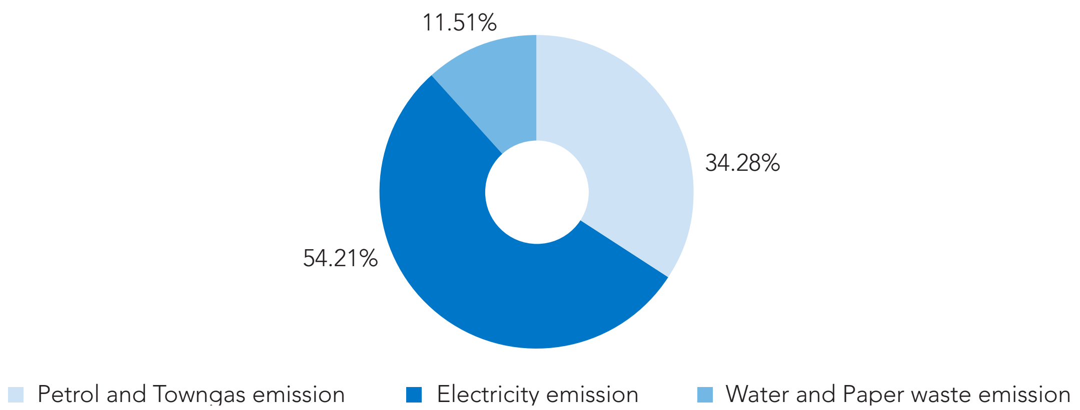
During the Year, our air emissions data are as follows:

Air emissions	Unit	Year ended 31 December 2018	Seventeen months ended 31 December 2017
Total NOx Emissions	g	**30.72**	5.79
Total NOx Emissions/Employee	g/employee	**0.96**	0.21
Total SOx Emissions	g	**90.06**	153.32
Total SOx Emissions/Employee	g/employee	**2.81**	5.48

The following table shows our Greenhouse Gas ("GHG") emissions in the Year.

GHG emissions	Unit	Year ended 31 December 2018	Seventeen months ended 31 December 2017
Petrol and Towngas emission	tCO2e	**16.97**	28.31
Petrol and Towngas emission/Employee	tCO2e/employee	**0.53**	1.01
Electricity	tCO2e	**26.84**	17.26
Electricity/Employee	tCO2e/employee	**0.84**	0.62
Water and Paper	tCO2e	**5.70**	5.83
Water and Paper/Employee	tCO2e/employee	**0.18**	0.21
Total GHG Emissions	tCO2e	**49.51**	51.40
Total GHG Emissions/Employee	tCO2e/employee	**1.55**	1.84

Total Greenhouse Gas Emissions



The major source of greenhouse gas emission came from our use of electricity, representing 54.21% of the total emission; and the second largest source of emission came from our use of towngas and company vehicles, representing 34.28% of the total GHG emissions.

We do not anticipate any material risks in our operations in respect of environmental protection concerns relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

During the Year, the Group did not have any material non-compliance with relevant laws and regulations relating to environmental pollution.

A.2 Use of Resources

Given the nature of its business, the Group's resource consumptions are primarily attributable to our electricity consumption in offices, towngas consumption for cooking meals for our employees and petrol consumption for our use of company vehicles. During the Year, the Group consumed 38,537 kWh of electricity, 7,680 MJ of towngas and 6,116 L of petrol.

Energy consumption

The following table shows our energy consumption in the Year.

		Year ended 31 December 2018	Seventeen months ended 31 December 2017
Petrol Consumption	L	**6,116**	10,428
Petrol Consumption/Employee	L/employee	**191.13**	372.43
Towngas Consumption	MJ	**7,680**	1,440
Towngas Consumption/Employee	MJ/employee	**240**	51.43
Electricity Consumption	kWh	**38,537**	24,602
Electricity Consumption/Employee	kWh/employee	**1,204.28**	878.64

Water consumption

The following table shows the figures of water consumption in our business operations:

Water consumption	Unit	Year ended 31 December 2018	Seventeen months ended 31 December 2017
Water Consumption	cubic metre	**415**	305
Water Consumption/Employee	cubic metre/employee	**12.97**	10.89

Material Consumption

The following table shows the figures of material consumption in our business operations:

Material Consumption	Unit	Year ended 31 December 2018	Seventeen months ended 31 December 2017
Paper Consumption (for use in office)	tonnes	**1.13**	0.25
Paper Consumption (for publishing)	tonnes	**0.61**	0.93
Total Paper Consumption/Employee	tonnes/employee	**0.05**	0.04

During the Year, towngas consumption increased significantly due to the cooking meals for employees; and electricity consumption increased due to the expansion of office in Hong Kong.

The Group has implemented its environmental policies in lowering energy consumption:

- To reduce electricity consumption, lightings, air-conditioners and computers are switch-off when not in use; LED lightings are installed in office areas.

- To reduce petrol consumption on business travel, telephone conference meetings instead of face-to-face meetings are used for parties in different locations. For business travel, business-class seats instead of first-class seats are selected for senior management.

- To reduce paper and toner consumption, the office of the Group encourages double-sided printing and use of electronic files instead of printed filing.

- To reduce energy consumption in office, employees are required to work 5 days a week.

A.3 The Environment and Natural Resources

The operation of the Group did not have direct material impact on the environment and natural resources. However, the Group has formulated policies on minimizing the impact on the environment and natural resources:

- Reusable tablewares instead of disposable tablewares were used in office to reduce waste.
- Cleaning service providers are engaged to perform regular cleaning and pest control to maintain good hygiene conditions in office.
- Air purifiers are equipped in office to improve the indoor air quality.

During the Year, the Group did not have of any material non-compliance with relevant laws and regulations relating to the environment-related issues.

B. SOCIAL

B.1 Employment

During the Year, the Group had employed 41 employees. As at 31 December 2018, the Group had 32 employees in Hong Kong and mainland China (2017: 28 employees).

Proportion of employees by gender

Female employee	Male employee
40.63%	59.37%

Proportion of employees grouped by age

under 30	30–50	above 50
15.63%	75.00%	9.37%

Proportion of employees grouped by geographical region

Hong Kong	Mainland China
50.00%	50.00%

Turnover rate grouped by gender

Female employee	Male employee
46.15%	15.79%

Turnover rate grouped by age

under 30	30–50	above 50
0.00%	29.17%	66.67%

Turnover rate grouped by geographical region

Hong Kong	Mainland China
43.75%	12.50%

Policies relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare:

Recruitment Policy

The Group is an equal opportunity employer treats all job applicants equally without any unequal restrictions and preferential policies and provides equal opportunities for all job applicants. During the Year, no violations or complaints were reported to or found by the Group with regard to discrimination or recruitment.

Compensation Policy

The Group offers remuneration packages to employees taking into account their performance, contribution and the level of responsibility to the specific jobs. Employees are entitled to join the Group's Mandatory Provident Fund Scheme after worked for 60 days.

Work and Rest Policy

Employees are required to work 5 days per week and generally 8 hours per working day. Employees are seldom required to work overtime to maintain a well-balanced life. Employees are entitled to paid annual leave for each year.

Dismissal Policy

Employees may be subject to dismissal if they (i) commit material breach of the Employee Code of Conduct of the Group; (ii) causing material loss to the Group; or (iii) breaching criminal offences or Bribery Ordinance.

Diversity Policy

Board diversity policy has been adopted by the board (the "Board") of directors (the "Directors") of the Company. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including gender, age, cultural and education background, professional experience and length of services.

During the Year, the Group complied with the relevant provisions of the Employment Ordinance and the Mandatory Provident Fund Schemes Ordinance in Hong Kong.

B.2 Health and Safety

The Group values the health and well-being of employees. In order to provide employees with health coverage, employees are entitled to benefits including medical insurance as well as other competitive fringe benefits.

Policies relating to employees' health and safety:

- A chef was employed to make healthy and delicious lunch to each employee on working days to improve the immunity and maintain all round good health of employees.
- The offices of the Group are situated in property managed commercial buildings with security measures, employees are required to use staff card or enter passcode to gain entry to the offices.
- The Group has installed fire extinguishers in offices and emergency exit floor plans are clearly posted. During the Year, the Group has invited officers in building management office to held a fire safety seminar and assigned employees to participate the annual fire drill.

The following table shows our health and safety statistics during the Year:

Health and Safety	Unit	Year ended 31 December 2018	Seventeen months ended 31 December 2017
No. of Work-related Fatalities — Employees	Number	0	0
Rate of Work-related Fatalities	%	0.00	0.00
Lost Days due to Work Injury	Number	0	0

During the Year, the Group was not aware of any material non-compliance with relevant laws and regulations relating to the occupational health and safety.

B.3 Development and Training

To promote long-term career development for employees, the Group supports employees participation in training programs organised by external professional bodies, and provides funds and subsidies to employees based on their career development needs. Continuous professional development training programs and briefings are provided to the Directors and senior management of the Group. During the Year, the Group dedicated around 224.5 hours to staff training, representing approximately 17.27 hours per trained employee (2017: total 133.5 hours; 11.13 hours per trained employee).

Number and proportion of trained employees grouped by level

Employee level	Number of trained employees	Number of employees	Percentage (%)
Senior Management	5	8	62.50%
Manager	4	4	100.00%
General staff	4	20	20.00%
Total number	13	32	40.63%

Average training hours of employees grouped by level

Employee level	Training hour	Number of trained employees	Average training hour
Senior Management	141.5	5	28.30
Manager	58	4	14.50
General staff	25	4	6.25
Total number	224.5	13	17.27

B.4 Labour Standards

The Group has been strictly complying with the national laws and regulations, and neither engagement of child labor nor forced labor were involved in any business of the Group. During the Year, the Group was not aware of any non-compliance with rules and regulations in respect of child or forced labour.

B.5 Supply Chain Management

The principal business of the Group does not involve any major suppliers. For the procurement supplies to the office, besides the price factor, the Group will also consider the impacts on the environment and society. The Group chooses suppliers who provide durable products rather than disposable products and with less packaging materials to raise their awareness of sustainable development.

B.6 Product Responsibility

The Group maintains a high standard of security and confidentiality of personal data throughout its businesses and operations. The Group requires employees to comply the Personal Data (Privacy) Ordinance in handling information of customers and employees in the collection, processing, use and keeping of their personal data.

The Group protects its intellectual property rights by registration of domain names in Hong Kong. Such domain name is renewed upon its expiration.

During the Year, the Group did not note any non-compliance cases of the relevant laws and regulations relating to the products and services standards.

B.7 Anti-corruption

All employees are required to strictly comply with the Prevention of Bribery Ordinance and the code of conduct contained in the Employee Handbook, in particular the anti-bribery provisions. Guidelines have been issued to provide a practical guidance in relation to the operation of the above anti-bribery provisions.

The Group has whistle-blowing policy which encourages the reporting of suspected breach of the aforesaid to the Human Resources Department.

There was no legal case regarding bribery, extortion, fraud and money laundering related laws and regulations were brought against the Group or its employees during the Year.

B.8 Community Investment

During the Year, the Group did not involve in any community investment as the Group had not identified any suitable charity activities.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF CHINA GEM HOLDINGS LIMITED
（中國中石控股有限公司）
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Gem Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 52 to 147, 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 ended 31 December 2018, 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 ended 31 December 2018 in accordance with Hong Kong Financial Reporting Standards 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.

Valuation of financial assets at fair value through profit or loss

Refer to notes 4(h) and 26 to the consolidated financial statements.

The valuation of the financial assets at fair value through profit or loss was a key audit matter due to the significant assumptions and judgement involved in the key inputs used in the valuation techniques.

The Group's financial assets at fair value through profit or loss amounted to HK$637,251,000 as at 31 December 2018. Fair value loss on financial assets at fair value through profit or loss of HK$26,915,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

The fair value of the Group's financial assets at fair value through profit or loss was determined by adopting the valuation techniques with significant estimation and judgements on appropriate valuation techniques and inputs adopted.

Our response:

Our procedures in relation to assessing the appropriateness of the carrying values of the financial assets at fair value through profit or loss included:

- Reviewing the valuation report from independent qualified valuer and holding discussion with management and independent qualified valuer to understand the valuation basis, methodology used and underlying assumptions applied;
- Evaluating of the competency, capabilities and objectivity of the independent qualified valuers; and
- Obtaining supportive evidence for the significant judgements and estimates of the valuations and the key inputs used in the valuations.

Valuation of investment properties

Refer to notes 4(e) and 18 to the consolidated financial statements.

The valuation of the investment properties was a key audit matter due to the significant assumptions and judgement involved in the key inputs used in the valuation techniques.

The Group's investment properties amounted to HK$210,079,000 as at 31 December 2018. Fair value gain on investment properties of HK$812,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

The fair value of the Group's investment properties was determined by adopting the valuation techniques with significant estimation and judgements on market conditions, appropriate valuation techniques and inputs adopted.

Our response:

Our procedures in relation to assessing the appropriateness of the carrying values of the investment properties included:

- Reviewing the valuation report from independent qualified valuer and holding discussion with management and independent qualified valuer to understand the valuation basis, methodology used and underlying assumptions applied;
- Evaluating of the competency, capabilities and objectivity of the independent qualified valuers;
- Selecting samples from the Group's investment property portfolio and obtaining the underlying data including comparables of market transactions being used by the independent qualified valuer and assessing whether they are appropriate; and
- Performing market research and analysis to assess whether the changes in fair value of investment properties resulted from the valuation was reasonable and consistent with market trends to our knowledge.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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.

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and 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 the directors, 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.

BDO Limited
Certified Public Accountants
Amy Yau Shuk Yuen
Practising Certificate no. P06095

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Revenue	7	**99,532**	109,933
Other (loss)/income	8	**(2,440)**	293
Administrative expenses		**(52,499)**	(57,116)
Other operating expenses		**(2,421)**	(4,366)
Fair value gains/(losses) on investment properties	18	**812**	(17,051)
Fair value (losses)/gains on financial assets at fair value through profit or loss	26	**(26,915)**	21,518
Loss on disposal of investment held for trading		**–**	(12,845)
Expected credit loss on financial assets	44	**(18,374)**	–
Finance costs	9	**(57,605)**	(8,006)
(Loss)/profit before income tax	10	**(59,910)**	32,360
Income tax (expense)/credit	14	**(7,714)**	9,098
(Loss)/profit for the year/period		**(67,624)**	41,458
Other comprehensive income for the year/period, net of nil tax			
Item that may be reclassified subsequently to profit or loss			
Exchanges differences on translation of foreign operations		**(590)**	133
Total comprehensive income for the year/period		**(68,214)**	41,591
(Loss)/profit for the year/period attributable to:			
Owners of the Company		**(67,623)**	41,465
Non-controlling interests		**(1)**	(7)
		(67,624)	41,458
Total comprehensive income for the year/period attributable to:			
Owners of the Company		**(68,213)**	41,598
Non-controlling interests		**(1)**	(7)
		(68,214)	41,591
		HK cents	HK cents
(Loss)/earning per share			
Basic and diluted	15	**(1.7)**	1.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**2,827**	2,848
Investment properties	*18*	**210,079**	156,295
Intangible assets	*19*	**538**	2,029
Financial assets at fair value through profit or loss	*26*	**–**	146,957
Rental deposits		**1,636**	668
Total non-current assets		**215,080**	308,797
Current assets			
Properties held for sale	*21*	**7,240**	7,240
Properties under development	*22*	**31,431**	31,431
Loan receivables	*23*	**258,996**	85,000
Trade and other receivables	*24*	**119,012**	98,897
Deposits and prepayments	*25*	**3,330**	4,413
Financial assets at fair value through profit or loss	*26*	**637,251**	517,061
Cash and cash equivalents	*27*	**6,887**	171,081
Total current assets		**1,064,147**	915,123
Current liabilities			
Trade and other payables	*28*	**38,237**	81,888
Accruals	*29*	**74,655**	22,038
Loans from shareholders	*30*	**49,598**	49,598
Other borrowings	*31*	**76,245**	38,355
Senior notes	*32*	**178,688**	14,400
Total current liabilities		**417,423**	206,279
Net current assets		**646,724**	708,844
Total assets less current liabilities		**861,804**	1,017,641

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Non-current liabilities			
Other borrowings	*31*	**351,600**	351,600
Senior notes	*32*	**–**	162,929
Deferred tax liabilities	*33*	**26,678**	19,213
Total non-current liabilities		**378,278**	533,742
NET ASSETS		**483,526**	483,899
Capital and reserves			
Share capital	*34*	**41,354**	35,954
Reserves		**437,280**	443,052
Equity attributable to owners of the Company		**478,634**	479,006
Non-controlling interests		**4,892**	4,893
TOTAL EQUITY		**483,526**	483,899

The financial statements were approved and authorised for issued by the Board of Directors on 29 March 2019.

Cui Lei
Director

Han Litie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000 *Note (i)*	Capital reserve HK$'000	Exchange reserve HK$'000 *Note (ii)*	Distributable reserve HK$'000 *Note (iii)*	Contributed surplus HK$'000 *Note (iv)*	Share option reserve HK$'000 *Note 35*	Accumulated loss HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 August 2016	29,962	1,689,752	11,613	6,408	77,033	1,080,948	–	(2,604,213)	291,503	–	291,503
Profit/(loss) for the period	–	–	–	–	–	–	–	41,465	41,465	(7)	41,458
Other comprehensive income for the period											
Exchange differences on translating foreign operations	–	–	–	133	–	–	–	–	133	–	133
Total comprehensive income for the period	–	–	–	133	–	–	–	41,465	41,598	(7)	41,591
Transactions with owners											
Issue of shares upon placing *(note 34a)*	5,992	139,913	–	–	–	–	–	–	145,905	–	145,905
Share capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	4,900	4,900
At 31 December 2017	35,954	1,829,665	11,613	6,541	77,033	1,080,948	–	(2,562,748)	479,006	4,893	483,899

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000 Note (i)	Capital reserve HK$'000	Exchange reserve HK$'000 Note (ii)	Distributable reserve HK$'000 Note (iii)	Contributed surplus HK$'000 Note (iv)	Share option reserve HK$'000 Note 35	Accumulated loss HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	35,954	1,829,665	11,613	6,541	77,033	1,080,948	–	(2,562,748)	479,006	4,893	483,899
Loss for the year	–	–	–	–	–	–	–	(67,623)	(67,623)	(1)	(67,624)
Other comprehensive loss for the period											
Exchange differences on translating foreign operations	–	–	–	(590)	–	–	–	–	(590)	–	(590)
Total comprehensive income for the year	–	–	–	(590)	–	–	–	(67,623)	(68,213)	(1)	(68,214)
Transactions with owners											
Equity settled share-based transactions *(note 35)*	–	–	–	–	–	–	3,546	–	3,546	–	3,546
Issue of shares upon placing *(note 34b)*	5,400	58,895	–	–	–	–	–	–	64,295	–	64,295
At 31 December 2018	41,354	1,888,560	11,613	5,951	77,033	1,080,948	3,546	(2,630,371)	478,634	4,892	483,526

Notes:

(i) Pursuant to the Companies Act 1981 of Bermuda, the Company's share premium account can be distributed in the form of fully paid shares.

(ii) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the policy set out in note 4(k).

(iii) The distributable reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the Company's share issued for the acquisition at the time of the group reorganisation in 1994.

(iv) The Company passed a special resolution on 31 December 2014 for a capital reduction and the issued share capital of the Company as reduced from approximately HK$299,617,000 to HK$14,981,000 on 2 January 2015. The capital reduction resulted in reducing the issued share capital of the Company by approximately HK$284,636,000. Such amount was credited to the contributed surplus of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Cash flows from operating activities			
(Loss)/profit before income tax		**(59,910)**	32,360
Adjustments for:			
Depreciation of properties, plant and equipment	*17*	**959**	1,514
Fair value (gains)/losses on investment properties	*18*	**(812)**	17,051
Amortisation of intangible assets	*19*	**1,491**	2,112
Fair value losses/(gain) on financial assets at fair value through profit or loss		**26,915**	(21,518)
Loss on disposal of investment held for trading		**–**	12,845
Gain on disposal of financial assets at fair value through profit or loss		**(64)**	–
Impairment loss on loan receivables		**3,214**	–
Impairment loss on trade and other receivables		**15,160**	–
Equity-settled share-based payment expenses		**3,546**	–
Interest income		**(29)**	(643)
Finance costs		**57,605**	8,006
Operating profit before movements in working capital		**48,075**	51,727
Increase in trade and other receivables		**(64,251)**	(142,896)
Increase in loan receivables		**(190,373)**	(35,000)
Decrease in deposits and prepayments		**115**	920
Decrease in investment held for trading		**–**	14,157
Increase in financial assets at fair value through profit or loss		**(84)**	(593,500)
(Decrease)/increase in trade and other payables		**(58,981)**	51,497
(Decrease)/increase in accruals		**(2,786)**	15,616
Cash used in operating activities		**(268,285)**	(637,479)
Income tax paid		**(249)**	–
Net cash used in operating activities		**(268,534)**	(637,479)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Cash flows from investing activities			
Net cash inflow from acquisition of a wholly-owned subsidiary acquired for as assets acquisition	*41*	**535**	–
Interest received		**29**	643
Purchase of property, plant and equipment	*17*	**(952)**	(2,729)
Net cash used in investing activities		**(388)**	(2,086)
Cash flows from financing activities			
Proceeds from placing of new shares	*34*	**64,295**	145,905
Proceeds from other borrowings		**49,642**	390,000
Repayment of other borrowings		**(8,630)**	–
Proceeds from issuance of senior notes		**–**	177,214
Interest paid		**(843)**	(4,418)
Net cash generated from financing activities		**104,464**	708,701
Net (decrease)/increase in cash and cash equivalents		**(164,458)**	69,136
Cash and cash equivalents at beginning of year/period		**171,081**	101,822
Effect of foreign exchange rate changes		**264**	123
Cash and cash equivalents at end of year/period, representing bank balances and cash		**6,887**	171,081

1. GENERAL

China Gem Holdings Limited (the "Company", together with its subsidiaries, the "Group") was incorporated in Bermuda on 29 June 1994 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is Room 2606B, 26/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

In order to have a coterminous year end date with the companies listed in Hong Kong and business partners of the Group in the People's Republic of China (the "PRC") for comparable presentation of financial performance and position, the financial year end date of the Group was changed from 31 July to 31 December with effect from the financial period ended 31 December 2017. As a result of this, the current financial year covered a twelve-month period ended on 31 December 2018 and the last financial period covered a seventeen-month period from 1 August 2016 to 31 December 2017. Accordingly, the comparative amounts for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and related notes are not entirely comparable.

The principal activity of the Company is investment holding. The principal activities of principal subsidiaries are set out in note 37.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2018

Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

HKFRS 9 — Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group, but no impact on the classification and measurement of the Group's financial assets and financial liabilities as at 1 January 2018 upon the application of HKFRS 9.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

HKFRS 9 — Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

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

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

HKFRS 9 — Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

HKFRS 9 — Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39	Carrying amount as at 1 January 2018 under HKFRS 9
			HK$'000	HK$'000
Unlisted debt investments	Available-for-sale (at fair value)	FVPL	664,018	664,018
Unlisted equity investments	Available-for-sale (at fair value) *(note a)*	FVOCI	–	–
loans receivables	Loans and receivables	Amortised cost	85,000	85,000
Trade and other receivables	Loans and receivables	Amortised cost	98,897	98,897
Deposits and prepayment	Loans and receivables	Amortised cost	4,413	4,413
Cash and cash equivalents	Loans and receivables	Amortised cost	171,081	171,081

(a) As of 1 January 2018, certain investment in unlisted equity investments were reclassified from available-for-sale financial assets at cost less impairment under HKAS39 to financial assets at FVOCI. The unlisted equity instrument has no quoted price in an active market. The Group has designated such unquoted equity instrument at the date of initial application (i.e. 1 January 2018) as measured at FVOCI. The fair value gain/losses relating to the equity instrument previously carried at cost less impairment was not material and no adjustment was made to retained earnings as at January 1, 2018 upon the application of HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy for financial instruments in note 4.

The measurement categories for all financial liabilities remain the same for the Group, the carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

HKFRS 9 — Financial Instruments *(Continued)*

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group measures loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For loss allowances for loan and other receivables and other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's debt investment at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

HKFRS 9 — Financial Instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Based on industrial practice and credit assessment of the customers, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 180 days past due.

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

Write-off policy

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

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

Impact of the ECL model

(I) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables.

No adjustment was made to the loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018, as the impact was insignificant to the Group. The loss allowances increased to HK$2,966,000 for trade receivables during the year ended 31 December 2018.

All the Group's loan and other receivables are considered to have low credit risk and the loss allowance was limited to 12 months ECLs. The identified impairment loss was immaterial on 1 January 2018. The loss allowance increased to HK$15,408,000 for loan and other receivables during the year ended 31 December 2018.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

HKFRS 9 — Financial Instruments *(Continued)*

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

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

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

(i)	License and financial service business	The Group recognised financial service income from providing service for specified financial advisory at a point in time when the services for the transactions are completed under the terms of each engagement and the revenue can be measured reliably, as only that time the Group has a present right to payment from the customers for the service performed. The Group recognises license fee income from provision of asset management services over time based on contractual terms specified in the underlying agreements, as the customer simultaneously receives and consumes the benefit providing by the Group performs and revenue can be measured reliably.	HKFRS 15 did not result in significant impact on the Group's accounting policies.
(ii)	Provision of property management service	The Group recognises revenue equal to the right to invoice amount when it corresponds directly with the value to the customer of the Group's performance to date, on a monthly basis. The Group elected the practical expedient for not to disclose the remaining performance obligations for these type of contracts.	HKFRS 15 did not result in significant impact on the Group's accounting policies.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")
(Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2018 *(Continued)*

Amendments to HKAS 40, Investment Property — Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised 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 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRS 3	Definition of Business[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.
5 Effective for business combination and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 17 — Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

Amendments to HKAS 28

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Amendments to HKAS 1 and HKAS 8 — Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Amendments to HKFRS 3 — Definition of Business

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and financial instruments, which are measured at fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Intangible assets

Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as set out below. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Licenses of regulated activities issued by Securities and Futures Commission ("SFC") for Type 4 "Advising on Securities" and Type 9 "Asset Management"	3 years

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Intangible assets *(Continued)*

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset 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.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment of other assets as set out in note 4(o) below).

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates/useful lives used for this purpose are as follows:

Buildings	Over the shorter of the term of the leases, or 20 years
Furniture, fixtures and equipment	10–20%
Motor vehicles	20–33$^1/_3$%
Plant and machinery	10%
Leasehold improvements	10–50%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(e) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not held for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(f) Leasing

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

The Group as lessor under operating leases

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

The Group as lessee under operating leases

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Properties held for sale/properties under development

Properties held for sale and properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to sale proceeds received after the reporting date less selling expenses, or by management estimates based on prevailing market conditions.

Costs of properties include acquisition costs, development expenditure, interest and other direct costs attributable to such properties. The carrying values of properties held by subsidiaries are adjusted in the consolidated financial statements to reflect the Group's actual acquisition costs where appropriate.

(h) Financial instruments

Policy applicable from 1 January 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the solely payments of principal and interest test and is performed at an instrument level.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at FVPL
- Financial assets at FVOCI

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

(i) Financial assets *(Continued)*

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold the financial assets in order to collect contractual cash flows; and

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

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

The Group's financial assets at amortised cost includes bank and cash equivalents, trade and other receivables and loans receivable.

Financial assets at FVPL

Financial assets at FVPL include financial assets designated upon initial recognition at FVPL or financial assets mandatorily required to be measured at fair value.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

Dividends on listed equity investments are also recognised as "other operating income" in the consolidated income statement when the right of payment has been established.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment–by–investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, loan and other receivables and other debt instruments. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group measures loss allowances for trade receivables and loan receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12–month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Based on industrial practice and credit assessment of the customers, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 180 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

(vi) Derecognition *(Continued)*

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Policies applicable prior to 1 January 2018

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

Policies applicable prior to 1 January 2018 *(Continued)*

(i) Financial assets *(Continued)*

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor’s financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

Policies applicable prior to 1 January 2018 *(Continued)*

(ii) Impairment loss on financial assets *(Continued)*

For Loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For Available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Financial instruments *(Continued)*

Policies applicable prior to 1 January 2018 *(Continued)*

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, other borrowings, and senior notes issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(j) Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- 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.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition (accounting policies applied from 1 January 2018) *(Continued)*

(i) Services income from property management

Services income from property management is recognised over time as the service has been rendered. Invoices for these services income are issued on a monthly basis and are usually payable within 30 days.

(ii) Rental income

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight–line basis over the period of the relevant leases.

(iii) License and financial service business

Finance service income from providing specified financial advisory and acing as independent financial adviser are recognised at a point in time when the services for the transactions are completed under the terms of each engagement and the revenue can be measured reliably, as only that time the Group has a present right to payment from the customers for the service performed. Invoices for the financial services are issued upon signing service contracts and when stated milestones in the contract are reached.

License fee income from provision of asset management services is recognised over time based on contractual terms specified in the underlying agreements, as the customer simultaneously receives and consumes the benefit providing by the Group performs and revenue can be measured reliably.

(iv) Interest income from Money lending business

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit–impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the assets.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition (accounting policies applied from 1 January 2018) *(Continued)*

(v) Investment income from Strategic financial investment

Dividend income from equity instruments designated at fair value through profit or loss is recognised in investment income generally when the security becomes ex–dividend.

Contract costs (accounting policies applied from 1 January 2018)

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

Contract assets and liabilities (accounting policies applied from 1 January 2018)

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. 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 services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Rental income under operating leases is recognised on a straight–line basis over the term of the relevant lease. Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate. Service income is recognised when the service is rendered. Dividend income is recognised when the right to receive the dividend is established.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(n) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

(o) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, intangible assets with finite lives and investments in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Impairment of other assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in profit or loss immediately.

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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

(r) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

(a) Impairment allowances on loans and receivables

The measurement of impairment losses under both HKFRS 9 and HKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment.
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

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

(b) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

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

(c) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical terms (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs:
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

- Investment properties (note 18); and
- Financial assets at fair value through profit or loss (note 26).

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

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

(d) Investment in financial assets at fair value through profit or loss

The Group invests in financial assets at fair value through profit or loss through investment in funds, which are managed by experienced and competent fund managers. Redemption of financial assets is subject to various criteria such as approval of fund managers, lock-up period, fund and its underlying investments maturity etc. Classification of these investments as current asset or non-current asset involves significant estimation and judgements and is subject to its redemption criteria which may be changed from time to time. The maturity of the underlying investments will also lead to such investments cannot be realised within 12 months.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has four (seventeen months ended 31 December 2017: four) reportable segments.

The Group's operating segments are structured and managed separately according to the nature of their operations and the products and services they provided. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments.

Details of the operating segments are as follows:

(i) The money lending segment involves the money lending business in Hong Kong and the PRC.

(ii) The license and financial service business involves the revenue generated from the licensed corporation with type 4 (advising on securities) and type 9 (asset management) regulated activities, and consultancy and administrative service income of fund portfolio, corporate development strategy consulting, project management consulting etc.

(iii) The strategic financial investment involves the investment in financial products managed by fund managers who have good management skills, reasonable management fee etc.

(iv) The property development segment involves the development of property, the management and rental of units/shops within a shopping arcade and the sales of residential units in the PRC.

6. SEGMENT REPORTING *(Continued)*

(a) Segment revenues and results

	Money lending		License and financial service business		Strategic financial investment		Property development		Total	
	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000	**Year ended 31 December 2018 HK$'000**	Seventeen months ended 31 December 2017 HK$'000	**Year ended 31 December 2018 HK$'000**	Seventeen months ended 31 December 2017 HK$'000	**Year ended 31 December 2018 HK$'000**	Seventeen months ended 31 December 2017 HK$'000	**Year ended 31 December 2018 HK$'000**	Seventeen months ended 31 December 2017 HK$'000
Reporting segment revenue	**23,594**	6,780	**2,405**	82,756	**69,754**	15,491	**3,779**	4,906	**99,532**	109,933
Results										
Segment results	**15,727**	2,977	**878**	80,654	**25,508**	34,978	**4,893**	(19,309)	**47,006**	99,300
Unallocated corporate income									**11**	630
Unallocated corporate expenses									**(49,322)**	(59,564)
Finance cost									**(57,605)**	(8,006)
(Loss)/profit before income tax									**(59,910)**	32,360
Other segment information										
Fair value gains/(losses) on investment properties							**812**	(17,051)	**812**	(17,051)
Depreciation of property, plant and equipment	**(4)**	(2)					**(113)**	(1,174)	**(959)**	(1,176)
Fair value (loss)/gain on financial assets at fair value through profit and loss					**(26,915)**	21,518			**(26,915)**	21,518
Loss on disposal of investment held for trading									**–**	(12,845)
Impairment loss on loan receivables	**3,214**	–							**(3,214)**	–
Impairment loss on trade receivables					**(15,160)**	–			**(15,160)**	–

Segment profit/(loss) represents the profit earned/(loss) incurred by each segment without allocation of amortisation of intangible assets, certain other revenue and other gain/(loss), central administrative expenses, finance costs and income tax credit/(expense).

6. SEGMENT REPORTING *(Continued)*

(b) Segment assets and liabilities

	Money lending		License and financial service business		Strategic financial investment		Property development		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets										
Reportable segment asset	**274,201**	86,081	**43,531**	81,487	**693,407**	679,391	**254,162**	195,599	**1,265,301**	1,042,558
Unallocated assets									**13,926**	181,362
Total assets									**1,279,227**	1,223,920
Liabilities										
Reportable segment liabilities	**(101)**	(1,112)	**(75)**	(90)	**(1,524)**	(50,007)	**(37,842)**	(31,218)	**(39,542)**	(82,427)
Unallocated liabilities									**(729,481)**	(638,381)
Deferred tax liabilities									**(26,678)**	(19,213)
Total liabilities									**(795,701)**	(740,021)

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

— all assets are allocated to operating and reportable segments other than certain property and equipment, certain other receivables, deposits and prepayments and cash and cash equivalents.

— all liabilities are allocated to operating and reportable segments other than certain accruals and other payables, income tax payable, deferred taxation, notes payable and loans payable.

6. SEGMENT REPORTING *(Continued)*

(c) Geographical information

The following tables provides an analysis of the Group's revenue from external customers and its non-current assets on the location of operations and geographical location of assets respectively.

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Revenue from external customers		
— PRC	**5,564**	4,906
— Hong Kong	**93,968**	105,027
	99,532	109,933

	2018 HK$'000	2017 HK$'000
Specified non-current assets		
— PRC	**210,601**	156,793
— Hong Kong	**4,479**	152,004
	215,080	308,797

6. SEGMENT REPORTING *(Continued)*

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group as follows:

		Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Customer A	Revenue generated from the license and financial services segment	–	77,412
Customer B	Revenue generated from the strategic financial investment segment & money lending segment	20,442	–
Customer C	Revenue generated from the strategic financial investment segment	16,380	–
Customer D	Revenue generated from the strategic financial investment segment	13,900	–
Customer E	Revenue generated from the strategic financial investment segment	12,913	–
		63,635	77,412

(e) Reconciliation of reportable segment profit, assets and liabilities

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
(Loss)/profit before income tax expenses		
Reportable segment profit	47,006	99,300
Unallocated corporate income	11	630
Unallocated corporate expenses	(49,322)	(59,564)
Finance costs	(57,605)	(8,006)
Consolidated (loss)/profit before income tax expenses	(59,910)	32,360

6. SEGMENT REPORTING *(Continued)*

(e) Reconciliation of reportable segment profit, assets and liabilities *(Continued)*

	2018 HK$'000	2017 HK$'000
Assets:		
Reportable segment assets	**1,265,301**	1,042,558
Unallocated Corporate assets		
— Bank balances and cash	**6,887**	171,081
— Other corporate assets	**7,039**	10,281
	13,926	181,362
Consolidated total assets	**1,279,227**	1,223,920

	2018 HK$'000	2017 HK$'000
Liabilities:		
Reportable segment liabilities	**(39,542)**	(82,427)
Unallocated Corporate liabilities		
— Loan from shareholders	**(49,598)**	(49,598)
— Other corporate liabilities	**(679,883)**	(588,783)
	(729,481)	(638,381)
Deferred tax liabilities	**(26,678)**	(19,213)
Consolidated total liabilities	**(795,701)**	(740,021)

7. REVENUE

Revenue represents the rental and building management fee income from properties in the PRC, loan interest income from money lending business, license and financial service income and interest income from financial assets investment.

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Revenue from contracts with customer within the scope of HKFRS 15:		
Building management fee income	**1,533**	1,801
License and financial service income	**2,405**	82,756
	3,938	84,557
Revenue from other sources:		
Property rental income	**2,246**	3,105
Loan interest income	**23,594**	6,780
Investment income from strategic financial investment	**69,754**	15,491
	95,594	25,376
Total	**99,532**	109,933
Disaggregation of revenue recognition within scope of HKFRS 15:		
Building management fee income		
— At a point of time	**–**	–
— Transferred over time	**1,533**	1,801
License and financial service income		
— At a point of time	**–**	77,412
— Transferred over time	**2,405**	5,344
	3,938	84,557

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

8. OTHER (LOSS)/INCOME, NET

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Other revenue:		
Interest income	**29**	643
Sundry income	**210**	438
	239	1,081
Other loss:		
Exchange loss, net	**(2,679)**	(788)
	(2,440)	293

9. FINANCE COST

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Interest on loans from shareholders	**516**	724
Interest on other borrowings	**41,330**	5,529
Interest on senior notes	**15,759**	1,753
	57,605	8,006

10. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Cost of sales and services recognised as expenses*	**2,421**	4,366
Staff costs *(note 11)*	**33,165**	34,696
Depreciation of property, plant and equipment *(note (a))*	**959**	1,514
Amortisation of intangible assets #	**1,491**	2,112
Operating lease rentals in respect of land and buildings *(note (b))*	**5,859**	3,072
Auditor's remuneration #	**1,200**	1,200
Gain on disposal of financial assets at fair value through profit or loss	**(64)**	–
Impairment loss on loan receivables # *(note 44)*	**3,214**	–
Impairment loss on trade and other receivables # *(note 44)*	**15,160**	–

Notes:

(a) Depreciation of property, plant and equipment of HK$110,000 (seventeen months ended 31 December 2017: HK$891,000) and HK$849,000 (seventeen months ended 31 December 2017: HK$623,000) are included in other operating expenses and administrative expenses respectively.

(b) Operating lease rentals in respect of land and buildings of HK$1,294,000 (seventeen months ended 31 December 2017: HK$803,000) and HK$4,565,000 (seventeen months ended 31 December 2017: HK$2,269,000) are included in other operating expenses and administrative expenses respectively.

* *Items included in other operating expenses*

Items included in administrative expenses

11. STAFF COSTS

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Staff costs (including Directors' emoluments) comprises:		
Salaries and other benefits	**32,639**	34,136
Contributions to defined contribution retirement plans	**526**	560
	33,165	34,696

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the Directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payment HK$'000	Contributions to defined contribution plans HK$'000	Total HK$'000
Year ended 31 December 2018					
Executive Directors					
Liu Jieshan (appointed on 9/2/2017)	–	3,218	602	18	3,838
Cui Lei (appointed on 9/2/2017)	–	3,200	602	18	3,820
Yang Huaijun (appointed on 8/5/2017)	–	3,200	602	18	3,820
Han Litie (appointed on 8/5/2017)	–	3,200	602	18	3,820
Independent Non-Executive Directors:					
Wu Shiming (resigned on 30 May 2018)	49	–	–	–	49
Wong Wai Chun Alex (appointed on 8/5/2017)	130	–	–	–	130
Su Xihe (appointed on 8/5/2017)	325	–	–	–	325
He Yaode (appointed on 30/5/2018)	192	–	–	–	192
	696	12,818	2,408	72	15,994

12. DIRECTORS' EMOLUMENTS *(Continued)*

	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payment HK$'000	Contributions to defined contribution plans HK$'000	Total HK$'000
Seventeen months ended 31 December 2017					
Executive Directors					
Liu Jieshan	–	4,583	–	17	4,600
Cui Lei	–	4,583	–	17	4,600
Yang Huaijun	–	4,525	–	12	4,537
Han Litie	–	4,356	–	12	4,368
Yang Zijiang (resigned on 9/2/2017)	–	880	–	–	880
Kwan Shan (resigned on 8/5/2017)	–	1,197	–	15	1,212
Independent Non-Executive Directors:					
Wu Shiming	190	–	–	–	190
Wong Wai Chun Alex	87	–	–	–	87
Su Xihe	216	–	–	–	216
Lin Chaofan (resigned on 8/5/2017)	133	–	–	–	133
Deng Chunmei (resigned on 8/5/2017)	133	–	–	–	133
	759	20,124	–	73	20,956

None of the Directors waived or agreed to waive any emolument during the year ended 31 December 2018 and seventeen months ended 31 December 2017.

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with highest emoluments in the Group, four (seventeen months ended 31 December 2017: four) were Directors of the Company, whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining one (seventeen months ended 31 December 2017: one) individuals were as follows:

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Salaries and other benefits	**3,222**	2,181
Share-based payment	**568**	–
Contributions to defined contribution plans	**18**	5
	3,808	2,186

Their emoluments were within the following bands:

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Nil to HK$2,000,000	**–**	–
HK$2,000,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$4,000,000	**1**	–

14. INCOME TAX (EXPENSE)/CREDIT

The amount of income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Current tax		
— tax for the year/period	**–**	–
— under/(over) provision in respect of previous years	**249**	(343)
	249	(343)
Deferred tax *(note 33)*	**7,465**	(8,755)
Tax charge/(credit) for the year/period	**7,714**	(9,098)

Hong Kong Profits Tax has been provided at the rate of 16.5% (seventeen months ended 31 December 2017: 16.5%) on the estimated assessable profits during the year/period.

Taxation arising in other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

14. INCOME TAX (EXPENSE)/CREDIT *(Continued)*

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

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
(Loss)/profit before income tax	**(59,910)**	32,360
Tax calculated at Hong Kong Profits Tax rate of 16.5% (Seventeen months ended 31 December 2017: 16.5%)	**(9,885)**	5,339
Effect of different tax rates of subsidiaries operating in other jurisdictions	**7,082**	(10,390)
Tax effect of expenses not deductible for tax purpose	**17,906**	11,773
Tax effect of income not taxable for tax purpose	**(12,545)**	(7,946)
Tax effect of tax losses not recognised	**5,019**	1,866
Tax effect of other deductible temporary differences not recognised	**61**	(3)
Utilisation of tax losses previous not recognised	**(173)**	(9,394)
Under/(over) provision in prior years	**249**	(343)
Income tax expense/(credit) for the year/period	**7,714**	(9,098)

15. (LOSS)/EARNINGS PER SHARE

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

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
(Loss)/profit for the year/period attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	**(67,623)**	41,465
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	**3,935,647,303**	3,540,840,662

The denominators used are the same as those detailed above for both basic and diluted (loss)/earning per share.

During the year ended 31 December 2018, diluted loss per share does not assume the exercise of the Company's share options as the exercise of the Company's share options would result in a decrease in loss per share, and is regarded as anti-dilutive.

Diluted earnings per share for the seventeen months ended 31 December 2017 are the same as the basic earnings per share as there is no instruments with potential dilutive shares issued by the Group during the seventeen months ended 31 December 2017.

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the seventeen months ended 31 December 2017 are after the adjustment of the bonus elements in the shares issued under the placing of shares completed October 2016.

16. DIVIDEND

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2018 (seventeen months ended 31 December 2017: nil).

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Costs				
At 1 August 2016	8,862	1,023	1,589	11,474
Exchange alignments	266	–	–	266
Additions	1,534	470	725	2,729
At 31 December 2017 and 1 January 2018	**10,662**	**1,493**	**2,314**	**14,469**
Exchange alignments	**(501)**	**(1)**	**–**	**(502)**
Additions	**597**	**355**	**–**	**952**
Acquired through acquisition of a subsidiary	**–**	**15**	**–**	**15**
At 31 December 2018	**10,758**	**1,862**	**2,314**	**14,934**
Accumulated depreciation and impairment				
At 1 August 2016	8,002	926	923	9,851
Exchange alignments	256	–	–	256
Depreciation	1,010	85	419	1,514
At 31 December 2017 and 1 January 2018	**9,268**	**1,011**	**1,342**	**11,621**
Exchange alignments	**(474)**	**–**	**–**	**(474)**
Depreciation	**404**	**174**	**381**	**959**
Acquired through acquisition of a subsidiary	**–**	**1**	**–**	**1**
At 31 December 2018	**9,198**	**1,186**	**1,723**	**12,107**
Net book value				
At 31 December 2018	**1,560**	**676**	**591**	**2,827**
At 31 December 2017	1,394	482	972	2,848

18. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
Fair value		
At beginning of year/period	156,295	173,346
Addition through asset acquisition *(Note 41)*	55,140	–
Change in fair value	812	(17,051)
Exchange alignments	(2,168)	–
At end of year/period	210,079	156,295

Represented by:

	2018 HK$'000	2017 HK$'000
Fair value:		
Completed investment properties, in the PRC	142,917	90,297
Investment properties under construction, in the PRC	67,162	65,998
	210,079	156,295

The Group's properties are either held to earn rental income or for capital appreciation purpose, are measured using fair value model and are classified and accounted for as investment properties.

At 31 December 2018, included in investment properties with a fair value of approximately HK$53,274,000 (2017: nil) for which the Group has not yet obtained the building ownership certificate. The Group is in the process of applying the building ownership certificate.

The fair value of the Group's investment properties at 31 December 2018 and 2017 were determined by the Directors with reference to the valuation report prepared by Greater China Appraisal Limited and Norton Appraisal Limited, independent qualified professional valuers, based on the highest and best use approach.

The fair value measurements of the Group's investment properties have been categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair Value Measurement. The fair value of the investment properties as at 31 December 2018 is a level 3 (2017: level 3) recurring fair value measurement, which uses significant unobservable inputs in arriving at fair value. During the year ended 31 December 2018 and seventeen months ended 31 December 2017, in respect of investment properties there were no transfers between level 1 and level 2, or transfers into or out of level 3.

18. INVESTMENT PROPERTIES *(Continued)*

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
Fair value:		
At beginning of year/period (level 3 recurring fair value)	156,295	173,346
Addition	55,140	–
Change in fair value	812	(17,051)
Exchange alignments	(2,168)	–
At end of year/period (level 3 recurring fair value)	210,079	156,295

The fair values of investment properties as at 31 December 2018 and 2017 were determined using direct comparison approach and investment method as appropriate. For investment properties determined by the direct comparison approach, recent market information about prices for comparable properties was used with significant adjustments for any differences in the characteristics of the Group's properties. For investment properties determined using the investment method, account was taken of the current passing rent and the reversionary income potential of the investment properties where applicable.

Fair value adjustment of investment properties is recognised in the line item "fair value losses on investment properties" on the face of the consolidated statement of profit or loss and other comprehensive income.

Details about the valuation inputs for 31 December 2018 and 2017 are as follows:

18. INVESTMENT PROPERTIES *(Continued)*

As at 31 December 2018

Property	Location	Level	Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
Property held for further development	The PRC	3	Direct comparison method	Market selling price: RMB5,200 per square meter	The higher the market selling price, the higher the fair value
Retail shops — level 1	The PRC	3	Investment method	Market rent per month: RMB33 to RMB47 per square meter	The higher the market rent, the higher the fair value
				Term yield: 4.5% per annum	The higher the term yield, the lower the fair value
				Reversionary yield: 5.5% per annum	The higher the reversionary yield, the lower the fair value
Retail shops — level 2	The PRC	3	Investment method	Market rent per month: RMB12 per square meter	The higher the market rent, the higher the fair value
				Term yield: 7% per annum	The higher the term yield, the lower the fair value
				Reversionary yield: 8% per annum	The higher the reversionary yield, the lower the fair value
Car park space	The PRC	3	Direct comparison approach	Estimated market price per car park space: RMB110,000	The higher the market price, the higher the fair value
Residential properties	The PRC	3	Direct comparison approach	Estimated market price ranging from RMB8,741 to RMB11,101 per square meter	The higher the market price, the higher the fair value

18. INVESTMENT PROPERTIES *(Continued)*

As at 31 December 2017

Property	Location	Level	Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
Property held for further development	The PRC	3	Direct comparison method	Market selling price: RMB4,800 per square meter	The higher the market selling price, the higher the fair value
Retail shops — level 1	The PRC	3	Investment method	Market rent per month: RMB32 to RMB45 per square meter	The higher the market rent, the higher the fair value
				Term yield: 4.5% per annum	The higher the term yield, the lower the fair value
				Reversionary yield: 5.5% per annum	The higher the reversionary yield, the lower the fair value
Retail shops — level 2	The PRC	3	Investment method	Market rent per month: RMB11 per square meter	The higher the market rent, the higher the fair value
				Term yield: 7% per annum	The higher the term yield, the lower the fair value
				Reversionary yield: 8% per annum	The higher the reversionary yield, the lower the fair value
Car park space	The PRC	3	Direct comparison approach	Estimated market price per car park space: RMB110,000	The higher the market price, the higher the fair value

Property rental income earned during the year was HK$2,246,000 (seventeen months ended 31 December 2017: HK$3,105,000) and the related direct operating expenses were approximately HK$412,000 (seventeen months ended 31 December 2017: HK$961,000). The property held had committed tenants for 1 to 8 years (31 December 2017: 1 to 5 years). At the end of reporting period, the Group contracted with tenants for the following future minimum lease receivables:

	2018	2017
	HK$'000	HK$'000
Within one year	**3,031**	2,433
In the second to fifth year inclusive	**4,003**	4,944
More than five year	**817**	7,851
	7,851	7,377

19. INTANGIBLE ASSETS

	SFC Licenses
	HK$'000
Cost	
At 1 August 2016, 31 December 2017, 1 January 2018 and 31 December 2018	4,472
Amortisation	
At 1 August 2016	(331)
Amortisation	(2,112)
At 31 December 2017 and 1 January 2018	**(2,443)**
Amortisation	**(1,491)**
At 31 December 2018	**(3,934)**
Net book value	
At 31 December 2018	**538**
At 31 December 2017	2,029

The intangible assets represent licenses of regulated activities issued by SFC for Type 4 "Advising on Securities" and Type 9 "Asset Management" acquired through acquisition of a subsidiary during the year ended 31 July 2016.

20. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018	2017
	HK$'000	HK$'000
Available-for-sale financial assets	–	–
Equity investments at fair value through other comprehensive income	–	–

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

Details of the available-for-sale financial assets are set out in the table below:

Name	Form of business structure	Place of incorporation	Place of operation and principal activity	Percentage of direct voting rights held by the Group
Alverna Dynamic Developments Inc* ("Alverna")	Corporation	Philippines	Investment holding in Philippines	40%
Shannalyne Inc. ("Shannalyne")	Corporation	Philippines	Tree plantation operations in Philippines	40%
2010 Duran Inc.	Corporation	Philippines	Tree plantation operations in Philippines	40%
Morton 2011 Inc.	Corporation	Philippines	Dormant	40%

* Alverna holds 60% direct equity interest in Shannalyne

The Group holds an interest in certain tree plantation operations situated in the Caraga region of Mindanao in the Philippines. These interests were acquired some time ago during the year ended 31 July 2011 for approximately HK$2.02 billion, and are held through two former associates, Shannalyne and Alverna (together the "Associates"). Details of the tree plantation operations were set out in the Company's Very Substantial Acquisition Circular dated 30 June 2010. Up to 6 January 2014, the Group accounted for its interest in these tree plantation operations by way of equity accounting for its interests in the Associates.

However, from the time it acquired its interest in these operations, the Group experienced many problems, including unfavourable changes in local Philippine laws and regulations related to the forestry industry and a severe deterioration in the working relationship with its Philippine partner and majority equity rights holder in this venture, Ms. Juanita Dimla De Guzman ("Ms. De Guzman"). In addition, the Company's relationship with its then Chairman and Executive Director, Mr. Tan Cheow Teck ("Mr. CT Tan"), who held out himself as a forestry expert and a key proponent of these operations, also broke down irrevocably. These cumulative problems resulted in the Group abandoning the tree plantation operations in the Philippines and writing down the remaining carrying value of its investment in the Associates to nil on 6 January 2014. At the same date, the Group reclassified its interests in the Associates as available-for-sale financial assets ("AFS"), as the Company felt it no longer had any significant influence over the Associates. Details of the impairment of the investment in Associates and their reclassification as AFS are set out in the financial statements for the year ended 31 July 2014 and in the Company's announcements dated 19 December 2013, 13 January 2014, 19 February 2014, 10 March 2014 and 17 March 2014.

There have been no positive developments since the investments in the former Associates (now classified as AFS) were fully impaired, and as at 31 December 2018 and 2017, the Directors continue to believe the value of the AFS is nil and that no realistic recovery of any value in the Philippine tree plantation operations is presently likely or probable.

21. PROPERTIES HELD FOR SALE

	2018 HK$'000	2017 HK$'000
Properties held for sale	**7,240**	7,240

Properties held for sale represent 35 (2017: 35) residential units located in Regal Garden, no. 888 Lunchang Road, Lunjiao Town, Shunde District, Foshan City, Guangdong Province, the PRC.

22. PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
Properties under development	**31,431**	31,431

As at 31 December 2018, the carrying amount of properties under development of HK$31,431,000 (2017: HK$31,431,000) represented the deemed cost of 169 identified units of properties ("Properties") which had been specifically set aside for the settlement of an outstanding construction fee payable in accordance with 清付工程款項協議書 dated 15 August 2005 ("Settlement Agreement") in prior years.

The deemed cost of the Properties of HK$31,431,000 represents the RMB20,439,000 (equivalent to HK$25,653,000) which has been stipulated in the Settlement Agreement and the Pledge Agreement (as defined below) and further subsequent construction costs of RMB4,603,000 (equivalent to HK$5,778,000).

In addition to the Settlement Agreement, the Group has entered into another agreement 抵押還款協議書 dated 27 April 2006 ("Pledge Agreement") with 廣州市第四建築工程有限公司 (the "Contractor") to pledge the Properties as security. Under the two said Agreements, the Group and the Contractor mutually agreed to use the designated Properties to settle the outstanding balance. In conjunction with this settlement arrangement, both parties also mutually agreed the outstanding balance were to be settled without recourse, which in case the sales proceeds of the Properties exceeded the outstanding balance, the Group could not claim the extra proceeds received by the Contractor. Similarly, if the sales proceeds were insufficient to settle the amount owed to the Contractor, the Contractor agreed to waive the residual unpaid portion. In light of this particular clause, management considered that the significant risks and rewards of ownership of the Properties had been transferred to the Contractor when the two Agreements were signed. As a result, these properties under development and the corresponding liability were offset against each other and not separately recognised in the financial statements in prior years before the year ended 31 July 2013.

22. PROPERTIES UNDER DEVELOPMENT *(Continued)*

During the year ended 31 July 2013, the Group received a demand letter from the Contractor to claim the said outstanding balance, plus interest and an exact amount of RMB15,000,000 (equivalent to HK$18,827,000) without any basis. Apart from the amount due to the Contractor of RMB25,042,000 (equivalent to HK$31,431,000) which has been recognised by the Group as explained above, the Group saw no merit of the other claims by the Contractor.

During the years ended 31 July 2014, 2015, 2016, seventeen months ended 31 December 2017 and year ended 31 December 2018, the Contractor has not issued any further demand letters nor raised any formal proceedings against the Group to claim the outstanding amount.

During the year ended 31 July 2014, two individuals, 佘盛 and 張明贊, raised litigations in the PRC against the Group (being the property developer), the Contractor (being the primary outsourcer), and another two companies (being the subcontractors of the primary outsourcer and being the direct outsourcers of the two individuals) to claim certain outstanding construction fees in relation to the Group's property development project. The PRC court ruled on this matter in December 2013 and concluded that the Contractor was liable to settle the principal amount of RMB3,198,013 (equivalent to HK$4,017,536) and RMB3,961,291 (equivalent to HK$4,976,411) plus overdue interest to 佘盛 and 張明贊 respectively. The PRC court also concluded that the Group has a joint liability to settle the said principal amounts to 佘盛 and 張明贊 to the extent that the amount is within the outstanding amount payable by the Group to the Contractor. All parties appealed against this judgement. However, the appeal was dismissed by the People's Intermediate Court in January 2015. Following the result of the appeal, the Contractor made a further appeal to the Higher People's Court of Guangdong Province (廣東省高級人民法院) against the judgement of the appeal, but the result of the further appeal is still outstanding at the date of approval of these financial statements.

In July 2015, the Higher People's Court of Guangdong Province (廣東省高級人民法院) granted leave for a retrial and suspended execution of orders previously made against the Contractor and Shunde China Rich Properties Limited ("Shunde China Rich"), a wholly-owned PRC subsidiary of the Group, by which dealings in respect of the Properties and credit standing in three bank accounts of Shunde China Rich has been frozen pending settlement of the litigations with 佘盛 and 張明贊. As at 31 July 2015, the balance in the three bank accounts of Shunde China Rich were approximately RMB586,000 (equivalent to HK$730,000). These bank balances were accordingly reclassified as "restricted bank balances" in the Group's consolidated statement of financial position at 31 July 2015. During the year ended 31 July 2016, the restrictions over these bank accounts were released by the Higher People's Court of Guangdong Province (廣東省高級人民法院) and the cash held in these accounts may be freely used by the Group.

On 29 March 2018, the PRC court concluded that the Group and its former PRC contractor was liable to pay the outstanding construction fees and such claims were paid by the former contractor to the plaintiffs. The legal proceedings between the Group and the plaintiffs were settled.

22. PROPERTIES UNDER DEVELOPMENT *(Continued)*

In view of the dispute and the uncertainty in enforcing the settlement arrangement under both Agreements, management considers it is appropriate to separately recognise the Properties and the corresponding liabilities since 31 July 2013 as the previous offset arrangement may no longer be achievable.

As at the reporting date, registration of the authentic rights (確權) of these Properties were not yet completed as the Contractor has failed to provide the Group with the certain necessary supporting documents to complete the registration process and obtain the authentic rights (確權). Without the authentic rights, these Properties cannot be sold or transferred with proper/legal title in the PRC. Accordingly these Properties were classified as properties under development.

As at 31 December 2018, the fair value of the Properties was estimated to be approximately HK$115,085,000 (2017: HK$119,276,000) with reference to a valuation report issued by Greater China Appraisal Limited (2017: Greater China Appraisal Limited), an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the properties being valued.

23. LOAN RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Loan receivables	**262,210**	85,000
Less: impairment allowances	**(3,214)**	–
	258,996	85,000

The Group's loan receivables, which arise from the money lending business of providing corporate loans in Hong Kong and PRC. Loan receivables, net of impairment, that are denominated in the following currencies:

	2018	2017
	HK$'000	HK$'000
Hong Kong Dollars ("HKD")	**238,979**	85,000
Renminbi ("RMB")	**20,017**	–
	258,996	85,000

23. LOAN RECEIVABLES *(Continued)*

Loan receivables are secured by collaterals or personal guarantee provided by customers, bear interest ranging from 7.5%–15% (Seventeen months ended 31 December 2017: 10%–15%) per annum and are repayable with fixed terms agreed with the Group's customers. As at 31 December 2018, for certain loan receivables, the fair value of the collaterals is higher than the outstanding principal and interest (note 44). The maximum exposure to credit risk at each of the reporting dates is the carrying value of the receivables mentioned above.

Included in the loan receivables (net of impairment losses) with the following ageing analysis, based on draw down dates, at the end of reporting period:

	2018	2017
	HK$'000	HK$'000
Current	**143,145**	85,000
Less than 1 month	**1,966**	–
1 to 3 months	**113,885**	–
	258,996	85,000

The carrying amount of the loan receivables approximate to their fair values due to the short-term maturities.

The movement in the allowance for impairment in respect of loan receivables was as follows:

	Impairment loss allowance
	HK$'000
Balance at 1 January 2018 under HKAS 39	–
Impact on initial application of HKFRS 9	–
Adjusted balance at 1 January 2018 under HKFRS 9	–
Impairment loss recognised during the year	3,214
As 31 December 2018	3,214

Further details on the Group's credit policy are set out in note 44.

24. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables arising from license and financial service business *(note (i))*	**40,011**	79,456
Investment income receivable arising from financial assets investment	**55,829**	13,561
Other receivables, net of loss allowance *(note (ii))*	**23,172**	5,880
	119,012	98,897

Note:

(i) The settlement terms of trade receivables are normally due within one year from date of billing. All trade receivables are non-interest bearing.

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

	2018 HK$'000	2017 HK$'000
0–90 days	**1,563**	79,456
Over 365 days	**38,448**	–
	40,011	79,456

The Group does not hold any collateral or other credit enhancements over the trade receivables.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Note: (Continued)

(ii) As at 31 December 2018, included in other receivables were amount of HK$4,900,000 (31 December 2017: HK$4,900,000) and HK$3,589,000 (2017: nil) which represents amount due from a non-controlling shareholder of a subsidiary of the Group and a related party respectively. Except for the amount due from a related party which is bearing interest at 10% per annum, the remaining amounts due are unsecured, interest-free and repayable on demand.

All of the trade and other receivables are expected to be recovered within one year.

The movement in the allowance for impairment in respect of loan receivables was as follows:

	Impairment loss allowance		
	Trade receivables	**Interest receivables**	**Total**
	HK$'000	HK$'000	HK$'000
Balance at 31 December 2017 under HKAS 39	–	–	–
Impact on initial application of HKFRS 9	–	–	–
Adjusted balance at 1 January 2018	–	–	–
Impairment loss recognised during the year	2,966	12,194	15,160
As 31 December 2018	2,966	12,194	15,160

Further details on the Group's credit policy are set out in note 44.

25. DEPOSITS AND PREPAYMENTS

	2018	2017
	HK$'000	HK$'000
Deposits paid	**724**	1,364
Prepayment	**2,606**	3,049
	3,330	4,413

None of the above asset is either past due nor impaired.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	HK$'000	HK$'000
Non-current assets		
Convertible bonds, unlisted *(note (i))*	**–**	146,957
Current assets		
HK listed equity securities	**62**	–
Convertible bonds, unlisted *(note (i))*	**124,430**	–
Debt securities, unlisted *(note (ii))*	**512,759**	517,061
	637,251	664,018

Notes:

(i) The convertible bond issued by a company listed on the Stock Exchange is measured at fair value by a firm of independent professional valuer, Norton Appraisals Holdings Limited, using the Goldman Sachs' Model, which is a financial modeling technique commonly adopted in valuation of financial assets, at the end of the reporting period.

	2018	**Relationship of unobservable inputs to fair value**
Significant unobservable inputs:		
Expected volatility	71.38% (2017: 42.28%)	The higher the expected volatility, the higher the fair value

(ii) Debt securities issued by private corporates are measured at fair value by a firm of independent professional valuer, Norton Appraisals Holdings Limited (2017: Colliers International (Hong Kong) Ltd., using the discounted cash flow method at the end of the reporting period.

	2018	**Relationship of unobservable inputs to fair value**
Significant unobservable inputs:		
Discount rate	12.51% to 13.35% (2017: 9.98% to 12.24%)	The higher the discount rate, the lower the fair value

27. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents	**6,887**	171,081

As at 31 December 2018, cash and cash equivalents of the Group included currencies denominated in RMB amounting to approximately HK$5,281,000 (2017: HK$2,162,000) which is not freely convertible into other currencies.

28. TRADE AND OTHER PAYABLES

At 31 December 2018, included in the Group's trade and other payables of approximately HK$38,237,000 (2017: HK$81,888,000) were trade payables of approximately HK$28,115,000 (2017: HK$30,150,000), representing the outstanding construction fee in dispute, further details of which are set out in note 22.

	2018 HK$'000	2017 HK$'000
Trade payable	**28,115**	30,150
Other payable	**10,122**	51,738
	38,237	81,888

The aging analysis of trade payables, based on invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Over 365 days	**28,115**	30,150

Trade and other payables that are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HKD	**729**	50,670
RMB	**37,508**	31,218
	38,237	81,888

29. ACCRUALS

	2018 HK$'000	2017 HK$'000
Accrued staff bonus	**8,848**	14,100
Accrued interest expense	**59,928**	4,606
Others	**5,879**	3,332
	74,655	22,038

All of the accruals are expected to be settled within one year or are repayable on demand.

30. LOANS FROM SHAREHOLDERS

	2018 HK$'000	2017 HK$'000
Linshan Limited ("Linshan") *(note)*	**49,598**	49,598

Note: The loan from Linshan is unsecured and bears interest at the rate of 1% (31 July 2016: 1%) per annum. Linshan is wholly owned by Mr. Shannon Tan Siang-Tau ("Mr. S Tan"), a former Executive Director of the Company and the son of Mr. CT Tan, a former Chairman and Executive Director of the Company. The loan was due for repayment on 31 December 2014, and in January 2015, the Group received a demand letter from Linshan for the settlement of the outstanding loan and accrued interest thereon.

Mr. S Tan and Mr. CT Tan were both key members of the management team of the Group's former tree plantation operations in the Philippines, details of which are set out in note 20. The Group has been highly dissatisfied with the performance, behaviour and misrepresentations of this management team, as the tree plantation operations were a total failure and has since been fully written off and abandoned by the Group during the year ended 31 July 2014. On 28 October 2014, a criminal action for misappropriation of certain funds and falsification of documents was filed in the Philippines against Ms. De Guzman, another key member of the management team and the majority equity rights holder of these tree plantation operations. In around May 2016, a warrant for the arrest of Ms. De Guzman was issued by the Regional Trial Court of Makati City. Ms. De Guzman subsequently filed a Motion for Reconsideration to dismiss the complaint raised against her. In June 2016 the Court denied Ms. De Guzman's motion and an arrest warrant was issued against her. Although several attempts have been made to serve the arrest warrant on Ms. De Guzman, none have been successful up to the date these financial statements were approved.

The Group is contemplating similar measures/actions against Mr. S Tan and Mr. CT Tan, and until that situation has been resolved, the Group has no intention of settling the loan and interest due to Linshan.

31. OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Other borrowing		
— Huarong loan *(note (i))*	**389,955**	389,955
— Other borrowing — HKD *(note (ii))*	**10,000**	–
— Other borrowing — RMB *(note (iii))*	**27,890**	–
	427,845	389,955
Represent by:		
Current portion	**76,245**	38,355
Non-current portion	**351,600**	351,600
	427,845	389,955

Notes:

(i) It is in respect of a facility agreement entered into between the Company and China Huarong International Holdings Limited on 7 November 2017, in relation to a 9.7% per annum, five years loan facility in an aggregate principal amount of up to US$60,000,000 (the "Facility") which was secured by corporate guarantee provided by the immediate holding company. As at 31 December 2018, the Company had drawn US$50,000,000 from the Facility (2017:US$50,000,000).

The borrowing is subject to the fulfilment of covenant relating to certain ratio of the Group's financial position ratio which is commonly found in lending arrangements with financial institutions. If the Group breaches the covenants, the drawn down facilities would become repayable on demand.

The Group regularly monitors its compliance with this covenant and is up to date with the scheduled repayment of the term loan. Further details of the Group's management of liquidity risk are set out in note 44. As at 31 December 2018, the Group had not breached the covenant relating to this drawn down facility (2017: nil).

(ii) Principal amount of HK$10,000,000 with interest chargeable at 15% per annum, secured by corporate guarantee provided by the immediate holding company and repayable on 30 December 2018. It is settled on 2 January 2019.

(iii) Principal amount of RMB24,500,000 with interest chargeable at 14% per annum, secured by personal guarantee provided by one director of the Company and repayable on 16 December 2018. The Group did not make the scheduled principal and interest payment. The default interest is chargeable at 14% per annum from 17 December 2018 to 31 December 2018. At the end of the reporting period, the carrying amount of the loan payable and interest payable are RMB24,500,000 and RMB1,581,611 respectively. The Group had obtained extension of the loan to 16 December 2019 on 27 March 2019.

32. SENIOR NOTES

	2018 HK$'000	2017 HK$'000
Senior notes	**178,688**	177,329
Less: current portion	**(178,688)**	(14,400)
Non-current portion	**–**	162,929

During the seventeen months ended 31 December 2017, the Company issued two senior notes of two-year term (the "Notes") with nominal value in aggregate of HK$180,000,000 to a third party. The Notes are repayable on the maturity date falling before the second anniversary of the date of issue of the Notes. The Notes carry interest at a rate of 8% per annum, which is payable annually in arrears.

33. DEFERRED TAX LIABILITIES

	Revaluation of investment properties HK$'000
At 1 August 2016	27,968
Charge to profit or loss *(note 14)*	(8,755)
At 31 December 2017 and 1 January 2018	**19,213**
Charge to profit or loss *(note 14)*	**7,465**
At 31 December 2018	**26,678**

At 31 December 2018, the Group has estimated unused tax losses of HK$142,074,000 (2017: HK$91,087,000) available for offsetting against future profits, which are subject to the agreement of the relevant tax authorities. Included in the estimated unused tax losses, HK$123,276,000 (2017: HK$86,393,000) can be carried forward indefinitely and HK$18,798,000 (2017: HK$4,694,000) will expire in one to five years. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

34. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Issued and fully paid:		
Ordinary shares		
At 1 August 2016 of HK$0.01 each	2,996,173,330	29,962
Issue of shares upon placing *(note a)*	599,200,000	5,992
At 31 December 2017 and 1 January 2018	3,595,373,330	35,954
Issue of shares upon placing *(note b)*	540,000,000	5,400
At 31 December 2018	4,135,373,330	41,354

Notes:

(a) On 6 October 2016, placing of 599,200,000 new shares (i.e. 16.67% of the enlarged shareholding) at HK$0.25 per share to six placees through a placing agent was completed. The closing market price of the immediately preceding business day is HK$0.37 per share, implying there was a 32.43% discount of the placing price to the market price. The net proceeds from the placing, after deducting the placing commission and other expenses in connection with the placing from the gross proceeds, are approximately HK$145,905,000. The six placees are independent third parties of the Group. The proceeds are intended to be utilised for the money lending business and financial services business of the Group. The related share issue expense of HK$3,895,000 for the share placement has been charged directly against the Company's share premium.

(b) On 15 May 2018, placing of 540,000,000 new shares (i.e. 13.06% of the enlarged shareholding) at HK$0.12 per share to not less than six placees through a placing agent was completed. The net proceeds from the placing, after deducting the placing commission and other expenses in connection with the placing from the gross proceeds, are approximately HK$64,295,000. The proceeds are intended to be utilised for the property development related business and general working capital.

35. SHARE OPTION SCHEME

On 28 July 2010, the Company passed an ordinary resolution regarding the termination of the old share option scheme and adopted a new share option scheme (the "New Scheme") for the primary purpose of providing incentive to the eligible employees and Directors of the Company. Under the terms of the New Scheme, the board of Directors of the Company may, at their discretion, grant options to the participants who fall within the definition prescribed in the New Scheme including the employees and Executive Directors of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the Offer Date; (ii) the average closing price of the Shares as stated the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding to the Offer Date; and (iii) the nominal value of the shares. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% (2017: 1 %) of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders or Independent Non-executive Directors in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders. Options granted under the New Scheme will entitle the holder to subscribe for shares from the date of grant up to ten years from the date of grant. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

The following share options were outstanding under the scheme during the year/period:

	Average exercise price 2018	**Number 2018**	Average exercise price 2017	Number 2017
Outstanding at beginning of the year/period	**–**	**–**	–	–
Granted during the year/period	**HK$0.108**	**248,040,000**	–	–
Outstanding at the end of the year/period	**HK$0.108**	**248,040,000**	–	–
Vested and exercisable at the end of the year/period	**HK$0.108**	**24,804,000**	–	–

No options expired, exercised or forfeited during the year covered by the above tables.

35. SHARE OPTION SCHEME *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price	Share options 31 December 2018	Share options 31 December 2017
23 November 2018	22 November 2023	HK$0.108	**24,804,000**	–
Weighted average remaining contractual life of options outstanding at end of reporting period			**4.89 years**	–

The average fair value of each option granted during the year was 5 years.

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based remuneration scheme operated by the Group:

Option pricing model used	**Binomial option pricing model**
Share price at date of grant	0.103
Contractual life	5
Expected volatility	47.12%
Expected dividend rate	0%
Risk-free interest rate	2.20%

The expected price volatility is based on the historic volatility of the share prices of publicly listed companies that are considered to be comparable to the Company.

36. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	**2018 HK$'000**	2017 HK$'000
Non-current assets			
Property, plant and equipment		**109**	45
Interest in subsidiaries		**–**	–
Total non-current assets		**109**	45
Current assets			
Trade and other receivables		**38,643**	77,412
Deposits and prepayment		**1,698**	1,294
Amounts due from subsidiaries		**1,046,969**	909,727
Bank balances and cash		**42**	23,922
Total current assets		**1,087,352**	1,012,355
Current liabilities			
Other payables		**397**	397
Accruals		**67,279**	19,027
Other borrowings	*31*	**48,355**	38,355
Senior notes	*32*	**178,688**	14,400
Amounts due to subsidiaries		**2,694**	3,128
Total current liabilities		**297,413**	75,307
Net current assets		**789,939**	937,048
Total assets less current liabilities		**790,048**	937,093
Non-current liabilities			
Other borrowings	*31*	**351,600**	351,600
Senior notes	*32*	**–**	162,929
Total non-current liabilities		**351,600**	514,529
NET ASSETS		**438,448**	422,564
Capital and reserves			
Share capital	*34*	**41,354**	35,954
Reserves	*38*	**397,094**	386,610
TOTAL EQUITY		**438,448**	422,564

Cui Lei
Director

Han Litie
Director

37. PARTICULARS OF SUBSIDIARIES

The following list contains only the particulars of the principal subsidiaries as at 31 December 2018 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

Name of subsidiary	Place of incorporation or registration and operations@	Issued and fully paid ordinary share capital/ registered capital	Percentage of ownership interests/ voting rights/profit share Directly	Indirectly	Principal activities
Professional Wealth Creation Limited	Hong Kong	HK$1	100%	–	Money lending
Old Peak Capital Limited	Hong Kong	HK$9,000,000	–	100%	Advising on securities and asset management
Grand Plus Investment Limited	Hong Kong	HK$1	–	100%	Fund investment
Sky Horse INC Limited	Hong Kong	HK$1	100%	–	Provision of administrative services to the Group
China Gem Investment Limited	Hong Kong	HK$10,000,000	–	51%	Investment holding
China Rich Properties Limited	Hong Kong	HK$10,000,000	–	100%	Property development
Shunde China Rich Properties Limited	The PRC (b)	US$11,200,000	–	100%	Property development
中石百納(深圳)股權投資管理有限公司	The PRC (b)	US$500,000	–	100%	Money lending
中石(深圳)投資諮詢有限公司	The PRC (b)	RMB5,000,000	–	100%	Property investment

@ Unless otherwise stated, the place of operations is the same as the place of incorporations.

Notes:

(a) None of the subsidiaries had issued any debt securities at the end of reporting period.

(b) All PRC subsidiaries are corporations with limited liability.

The directors of the Company made an assessment as at the date of initial application of HKFRS 12 and at the end of the reporting period. In the opinion of the directors, there is no subsidiary that has non-controlling interest individually that is material to the Group and therefore no information is disclosed for those non-wholly owned subsidiaries.

38. RESERVES OF THE COMPANY

	Share premium HK$'000 *(note i)*	Contributed surplus HK$'000 *(note ii)*	Distributable reserve HK$'000 *(note iii)*	Share option reserve HK$'000 *(note 35)*	Accumulated losses HK$'000	Total HK$'000
At 1 August 2016	1,689,752	1,080,948	77,033	–	(2,658,134)	189,599
Profit for the period	–	–	–	–	57,098	57,098
Issue of ordinary shares upon placing *(note 34(a))*	139,913	–	–	–	–	139,913
At 31 December 2017 and 1 January 2018	**1,829,665**	**1,080,948**	**77,033**	**–**	**(2,601,036)**	**386,610**
Loss for the year	**–**	**–**	**–**	**–**	**(51,957)**	**(51,957)**
Issue of ordinary shares upon placing *(note 34(b))*	**58,895**	**–**	**–**	**–**	**–**	**58,895**
Equity-settled share-based transactions	**–**	**–**	**–**	**3,546**	**–**	**3,546**
At 31 December 2018	**1,888,560**	**1,080,948**	**77,033**	**3,546**	**(2,652,993)**	**397,094**

Notes:

(I) SHARE PREMIUM

Pursuant to the Companies Act 1981 of Bermuda, the Company's share premium account can be distributed in the form of fully paid shares.

(II) CONTRIBUTED SURPLUS

The Company passed a special resolution on 31 December 2014 for a capital reduction and the issued share capital of the Company was reduced from approximately HK$299,617,000 to HK$14,981,000 on 2 January 2015. The capital reduction resulted in reducing the issued share capital of the Company by approximately HK$284,636,000. Such amount was credited to the contributed surplus of the Company.

(III) DISTRIBUTABLE RESERVE

The distributable reserve of the Company represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the Company's share issued for the acquisition at the time of the group reorganisation in 1994.

39. LEASES

Operating lease — lessee

The Group paid minimum lease payments of HK$5,859,000 (seventeen months ended 31 December 2017: HK$3,072,000) under operating leases in respect of rented premises.

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**5,834**	4,999
In the second to fifth years inclusive	**4,864**	5,979
	10,698	10,978

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases of office premises are negotiated for an average term of 1 to 4 years for fixed monthly rentals.

40. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Save for those disclosed elsewhere in these financial statements, details of transactions between the Group and other related parties are disclosed below.

(a) During the year/period, the Group entered into the following transactions with related parties:

	Year ended **31 December** **2018** **HK$'000**	Seventeen months ended 31 December 2017 HK$'000
Interest expenses incurred on loans from shareholders	**(516)**	(724)
License service income *(note)*	**2,405**	2,044
Interest income from a related party	**174**	–

Note: The license service income was generated from the provision of administrative service provided to a fund in which a fellow subsidiary of the Group was the general partner of the fund. The transaction has been conducted on normal commercial terms.

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year/period were as follows:

	Year ended 31 December 2018 HK$'000	Seventeen months ended 31 December 2017 HK$'000
Short-term benefits	**23,480**	25,245
Post-employment benefits	**108**	83
	23,588	25,328

(c) Amounts with related parties are summarised below:

	2018 HK$'000	2017 HK$'000
Amounts due from/(to)		
A related party	**3,589**	–
A related company *	**(8,128)**	–
Loans from shareholders	**(49,598)**	(49,598)

* Mr. Cui Lei, director of the Company, was also the director of the related company as of the end of reporting period.

41. ACQUISITION OF A SUBSIDIARY ACCOUNTED FOR AS ASSETS ACQUISITION

On 29 June 2018, the Group acquired 100% equity interest of 中石（深圳）投資諮詢有限公司 ("China Gem (Shenzhen) Investment consulting Co., Ltd." or "CG Shenzhen") at a cash consideration of approximately RMB1,127,000 (equivalent to HK$1,332,000) from a fellow subsidiary of the Group. CG Shenzhen principally engaged in investment properties in PRC before they were acquired by the Group. The purpose of the acquisition was mainly for acquiring the PRC investment properties. Thus, the directors are of the view that the acquisition is treated as acquisition of investment properties in substance.

Details of the aggregate fair values of the identifiable assets and liabilities of CG Shenzhen as at the date of acquisition are as follows:

	RMB'000	HK$'000
Bank balances	451	535
Other receivables	3,039	3,601
Investment properties *(Note 18)*	46,545	55,140
Properties, plant and equipment *(Note 17)*	12	14
Other payables	(48,920)	(57,958)
	1,127	1,332
Satisfied by:		
Consideration payable	1,127	1,332
Net cash inflow arising from acquisition		
Bank balances acquired	451	535

42. NOTES SUPPORTING CASH FLOW STATEMENTS

(a) Major non-cash transactions

(i) During the year ended 31 December 2018, the Group entered into loan restructuring agreement with the PRC customer, trade receivables were contra with other payables of the Group amounted to approximately RMB28,619,000 (approximately HK$32,577,000).

(ii) During the year ended 31 December 2018, the Group entered into loan restructuring agreement with the PRC lender, loan receivables were contra with other payables of the Group amounted to approximately RMB10,000,000 (approximately HK$11,383,000).

42. NOTES SUPPORTING CASH FLOW STATEMENTS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities:

	Loans from shareholder HK$'000	Other borrowings HK$'000	Senior notes HK$'000	Total HK$'000
As at 1 January 2018	49,598	389,955	177,329	616,882
Changes from cash flows:				
Proceed from new borrowings	–	49,640	–	49,640
Repayment of borrowings	–	(8,630)	–	(8,630)
Interest paid	–	(843)	–	(843)
Total changes from financing cash flows:	–	40,167	–	40,167
Other adjustments:				
Interest expenses	–	843	1,359	2,202
Exchange adjustments:	–	(3,120)	–	(3,120)
As at 31 December 2018	49,598	427,845	178,688	656,131

43. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2018 HK$'000	2017 HK$'000
Financial assets		
Loans and receivables at amortised cost *(note i)*	387,255	357,010
Financial assets at fair value through profit or loss	637,251	664,018
	1,024,506	1,021,028
Financial liabilities		
Financial liabilities, at amortised cost	769,023	719,735

Note:

(i) Loans and receivables comprises trade and other receivables, loan receivables, deposits and cash and cash equivalents.

44. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, loan receivables, deposits, investments held for trading, financial assets at fair value through profit or loss, cash and cash equivalents, trade and other payables, accruals, loans from shareholders, senior notes and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged from prior year.

Market risk

Currency risk

Most of the Group's financial assets and liabilities are denominated in HKD, United States dollars and RMB, which are the functional currencies of respective group companies, and Hong Kong dollars is pegged to United States dollars.

Management considered the foreign exchange risk with respect of RMB is not significant as the net exposure to RMB is not material. The exchange rate of RMB to HKD is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

Interest risk

The Group's fair value interest-rate risk mainly arises from loan receivables, loan from shareholders, other borrowings and senior notes were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no financial instruments which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

Credit risk

The Group credit risk is primarily attributable to its trade and other receivables, loan receivables, financial assets at fair value through profit or loss and cash and cash equivalents. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Trade receivables and other receivables

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Each customer is given different credit terms and normally, the Group does not obtain collateral from customers.

44. FINANCIAL RISK MANAGEMENT *(Continued)*

Credit risk *(Continued)*

Loans receivable

The Group assesses the credit quality of each potential client and defined limits for each client. The Group also demands certain client to provide corporate guarantees from their respective shareholders or related parties or stocks as collateral to the Group at the time the loan arrangement is entered into. Also, the Group take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate.

For all stage 1 loan receivables amounted to HK$65 million, the fair value of pledged assets secured by these customers, which mitigating a certain extent of credit risk, were amounted to HK$112 million.

Financial assets at fair value through profit or loss

The Group also invested in debt securities and convertible bonds designated as financial assets fair value through profit or loss which exposed to credit risk. The management of the Group reviews on a regular basis the portfolio of the debt securities and convertible bonds to ensure that the concentration risk is at an acceptable level. In this regard, the directors of the Company consider that the credit risk relating to the debt securities and convertible bonds is closely monitored. The maximum exposure to credit risk at the end of the reporting period equal to carrying amounts of these instruments.

Bank balances

As at 31 December 2018 and 2017, the Group has bank balances and cash in certain corporations and banks in the PRC and Hong Kong. The credit risk on these deposits and other financial assets is insignificant as the counterparties are financial institutions with high credit rating or with good reputation.

At the end of the reporting period, the Group has a certain concentration of credit risk as 15% (2017: 42%) and 56% (2017: 83%) of total trade and other receivables and loan receivables were due from the Group's largest debtor and the five largest debtors respectively.

The credit risk of the Group's financial assets, which mainly comprise of cash and cash equivalents, trade receivables and loan and other receivables, arises from potential default of the counterparties, with maximum exposure equal to the carrying amounts of these instruments.

44. FINANCIAL RISK MANAGEMENT *(Continued)*

Credit risk *(Continued)*

Impairment and provisioning policies

The Group has adopted HKFRS 9 on 1 January 2018, where the impairment requirements under HKFRS 9 are based on an expected credit loss model. The Group applies simplified approach to measure ECL on trade receivable; and general approach to measure ECL on other receivables, loans receivableand bank balances. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition: Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, loss provisions are provided at 12-month ECL; Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these financial instruments, lifetime ECL are recognised. Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. The trade and other receivables and loans receivable use the probability of default ("PD") and Loss Given Default ("LGD") to determine significant increase in credit risk.

Based on PD, LGD and internally derived credit ratings, trade and other receivables, loan receivables, financial assets at fair value through profit or loss and cash and cash equivalents are classified into 3 stages.

As at 31 December 2018, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with loans receivable as disclosed in note 23 respectively.

Trade receivables

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which are calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

44. FINANCIAL RISK MANAGEMENT *(Continued)*

Credit risk *(Continued)*

Trade receivables *(Continued)*

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

	Expected loss rate (%)	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	1%	1,563	16
1-90 days past due	7%	41,414	2,950
		42,977	2,966

Expected loss rates are based on PD and LGD to determine significant increase in credit risk. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Loan and other receivables

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

	Expected loss rate (%)	Stage 1 HK$'000	Stage 2 HK$'000	Gross carrying amount HK$'000	Loss allowance HK$'000
loan receivables	0.77%~1.82%	262,210	–	262,210	3,214
Investment income receivables	7.17%~21.48%	–	68,023	68,023	12,194
		262,210	68,023	330,233	15,408

* Transfer of investment income receivables of HK$2,928,000 from stage 1 to stage 2 and resulting in an increase in loss allowance of HK$558,000.

Expected loss rates are based on PD and LGD to determine significant increase in credit risk. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

44. FINANCIAL RISK MANAGEMENT *(Continued)*

Credit risk *(Continued)*

Movement in the loss allowance account in respect of trade, loan and other receivables during the year is as follows:

	Trade receivables HK$'000	**Loan receivables** HK$'000	**Investment income receivables** HK'000	**Total** HK'000
Balance at 1 January 2018 under HKAS 39	–	–	–	–
Impact on initial application of HKFRS 9 *(note 2(a))*	–	–	–	–
Adjusted balance at 1 January 2018 under HKFRS 9	–	–	–	–
Impairment losses recognised during the year (Simplified approach)	2,966	–	–	2,966
Impairment losses recognised during the year (12 month ECL — stage 1)	–	3,214	–	3,214
Impairment losses recognised during the year (12 month ECL — stage 2)	–	–	12,194	12,194
Balance at 31 December 2018	2,966	3,214	12,194	18,374

44. FINANCIAL RISK MANAGEMENT *(Continued)*

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms as well as derivative financial instruments. The table has been drawn up based on the undiscounted cash flows of the financial instruments based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within 1 year or on demand HK$'000	More than 1 year but not more than 2 years HK$'000	More than 2 years but not more than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
2018						
Non-derivative financial liabilities						
Trade and other payables	38,237	–	–	–	38,237	38,237
Accruals	74,655	–	–	–	74,655	74,655
Loans from shareholders	49,598	–	–	–	49,598	49,598
Other borrowings	80,149	38,355	466,667	–	585,171	427,845
Senior notes	207,311	–	–	–	207,311	178,688
	449,950	38,355	466,667	–	954,972	769,023

44. FINANCIAL RISK MANAGEMENT *(Continued)*

Liquidity risk *(Continued)*

	Within 1 year or on demand HK$'000	More than 1 year but not more than 2 years HK$'000	More than 2 years but not more than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
2017						
Non-derivative financial liabilities						
Trade and other payables	80,815	–	–	–	80,815	80,815
Accruals	22,038	–	–	–	22,038	22,038
Loans from shareholders	49,598	–	–	–	49,598	49,598
Other borrowings	38,355	38,355	500,758	–	577,468	389,955
Senior notes	14,400	194,400	–	–	208,800	177,329
	205,206	232,755	500,758	–	938,719	719,735

Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions are valued by an independent professional valuer; and

- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

44. FINANCIAL RISK MANAGEMENT *(Continued)*

Fair value *(Continued)*

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at fair value through profit or loss				
— Listed equity investments	**62**	**–**	**–**	**62**
— debt instruments, unlisted	**–**	**–**	**512,759**	**512,759**
— convertible bonds, unlisted	**–**	**–**	**124,430**	**124,430**
	62	**–**	**637,189**	**637,251**

	2017			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at fair value through profit or loss				
— debt instruments, unlisted	–	–	517,061	517,061
— convertible bonds, unlisted	–	–	146,957	146,957
	–	–	664,018	664,018

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	2018	2017
	HK$'000	HK$'000
At beginning of the year/period	**664,018**	–
Subscription of convertible bond	**–**	129,000
Subscription of debt securities	**–**	513,500
Change in fair value	**(26,829)**	21,518
At end of the year/period	**637,189**	664,018

45. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt (which includes loans from shareholders, other borrowing and senior notes) and equity attributable to owners of the Company, comprising issued share capital and reserves. The Directors of the Company review the capital structure on a continuous basis. As part of this review, the Directors consider the cost of capital and the risks associated with capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and issuance of new shares as well as the addition of new borrowings.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debts.

The Group has no plan to use special measures to adjust its gearing ratio in the foreseeable future.

46. CONTINGENT LIABILITIES

A PRC Court (廣東省佛山市順德區人民法院) ruled in December 2013 that a wholly–owned PRC subsidiary of the Group (Shunde China Rich Properties Limited) was jointly liable with its former PRC Contractor to pay RMB3,198,000 (equivalent to HK$3,784,000 as at 31 December 2018 (2017: HK$3,837,000)) and RMB3,961,000 (equivalent to HK$4,686,000 as at 31 December 2018 (2015: HK$4,753,000)) to 余盛 and 張明贊 respectively in respect of certain long outstanding construction fees. The Group appealed this decision. However, the appeal was dismissed by the People's Intermediate Court in January 2015. Following the result of the appeal, the Contractor made a further appeal to the Higher People's Court of Guangdong Province (廣東省高級人民法院) against the judgement of the appeal, and the court hearing was held in December 2016, In August 2017, the Higher People's Court of Guangdong Province dismissed the appeal by the Contractor and maintained the original verdict of the PRC Court in December 2013. No provision for these amounts has been made as the Directors consider they are fully covered by the frozen bank accounts of the former PRC contractor which amounted to RMB11,038,000 (equivalent to HK$13,059,000 as at 31 December 2018 (2017: HK$13,245,000)) by the People's Intermediate Court.

47. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

FINANCIAL SUMMARY

RESULTS

The consolidated results, assets and liabilities of the Group for the last five financial years/period as extracted from the audited financial statements of the Group and restated as appropriate are summarised below:

	As at 31 July			As at 31 December	
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue					
— continuing operations	3,995	4,161	9,765	109,933	**99,532**
— discontinued operations	–	–	–	–	**–**
	3,995	4,161	9,765	109,933	**99,532**
Profit/(loss) before income tax					
— continuing operations	(17,528)	(22,124)	(21,115)	32,360	**(59,910)**
— discontinued operations	(760,988)	–	–	–	**–**
	(778,516)	(22,124)	(21,115)	32,360	**(59,910)**
Income tax credit/(expense)					
— continuing operations	(1,173)	(4,107)	(1,427)	9,098	**(7,714)**
— discontinued operations	–	–	–	–	**–**
	(1,173)	(4,107)	(1,427)	9,098	**(7,714)**
Profit/(loss) for the year/period					
— continuing operations	(18,701)	(26,231)	(22,542)	41,458	**(67,624)**
— discontinued operations	(760,988)	–	–	–	**–**
	(779,689)	(26,231)	(22,542)	41,458	**(67,624)**
Attributable to:					
Owners of the Company	(779,689)	(26,231)	(22,542)	41,465	**(67,623)**
Non-controlling interests	–	–	–	(7)	**(1)**
	(779,689)	(26,231)	(22,542)	41,458	**(67,624)**

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at 31 July			As at 31 December	
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	277,938	430,818	402,707	1,223,920	**1,279,227**
Total liabilities	(112,349)	(116,329)	(111,204)	(740,021)	**(795,701)**
	165,589	314,489	291,503	483,899	**483,526**
Attributable to:					
Owners of the Company	165,589	314,489	291,503	479,006	**478,634**
Non-controlling interests	–	–	–	4,893	**4,892**
	165,589	314,489	291,503	483,899	**483,526**

PARTICULARS OF MAJOR PROPERTIES

	Lease Expiry	Approx. gross floor area (Sq.m.)	Type	Effective % held	Stage of completion	Anticipated completion
Properties held for sale						
Regal Garden No. 888 Lunchang Road, Lunjiao Town, Shunde District, Foshan City, Guangdong Province, The PRC	December 2065	4,384	35 Residential units	100%	Completed	N/A
Properties under development						
Regal Garden No. 888 Lunchang Road, Lunjiao Town, Shunde District, Foshan City, Guangdong Province, The PRC	December 2065	18,804	169 Residential units	100%	The registration of the authentic rights (確權) at these units were not yet completed. Details are set out in note 21 to the financial statements	N/A
Investment properties						
Regal Garden No. 888 Lunchang Road, Lunjiao Town, Shunde District, Foshan City, Guangdong Province, The PRC	December 2065	11,391	Property held for further development	100%	Vacant land not yet developed	N/A
	December 2065	19,671	Retail shops	100%	Completed	N/A
	December 2065	6,696	Car park space	100%	Completed	N/A
47 residential units of a residential development named 太平湖金龍島 Huangshan District, Anhui Province, the PRC	November 2080	4,719	47 Residential units	100%	Completed	N/A