大唐西市
DA TANG XI SHI

DTXS SILK ROAD INVESTMENT HOLDINGS COMPANY LIMITED
大唐西市絲路投資控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 620)

ANNUAL REPORT 2019

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lu Jianzhong *(Chairman)*
Mr. Xu Lin *(Executive Vice-chairman)*
(appointed on 1 April 2020)
Mr. Yang Xingwen
Mr. Lai Kim Fung *(Chief Executive Officer)*
Mr. Wong Kwok Tung Gordon Allan
(Deputy Chief Executive Officer)

Non-executive Directors

Mr. Jean-Guy Carrier
Dr. Cheng Kar-Shun, Henry
(appointed on 28 August 2019)

Independent Non-executive Directors

Mr. Cheng Yuk Wo
Ms. Fan Chiu Fun, Fanny (resigned on 1 May 2019)
Mr. Tsui Yiu Wa, Alec
Mr. Tse Yung Hoi
Mr. Wang Shi
(re-designated from Non-executive Director to Independent Non-executive Director on 29 November 2019)

AUDIT COMMITTEE

Mr. Cheng Yuk Wo *(Chairman)*
Ms. Fan Chiu Fun, Fanny (resigned on 1 May 2019)
Mr. Tsui Yiu Wa, Alec
Mr. Tse Yung Hoi (appointed on 1 May 2019)

NOMINATION COMMITTEE

Mr. Lu Jianzhong *(Chairman)*
Mr. Cheng Yuk Wo
Mr. Tsui Yiu Wa, Alec

REMUNERATION COMMITTEE

Mr. Tsui Yiu Wa, Alec *(Chairman)*
Mr. Cheng Yuk Wo
Mr. Lai Kim Fung

COMPANY SECRETARY

Mr. Tang Man Joe

REGISTERED OFFICE

Crawford House
4th Floor
50 Cedar Avenue
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 811–817, 8/F
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Ocorian Management (Bermuda) Limited
Victoria Place, 5th Floor, 31 Victoria Street
Hamilton HM10
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

AUDITOR

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Jeffrey Mak Law Firm
Silkroad Law Firm
Appleby Spurling & Kempe

PRINCIPAL BANKERS

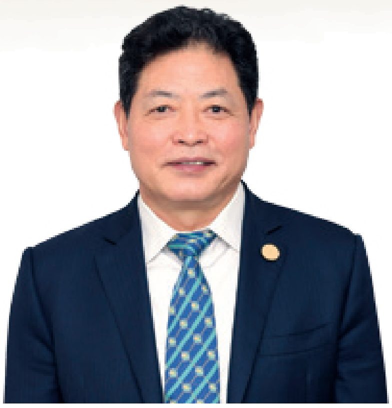
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd. Hong Kong Branch
China Construction Bank Hong Kong Branch
China Everbright Bank Hong Kong Branch

WEBSITE

www.dtxs.com

STOCK CODE

620



Lu Jianzhong

Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board") of DTXS Silk Road Investment Holdings Company Limited (the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present the annual report for the year ended 31 December 2019.

FINANCIAL RESULTS

During the year under review, the Group recorded a total revenue from continuing operations of approximately HK$235.4 million (2018 HK$136.0 million). Profit attributable to owners of the Company was approximately HK$10.3 million (2018: loss of HK$126.9 million). The Board does not recommend the payment of a dividend for the year ended 31 December 2019.

BUSINESS REVIEW

The past 2019 was a crucial year for the Group's transformation. During the year, the economies of the PRC and Hong Kong were confronted with unprecedented challenges. Against this backdrop, tremendous pressure was brought upon the operations. However, the Group has successfully turned its overall performance of this year from losses to profits by conducting proactive strategic adjustments to our business structure, adopting a series of cost-reduction and efficiency-improving measures as well as exercising stringent control of expenses. At the same time, the Group successfully introduced New World Development Company Limited (stock code: 0017) ("New World Development"), one of the constituent stocks of the Hong Kong Hang Seng Index, to become a strategic shareholder of the Company and the Group has been included in the MSCI Hong Kong Small Cap Index, which attests that the Group's proactive transformation over the past few years has been gradually affirmed and recognized by the market.

Regarding the strategic adjustment of our business structure, the Company actively injected the high-quality assets of the parent group into the Group, among which the Silk Road International Culture Center was a top priority. As disclosed in the circular of the Company dated 21 February 2020, the Silk Road International Culture Center is located in Lianhu District, Xi'an City, the PRC, which is one of the economic and culture hubs of Xi'an City. The Silk Road International Culture Center is designed with three major features, namely (i) the headquarter of Silk Road Chamber of International Commerce; (ii) Artwork Central Business District; and (iii) the European Section of the Silk Road Culture Street, amongst which Artwork Central Business District is planned to be developed with a comprehensive artwork industry chain to promote the development of the cultural artworks operations and cultural artwork financing businesses. Meanwhile, the Silk Road International Culture Center integrates multiple functions such as office buildings, shopping mall, meeting venue and five-star hotel, thus bringing long-term and sustainable income sources to the Group. After months of close communication and cooperation with the parent group and various professional teams, the Group's structure was reorganised and the sustainability and stability of our projects at all levels, including operations, sales, finance, legal compliance, were thereby secured. The acquisition of Silk Road International Culture Center was completed on 12 March 2020, and the project has been incorporated into the Group as scheduled. In terms of the streamlining of existing businesses, we have proposed to sell the non-core marine engineering business by the end of 2019, so as to make good use of limited recourses and implement structural adjustments, which in turn facilitates a balanced and long-term development of the Group.

Regarding the auction business, two auctions were held this year and the cultural artwork financing business has been further strengthened through the auction platform, while the effort put into risk management was also enhanced. In terms of the e-commerce business, the sales team actively explored new products and new customer streams, which led to a significant increase in sales in this year. For the winery business, the 2018 vintage wines received an outstanding 92 points from James Suckling's 2019 tasting report, marking a significant improvement in the quality of our wine.

FUTURE OUTLOOK

Looking ahead to 2020, the market sentiment will remain subdued due to a number of lingering uncertainties from last year, including the unresolved Sino-US economic and trade relations as well as geopolitical tensions, bringing further impact to the global economy. Given that the global epidemic at the beginning of 2020 is severe and the Group's businesses are mainly based in Mainland China and Hong Kong, it is expected that shocks and challenges will follow, and our auctions and wine sales will undoubtedly be hit by the epidemic prevention policy implemented to avoid cluster infection. However, as the Silk Road International Culture Center is entering the pre-sale stage, it is expected to bring positive contributions to the Group.

The Da Tang Xi Shi Silk Road Cultural Tourism Town, which was developed by the parent group, was assessed by the Xi'an Characteristic Town Planning and Construction Leading Group (西安特色小鎮規劃建設領導小組) and awarded the Outstanding Characteristic Town (優秀類特色小鎮) in the evaluation and assessment of the first batch of characteristic towns in Xi'an. The cultural tourism town focuses on high-quality development with high standards orientation and innovative institutional mechanisms, whereas eight services centers for cultural artworks (i.e. authentication center, valuation center, tracking center, big data center, online trading center, offline central business center, financial center, arbitration center) were established with the purpose to build an international cultural and art trading platform based on the model of "artwork + internet + finance + technology + standards and guidelines", creating unique advantage for the core business. Leveraging on the parent group's resources in cultural property, cultural fairs and arts, as well as banking and finance, the Group will introduce suitable high-quality assets to expand our cultural business. Meanwhile, the Group has introduced New World Development as a strategic shareholder, which broadens the Group's platform for cultural development by leveraging on New World Development's extensive business development experience and networks in the PRC.

In 2020, we will continue to strengthen the Company's existing business, broaden sources of income and reduce expenditures as well as streamline our structure, so as to improve efficiency. We will also focus on the development of cultural industry and strengthen risk prevention and control. The Group will strive to generate revenue through the implementation of the Silk Road International Culture Center, thereby facilitating the Group's transformation and achieving long-term and sustainable growth.

APPRECIATION

On behalf of the Board, I would like to thank our shareholders, partners and customers for their strong support, and express our sincere gratitude to all of our management team and employees for their endeavors and contribution to the Group. The Group will create more value for the shareholders, partners, customers and employees through condensing the wisdom and efforts of the team and strengthening its confidence for development.

Lu Jianzhong
Chairman

31 March 2020

FINANCIAL AND BUSINESS REVIEW

The Group's revenue from continuing operations recorded approximately HK$235.4 million for the year (2018: HK$136.0 million), representing an increase of approximately 73.1% as compared with 2018, which was mainly due to the increase in revenue from sales of merchandises. Profit for the year ended 31 December 2019 was approximately HK$8.2 million as compared with a loss of HK$128.9 million for the year of 2018.

Arts and Cultural Division

This division, comprising the auction business and the Art Central Business District business ("ACBD business"), contributed a segment revenue of approximately HK$55.2 million (2018: HK$40.1 million), and a segment profit before taxation of approximately HK$20.7 million (2018: HK$5.3 million) for the year ended 31 December 2019.

Auction Business

The Group's auction business in the Mainland China is conducted by a wholly-owned subsidiary, 北京景星麟鳳國際拍賣有限公司 (Beijing Phoenixstar International Auction Co., Ltd.*) through relevant structured contracts. It is a Beijing based boutique auction house specialising in arts and collections auction business, in particular bronze mirrors and jadeware.

Two large scale auctions were held in Beijing in April 2019 and December 2019. The types of auction items are diversified, covering incense burners, buddha statues, bronze mirrors, silver coins, ancient books, etc. One of the auctions unfolded over the course of more than 10 hours. The overall sentiment and involvement of buyers in the auction was unprecedented. Commission income from previous auctions of approximately HK$13.2 million had been subsequently received in the first quarter of 2020.

During the year, more auction items were collected through strengthening art financing business by using approximately HK$200 million raised from the subscription of shares.

ACBD Business

The Company has established two ACBD centers in Xi'an City and in Hong Kong respectively. The main business functions of these centers are to provide integrated functions of storage, exhibition, auction, promotion and trading of arts and collections. The center aims to create a strong network with other art and culture partners to host events and networking. As disclosed in the announcement of the Company dated 28 June 2019, the ACBD centers are expected to create a synergy effect with the operations of Silk Road International Culture Center.

Winery Division

This division contributed a segment revenue of approximately HK$1.9 million (2018: HK$6.1 million), and a segment loss of approximately HK$7.1 million (2018: HK$1.7 million) for the year ended 31 December 2019.

We aimed at increasing the quality of the vintage from time to time. It is encouraging that we have received an outstanding 92 points from James Suckling's 2019 tasting report, representing a substantial improvement in the quality of our wine. Also, we target to set up different distribution channels, which are located in Hong Kong, Mainland China and France to boost the sale volume.

e-Commerce Division

This division contributed a segment revenue of approximately HK$178.3 million (2018: HK$89.9 million), and a segment profit before taxation of approximately HK$1.3 million (2018: loss of HK$0.6 million) for the year ended 31 December 2019.

A significant improvement in sales was recorded during the year due mainly to the increase in the number and range of licensed brands and products under our continuous effort. Also, an additional airline has been engaged as our inflight sales provider during the year.

DISCONTINUED OPERATION

Engineering Services Division

This division recorded a segment revenue of approximately HK$51.1 million (2018: HK$13.9 million), and a segment profit before taxation of approximately HK$29.9 million (2018: loss of HK$24.9 million) for the year ended 31 December 2019. This division recorded a segment profit due to provision of non-recurring tendering technical support services.

As disclosed in the announcement of the Company dated 30 December 2019, the Company and Harbour Front Limited entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Harbour Front Limited agreed to purchase the entire issued share capital of UDL Ventures Limited, a direct wholly-owned subsidiary of the Company, and the assignment of the shareholder loan for a consideration of HK$16,756,000. Such disposal was completed on 3 February 2020.

OUTLOOK

All businesses are expected to be inevitably affected by the outbreak of coronavirus disease 2019 ("COVID-19") in the first half of 2020. An auction in Beijing originally scheduled in April will be postponed. In response to the policy of infection prevention and control of epidemic, number of social gatherings will be reduced to avoid cluster infection, thus affecting the sales of wine. In-flight sales of e-commerce business will also be affected due to the decrease in the number of flights and passengers. The above situation may continue into the second half of 2020 and all businesses are under more pressure with the economic slowdown during the year.

The Group introduced a new property development business segment in the first quarter of 2020. The Group aims to create synergy among the existing businesses and the new business. Also, the Group will continue to explore business opportunities by leveraging on the parent group business network and cooperating with its strategic shareholder, New World Development Group.

PROFIT GUARANTEE

Acquisition of China King Sing Lun Fung Auction Holdings Company Limited

On 11 July 2016, the Company completed the acquisition of 100% equity interests in China King Sing Lun Fung Auction Holdings Company Limited and its subsidiaries (the "CKSLF") (the "Auction Acquisition") at the consideration of RMB250.0 million (the "Auction Consideration") which was satisfied by way of cash payment of RMB150.0 million and the issuance of 29,481,480 shares of the Company (the "Consideration Shares") at the price of HK$4.00 per share.

As disclosed in the announcement dated 20 June 2016 regarding the Auction Acquisition, the vendors of CKSLF (the "Auction Vendors") have guaranteed to the Company that the audited consolidated net profit arising from the operating business after tax of CKSLF for each of the financial period/years ended 30 June 2017, 30 June 2018 and 30 June 2019 (the "Original Schedule") shall not be less than certain guaranteed amounts.

As disclosed in the announcement dated 26 June 2019, the Auction Vendors and DTXS Auction Limited, the purchaser of the CKSLF, entered into a supplemental agreement, pursuant to which the Auction Vendors and DTXS Auction Limited clarified and confirmed that the Original Schedule, being the three financial years ended 30 June 2019, be postponed and shifted forward by six months. The guarantee period under the supplemental agreement would be the three financial years from 1 January 2017 to 31 December 2019 (the "Auction Guaranteed Period(s)"), which was in line with the timing of the reactivation of the CKSLF's critical aspects of the operations after the integration of the CKSLF into the internal control system and standard of the Group. The guaranteed amounts (the "Auction Profit Guarantee(s)") as set opposite to the relevant the Auction Guaranteed Periods as defined in the table below:

Auction Guaranteed Periods	Auction Profit Guarantees (RMB)
1 January 2017 to 31 December 2017 (the "First Guaranteed Period")	25,000,000 (the "First Profit Guarantee")
1 January 2018 to 31 December 2018 (the "Second Guaranteed Period")	35,000,000 (the "Second Profit Guarantee")
1 January 2019 to 31 December 2019	45,000,000

The Consideration Shares have been deposited with the Company as security for the due performance of the Auction Profit Guarantees by the Auction Vendors, with adjustment to the Auction Consideration as follows: (i) should the deficit (if any) between the average audited consolidated net profit after tax of CKSLF during the Auction Guaranteed Periods (the "Average Profit") and the average Auction Profit Guarantee per year (i.e. RMB35.0 million of the latter (equivalent to approximately HK$41.3 million)) (the "Average Profit Guarantee") is less than or equal to 10% of the latter (i.e. the Average Profit is greater than or equal to RMB31.5 million (equivalent to approximately HK$37.1 million)), the compensation will be on a dollar to dollar basis; and (ii) should the deficit (if any) between the Average Profit and the Average Profit Guarantee is more than 10% of the latter, the compensation will be calculated as follows:

compensation = RMB3.5 million + {7 x (absolute value of the deficit amount in RMB less RMB3.5 million)}

Upon 100% fulfilment of the Auction Profit Guarantee, the Company shall release all the Consideration Shares to the Auction Vendors. However, if any adjustment to the Auction Consideration as aforesaid is required, the Auction Vendors shall forthwith dispose of part of the Consideration Shares so as to raise funds to pay the compensation aforesaid to the Company and if there is any remaining shortfall, the Auction Vendors shall forthwith pay such shortfall to the Company.

Based on the financial results of CKSLF for the years ended 31 December 2017 and 2018 reflected in the audited consolidated financial statements of the Company for the years ended 31 December 2017 and 2018, the consolidated net profit arising from the operating business after tax for the First Guaranteed Period and Second Guaranteed Period were lower than the First Profit Guarantee and Second Profit Guarantee. However, for the purpose of adjusting the Auction Consideration, the actual shortfall between the Average Profit and the Average Profit Guarantee has yet to be ascertained until the release of audited accounts of CKSLF for the three years ended 31 December 2019, which is expected to be available on or before 30 September 2020. Further announcement(s) will be made by the Company in relation to the Auction Profit Guarantee as and when appropriate.

Disposal of m-Finance Limited

As disclosed in the announcement of the Company dated 22 July 2016 in relation to the acquisition of 85% interests in m-Finance Limited (the "m-Finance") (the "m-Finance Acquisition"), the vendor of m-Finance (the "m-Finance Vendor") has guaranteed to the Company, among others, that the audited consolidated profit after tax of m-Finance for the period from 26 August 2016 to 31 December 2017 (the "2017 Guaranteed Period") shall not be less than HK$10,000,000 (the "2017 Profit Guarantee"), the period from 1 January 2018 to 31 December 2018 (the "2018 Guaranteed Period") shall not be less than HK$9,000,000 (the "2018 Profit Guarantee") and the period from 1 January 2019 to 30 June 2019 (the "2019 Guaranteed Period") shall not be less than HK$5,000,000 (the "2019 Profit Guarantee").

On 28 December 2018, the Company completed the disposal (the "Completion") of 100% equity interests in m-Finance to the m-Finance Vendor (the "m-Finance Disposal") at a total maximum consideration of HK$48,000,000 (the "Disposal Consideration") (subject to reductions (the "Reductions")) of which total net Disposal Consideration (after Reductions) shall in no event be less than HK$40,000,000, which included the portion shared by the non-controlling interest holder of m-Finance. HK$31,757,000 was settled on the Completion and the remaining consideration of m-Finance Disposal would be subject to the Reductions.

Based on the financial results of m-Finance commencing from 26 August 2016 to 31 December 2016 reflected in the audited consolidated financial statements of the Company for the year ended 31 December 2016 and the audited financial results of m-Finance for the year ended 31 December 2017, the consolidated profit after tax for 2017 Guaranteed Period has exceeded HK$10,000,000 and therefore the 2017 Profit Guarantee was met. The first adjusted consideration payment of HK$4,000,000 has been settled with the m-Finance Vendor in 2018.

Based on the audited financial results of m-Finance for the year ended 31 December 2018, the consolidated profit after tax for the 2018 Profit Guaranteed Period was lower than HK$9,000,000 and therefore the 2018 Profit Guarantee was not met. As such, the Company did not pay the second adjusted consideration payment of HK$4,000,000 to the m-Finance Vendor.

Based on the audited financial results of m-Finance for the six months ended 30 June 2019, the consolidated profit after tax for the 2019 Guaranteed Period was lower than HK$5,000,000 and therefore the 2019 Profit Guarantee was not met. The Company was not required to make payment for the remaining balance of the consideration in relation to the m-Finance Acquisition.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year, the Company conducted an exercise based on an enterprise risk management framework, which was developed with the assistance of an international advisory firm, to review and update the risks facing by the Group. The Group's key risks and uncertainties are summarised as below:

1. **Strategic Risks**
   - (i) Risk of downturn in global and Chinese economy
   - (ii) Adverse ad hoc external events and inability to respond to them in time
   - (iii) Keen market competition in property development and auction

2. **Operation Risks**
   - (i) Risk of authentication, appraisal and valuation of artworks
   - (ii) Risk of losing key clients
   - (iii) Ineffective know-your-client and anti-money-laundering management
   - (iv) Failure to complete construction projects on time
   - (v) Failure to attract and retain key management personnel and professional staff and lack of succession plan for key personnel
   - (vi) Insufficient data loss prevention mechanism and failure in data retention

3. **Financial Risks**
   - (i) Risk of default or delay payment by customers and/or auction buyers
   - (ii) Failure to fully recover advances to consignors
   - (iii) Inadequate funding and liquidity to the auction business

4. **Governance, Compliance and Legal Risks**
   - (i) Failure to obtain necessary control over newly acquired subsidiaries
   - (ii) Risk of non-compliance with disclosure requirements with the Listing Rules
   - (iii) Risk of failing to respond to changes in laws and government policies
   - (iv) Risk of information security and data leakage

In response to the risks mentioned above, the Company has formulated and adopted the risk management policy in providing directions in evaluating and management significant risks. In addition, the Company has engaged an external professional to conduct annual review on the effectiveness of the internal control system of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group's total cash and cash equivalents amounted to approximately HK$350.1 million, which was denominated mainly in Hong Kong Dollars (92%) and Renminbi (8%), representing an increase of approximately HK$295.6 million as compared with 2018. The change was primarily attributable to the proceeds raised from subscription of new shares of the Company on 28 August 2019, which was partially used in advances to consignors for art financing business as part of the Group's continuous expansion in its auction business during the year.

As at 31 December 2019, except for the discontinued operation, the Group did not have any outstanding secured borrowings and unsecured borrowings (2018: HK$0.6 million and HK$55.3 million, respectively). The total amount of borrowings repayable within one year was nil (2018: HK$55.9 million).

USE OF PROCEEDS

Open Offer on 9 December 2015

The net proceeds raised from the issuance of the Company's shares on an open offer on 9 December 2015 (the "Open Offer") was HK$420.3 million. The original allocation of proceeds from the Open Offer, the utilisation and remaining balance of the proceeds as at 31 December 2018 and 2019 are summarised below:

		As at 31 December 2016	As at 31 December 2017	For the year ended 31 December 2018		**For the year ended 31 December 2019**		
Uses	Original allocation HK$ million	Remaining balance HK$ million	Remaining balance HK$ million	Utilised HK$ million	Remaining balance HK$ million	**Reallocation HK$ million**	**Utilised HK$ million**	**Remaining balance HK$ million**
Repayment of loans	48.0	7.1	—	—	—	**—**	**—**	**—**
Development of online marketplace for arts and collections	80.0	38.0	12.0	4.0	8.0	**8.0**	**—**	**—**
Acquisition of inventories for the online marketplace platform	107.4	8.4	—	—	—	**—**	**—**	**—**
Expansion of the operation scale of the Group	36.0	5.4	—	—	—	**—**	**—**	**—**
Acquisitions for arts and cultural related business	148.9	—	—	—	—	**—**	**—**	**—**
General working capital	—	—	—	—	—	**8.0** (Note)	**8.0**	**—**
Total	420.3	58.9	12.0	4.0	8.0	**—**	**8.0**	**—**

Note:

On 23 May 2016, the Company announced that the Group had entered into a memorandum of understanding to acquire 85% interest in a financial e-commerce company (the "E-commerce Acquisition") with well-established information technology personnel and proven technological capacity in order to develop its online marketplace for arts and collections. The cash consideration for the E-commerce Acquisition is HK$40.8 million (subject to profit guarantee adjustments). The E-commerce Acquisition was subsequently completed on 26 August 2016 and the Group paid HK$28.8 million as the down payment. Since the E-commerce Acquisition has met its first profit guarantee for the period ended 31 December 2017, the Company paid HK$4.0 million in the second half of 2018. The Group intends to apply the remaining balance of approximately HK$8.0 million for the development of online marketplace for arts and collections. On 28 August 2019, the Company confirmed the E-commerce Acquisition has not met its second and third profit guarantees and the Company was not required to make payment for the remaining balance of the consideration of E-commerce Acquisition. As such, the unutilised proceeds of approximately HK$8.0 million from the Open Offer was re-allocated as general working capital of the Group, which has been utilised during the year.

Share Subscription on 28 August 2019

The net proceeds raised from the completion of the subscription of 111,187,538 new shares of the Company at the subscription price of HK$5.3873 per subscription share on 28 August 2019 (the "Subscription") was HK$597.0 million. The original allocation of proceeds from the Subscription, the utilisation and remaining balance of the proceeds as at 31 December 2019 are summarised below:

Uses	Original allocation HK$ million	For the year ended 31 December 2019 Utilised HK$ million	Remaining balance HK$ million
Acquisitions for arts and cultural related business(Note)	327.8	**63.5**	**264.3**
Expansion of the operation scale of the auction business of the Group	200.0	**200.0**	—
General working capital	69.2	**69.2**	—
Total	597.0	**332.7**	**264.3**

Note:

HK$327.8 million would be used for the acquisition of HK DTXS Enterprise Holdings (BVI) Limited as mentioned in the announcement of the Company dated 29 November 2019. Up to 31 March 2020, approximately HK$212.0 million was used as the cash consideration of the acquisition, and approximately HK$48.2 million was injected to the subsidiary of HK DTXS Enterprise Holdings (BVI) Limited as registered capital. The remaining balance of HK$67.6 million is estimated to be utilised on or before 31 December 2020.

GEARING

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent. Net debt includes total borrowings less cash and cash equivalent. The gearing ratio of the Group was not applicable as at 31 December 2019 (2018: 0.2%).

CAPITAL COMMITMENT

As at 31 December 2019, the Group has capital commitments amounted to approximately HK$148.7 million.

SUBSEQUENT EVENTS

Acquisition of HK DTXS Enterprise Holdings (BVI) Limited

On 29 November 2019, DTXS Silk Road Investment Development Company Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Da Tang Xi Shi International Group Limited, a wholly-owned subsidiary of Da Tang Xi Shi Investments Group Limited* (大唐西市文化產業投資集團有限公司), which is owned as to approximately 50.60% by Mr. Lu Jianzhong and approximately 13.80% by Mr. Yang Xingwen, in respect of the proposed acquisition of the entire issued share capital of HK DTXS Enterprise Holdings (BVI) Limited (the "Target Company") (the "Acquisition") together with the guarantee arrangements. The Target Company indirectly holds approximately 69.97% of the equity interest of Xi'an Da Tang Xi Shi Enterprise Limited* (西安大唐西市實業有限公司), which is the sole legal and beneficial owner of the properties and land located in the Tang West Market in Xi'an City, Shaanxi Province, the People's Republic of China (the "PRC") (the "Project"). Therefore, the Target Company owns approximately 69.97% of the equity interest of the Project. The Acquisition constituted a major and connected transaction of the Company under Chapter 14 and 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the guarantee arrangements constituted a discloseable and connected transaction of the Company under Chapter 14 and 14A of the Listing Rules and both of them are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

The Acquisition together with the guarantee arrangements were approved by the independent shareholders of the Company in the special general meeting of the Company held on 11 March 2020. Thereafter, the Acquisition was completed on 12 March 2020.

Disposal of UDL Ventures Limited

On 30 December 2019, the Company and Harbour Front Limited entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Harbour Front Limited agreed to purchase the entire issued share capital of UDL Ventures Limited, a direct wholly-owned subsidiary of the Company, and the assignment of the shareholder loan for a consideration of HK$16,756,000. Such disposal was completed on 3 February 2020.

Outbreak of COVID-19

The outbreak of COVID-19 since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the COVID-19 on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the directors of the Company confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this annual report. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information become available.

FOREIGN EXCHANGE EXPOSURE

The Group's assets and liabilities are mainly denominated in Hong Kong Dollars and Renminbi, representing the functional currency of respective group companies. Income and expenses derived from the operations in the PRC are mainly denominated in Renminbi.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollars) using exchange rates prevailing at 31 December 2019. Income and expense items are translated at the average exchange rates for the year ended 31 December 2019. Exchange loss arising from the translation of foreign operations of HK$7.8 million (2018: HK$20.5 million) for the year are recognised in other comprehensive income and accumulated in equity under the heading of "exchange differences on translation of foreign operations".

On the disposal of a foreign operation involving loss of control over a subsidiary that includes a foreign operation, the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

HUMAN RESOURCES

As at 31 December 2019, other than outsourcing vendors but including contract workers, the Group has approximately 87 employees (2018: 84) in Hong Kong and the Mainland China. The Group encourages high productivity and remunerates its employees based on their qualification, work experiences, prevailing market prices and contribution to the Group. Incentives in the form of bonuses and share options may also be offered to eligible employees based on individual performance.

HEDGING, ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS

On 29 November 2019, DTXS Silk Road Investment Development Company Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Da Tang Xi Shi International Group Limited, a wholly-owned subsidiary of Da Tang Xi Shi Investments Group Limited* (大唐西市文化產業投資集團有限公司), which is owned as to approximately 50.60% by Mr. Lu Jianzhong and approximately 13.80% by Mr. Yang Xingwen, in respect of the proposed acquisition of the entire issued share capital of the Target Company and a guarantee arrangements. The Target Company indirectly holds approximately 69.97% of the equity interest of Xi'an Da Tang Xi Shi Enterprise Limited* (西安大唐西市實業有限公司), which is the sole legal and beneficial owner of the Project. Therefore, the Target Company owns approximately 69.97% of the equity interest of the Project. Since 373,596,736 Company's shares, representing approximately 55.97% of the issued share capital of the Company as at 29 November 2019, were owned by Da Tang Xi Shi International Holdings Limited, which is a wholly-owned subsidiary of Da Tang Xi Shi International Group Limited. As such, Da Tang Xi Shi International Holdings Limited, Da Tang Xi Shi International Group Limited and Da Tang Xi Shi Investments Group Limited* (大唐西市文化產業投資集團有限公司) are connected persons of the Company under Chapter 14A of the Listing Rules. The Proposed Acquisition constituted a major and connected transaction of the Company under Chapter 14 and 14A of the Listing Rules and the guarantee arrangements constituted a discloseable and connected transaction of the Company under Chapter 14 and 14A of the Listing Rules.

On 30 December 2019, the Company and Harbour Front Limited entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Harbour Front Limited agreed to purchase the entire issued share capital of UDL Ventures Limited, a direct wholly-owned subsidiary of the Company, and the assignment of the shareholder loan for a consideration of HK$16,756,000. Such disposal was completed on 3 February 2020.

Saved as disclosed above, the Group did not (i) employ any financial instruments for hedging purposes; (ii) undertake any material acquisitions or disposals of assets, business or subsidiaries; or (iii) make any significant investments during the year.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have significant contingent liabilities.

* *For identification purpose only*

DIRECTORS

Executive Directors

Mr. Lu Jianzhong ("Mr. Lu"), aged 56, was appointed as the chairman and an executive director of the Company on 8 December 2015, and the chairman of the nomination committee of the Company on 30 March 2017. Mr. Lu graduated from Northwestern Polytechnical University (西北工業大學) with a Master in Industrial Engineering. He is the founding chairman and director of Da Tang Xi Shi Investments Group Limited* (大唐西市文化產業投資集團有限公司) ("DTXS Investment"), the ultimate controlling shareholder of the Company.

Mr. Lu is also the 13th National People's Congress, the member of the 10th, 11th and 12th Chinese People's Political Consultative Conference, the chairman of the Silk Road Chamber of International Commerce (絲綢之路國際總商會), the president of Non state Museums Committee of Chinese Museums Association (中國博物館協會非國有博物館專業委員會), and the vice president of Chinese Association for International Understanding (中國國際交流協會) and China Chamber of International Commerce (中國國際商會).

Mr. Lu has been awarded "The Third Session of National Outstanding Builders of the Socialism with Chinese Characteristic" (全國第三屆優秀中國特色社會主義事業建設者); "Annual Outstanding Individual of China Cultural Heritage Protection" (薪火相傳 — 中國文化遺產保護年度傑出人物); "Chinese Culture Leading Figure" (中華文化人物); "Annual Leading Figure of Chinese People" (中華兒女年度人物); "Top Ten Leading Figure of China Private Enterprises" (中國民營企業十大人物); "The Outstanding Shaanxi Businessman" (全球秦商風雲人物); and "Annual Leading Figure of Culture Industry in 2013" (2013中國文化產業年度人物).

Mr. Yang Xingwen ("Mr. Yang"), aged 57, was appointed as an executive director of the Company on 8 December 2015. Mr. Yang graduated from Beijing Language and Literature Self-Study University (北京語言文學自修大學), with an associate degree in literature. He also studied at the Central Party School Correspondence College (中央黨校函授學院), majoring in economics, and obtained the professional title of economist. Mr. Yang has extensive financial and accounting experience, he is currently serving as the vice chairman of DTXS Investment and is in-charging of all financial matters of DTXS Investment and its subsidiaries. He is also a shareholder of DTXS Investment. Mr. Yang began his career in Shaanxi province and previously held offices at Shaanxi Jia Xin Industry Group Company Limited* (陝西佳鑫實業集團有限公司).

Biographical Details of Directors and Senior Management

Mr. Lai Kim Fung ("Mr. Lai"), aged 53, was appointed as an executive director and the chief executive officer of the Company on 7 August 2017 and appointed as a member of remuneration committee of the Company on 28 March 2018. Mr. Lai holds postgraduate certificate in Professional Accounting from City University of Hong Kong and master of business administration from University of Exeter in the United Kingdom. He has over 28 years of professional experience with commercial and investment banking, corporate finance, treasury, merger and acquisition and investment management focusing on the Great China. He previously worked as a director and deputy general manager of a subsidiary of a renowned Chinese state- owned enterprise and various international banks. He also worked in another subsidiary of the same Chinese state-owned enterprise in the United States of America for three years. He is currently the chairman of Industry Development Committee of Hong Kong Society of Artificial Intelligence and Robotics and the founding member of China Mergers and Acquisitions Association (Hong Kong) Limited.

Mr. Wong Kwok Tung Gordon Allan ("Mr. Wong"), aged 45, was appointed as an executive director of the Company on 29 July 2015 and the chief executive officer and a member of the remuneration committee of the Company on 2 November 2015. He was subsequently re-designated from the chief executive officer to the deputy chief executive officer of the Company on 7 August 2017 and resigned as a member of the remuneration committee of the Company on 28 March 2018. Mr. Wong is a director of Da Tang Xi Shi International Holdings Limited, immediate controlling shareholder of the Company. Mr. Wong has extensive financial and accounting experience in various industries, and has previously worked in an accounting firm and an investment bank. He holds a Bachelor of commerce from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia.

Non-executive Directors

Mr. Jean-Guy Carrier ("Mr. Carrier"), aged 74, was appointed as a non-executive director of the Company on 8 December 2015. He is the president of the consulting firm namely Carrier Walker International. He is the senior international advisor to the leadership of the Tang West Market Group, China (中國大唐西市集團). His work in China includes a position as senior fellow of the Chongyang Institute for Financial Studies at Renmin University of China in Beijing (北京中國人民大學重陽金融研究院). Mr. Carrier led the International Chamber of Commerce ("ICC") as Secretary General from 2011 to 2014. He was also the director of ICC's Research Foundation from 2009 to 2014. His accomplishments as Secretary General of ICC include enhancing its role as the voice of international business through active participation in the policy process of the G20 group of governments. Mr. Carrier has occupied senior leadership positions with various international organisations, most notably with the World Trade Organisation, from 1996 to 2008. Mr. Carrier is the author of six books ranging from literature to studies of various sectors of public policy. He has edited several collections of works on aspects of international trade. Mr. Carrier holds a Bachelor of Science from the University of Ottawa. Mr. Carrier was born in Canada and has lived and worked in many regions of the world in the course of his international career.

Dr. Cheng Kar-Shun, Henry ("Dr. Cheng"), GBM, GBS, aged 73, was appointed as a non-executive director of the Company on 28 August 2019. Dr. Cheng is the chairman and executive director of New World Development Company Limited (stock code: 0017), NWS Holdings Limited (stock code: 0659) and Chow Tai Fook Jewellery Group Limited (stock code: 1929), the chairman and non-executive director of New World Department Store China Limited (stock code: 0825) and FSE Services Group Limited (stock code: 0331), and the vice-chairman and non-executive director of i-CABLE Communications Limited (stock code: 1097), all of them are listed public companies in Hong Kong.

He was the chairman and executive director of International Entertainment Corporation (stock code: 1009) up to his resignation on 10 June 2017, an independent non-executive director of HKR International Limited (stock code: 0480) and Hang Seng Bank, Limited (stock code: 0011) up to his resignation on 31 March 2018 and retirement on 10 May 2018 respectively, the chairman and non-executive director of Newton Resources Ltd (stock code: 1231) up to his resignation on 9 April 2018 and a non-executive director of SJM Holdings Limited (stock code: 0880) up to his retirement on 11 June 2019, all of them are listed pubic companies in Hong Kong.

Dr. Cheng is the honorary chairman of New World China Land Limited and the chairman of the Advisory Council for The Better Hong Kong Foundation. He was a Standing Committee Member of the Twelfth Chinese People's Political Consultative Conference of the People's Republic of China. Dr. Cheng was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal in 2001 and 2017 respectively by the Government of the Hong Kong Special Administrative Region.

Dr. Cheng is a director of Cheng Yu Tung Family (Holdings) Limited, Cheng Yu Tung Family (Holdings II) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited, Chow Tai Fook Enterprises Limited, New World Development Company Limited and Citiplus Investment Limited, all of them are the substantial shareholders of the Company.

Independent Non-executive Directors

Mr. Cheng Yuk Wo ("Mr. Cheng"), aged 59, was appointed as an independent non-executive director, chairman of audit committee and member of remuneration committee and nomination committee of the Company on 2 November 2015. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada and the Chartered Professional Accountants of Canada. He is a co-founder of a Hong Kong merchant banking firm and is the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng obtained a Master of Science (Economics) in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) in Accounting from the University of Kent, England. Mr. Cheng had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and with Swiss Bank Corporation (now known as UBS AG) in Toronto.

Mr. Cheng is also an independent non-executive director of each of Chia Tai Enterprises International Limited (stock code: 3839), Chong Hing Bank Limited (stock code: 1111), CPMC Holdings Limited (stock code: 906), CSI Properties Limited (stock code: 497), Goldbond Group Holdings Limited (stock code: 172), HKC (Holdings) Limited (stock code: 190), Kidsland International Holdings Limited (stock code: 2122), Liu Chong Hing Investment Limited (stock code: 194), Miricor Enterprises Holdings Limited (stock code: 1827), Somerley Capital Holdings Limited (stock code: 8439), Top Spring International Holdings Limited (stock code: 3688) and C.P. Pokphand Co. Ltd. (stock code: 043) (appointed on 1 January 2020). All of these companies are listed in Hong Kong. He was an independent non-executive director of C.P. Lotus Corporation, which was listed in Hong Kong until its withdrawal from listing effective on 29 October 2019.

Biographical Details of Directors and Senior Management

Mr. Tsui Yiu Wa, Alec ("Mr. Tsui"), aged 70, was appointed as an independent non-executive director, chairman of remuneration committee and member of audit committee and nomination committee of the Company on 8 December 2015. Mr. Tsui graduated from the University of Tennessee with a Bachelor of Science and holds a Master of Engineering in Industrial Engineering. He completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the Securities and Futures Commission prior to joining The Stock Exchange of Hong Kong Limited in 1994 as an executive director of the Finance and Operations Services Division and became the chief executive in 1997. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004. He was an advisor and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002.

Mr. Tsui is currently the director of WAG Worldsec Management Consultancy Limited, an independent non-executive director of a number of listed public companies including COSCO SHIPPING International (Hong Kong) Co., Ltd. (stock code: 517), Hua Medicine (stock code: 2552) and Pacific Online Limited (stock code: 543), all of which are listed in Hong Kong and Melco Resorts & Entertainment Limited (stock code: MLCO), a company listed on NASDAQ. He is also an independent director of ATA Creativity Global (formerly known as ATA Inc.) (stock code: ATAI), a company listed on NASDAQ and Melco Resorts and Entertainment (Philippines) Corporation, which was listed in Philippines and withdrawal from listing effective on 11 June 2019 . Mr. Tsui is an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited ("ICBC (Asia)") starting from 2000. ICBC (Asia) was listed in Hong Kong until December 2010 when it was privatised. Mr. Tsui was formerly an independent non-executive director of Summit Ascent Holdings Limited (stock code: 102) from March 2011 to September 2018 and Kangda International Environmental Company Limited (stock code: 6136) from October 2013 to April 2019, both companies are listed in Hong Kong.

Mr. Tse Yung Hoi ("Mr. Tse"), aged 67, was appointed as a non-executive director of the Company on 8 December 2015 and re-designated to an Independent non-executive director of the Company on 16 November 2017. He was also appointed as a member of the audit committee of the Company on 1 May 2019. Mr. Tse graduated from English studies from the department of foreign language of Fudan University in July 1975. He is currently the chairman of BOCI-Prudential Asset Management Limited. Mr. Tse serves as Standing Committee Member of The Chinese General Chamber of Commerce, Hong Kong and Permanent Honorary President of Chinese Securities Association of Hong Kong. He was a Member of HKSAR Financial Services Development Council. Mr. Tse is the independent non-executive director of BOCOM International Holdings Company Limited (stock code: 3329), China Tower Corporation Limited (stock code: 788), Guoan International Limited (stock code: 143), HJ Capital (International) Holdings Company Limited (stock code: 982) and Vico International Holdings Limited (stock code: 1621), all companies are listed in Hong Kong. He also serves as an independent non-executive director of Shenzhen Qianhai Financial Holdings Company Ltd and Banco Well Link, S.A. Mr. Tse was awarded the Bronze Bauhinia Star (BBS) by the government of HKSAR in 2013.

Mr. Wang Shi ("Mr. Wang"), aged 71, was appointed as a non-executive director of the Company on 8 December 2015 and re-designated to an independent non-executive director of the Company on 29 November 2019. Mr. Wang is a famous social worker and a cultural critic. He was enlisted in the year of 1968, and has taught at People's Liberation Army Academy of Art (中國人民解放軍藝術學院) and Peking University (北京大學), lectured on the Form Theory of Art, as well as the Introduction to Art. He started presided over the daily work of the Chinese Culture Promotion Society (中華文化促進會) from 1992, served as deputy secretary general and the secretary general. He is currently the president of Chinese Culture Promotion Society, and a part-time professor at Chinese Academy of Governance (formerly known as National School of Administration) (國家行政學院), as well as the honorary chairman of the Silk Road Chamber of International Commerce (絲綢之路國際總商會). Mr. Wang planned the "20th Century Classical Chinese Music" (20世紀華人音樂經典) activities and the compilation of "Twenty-Four Histories" (今注本二十四史). He also organised "Chinese Culture Summit" (中華文化論壇), "Chinese Culture's Person of the Year Award" (中華文化年度人物), "Cross-Strait Culture Dialogue" (兩岸人文對話) and a number of other major cultural projects. His main works include: Brief Analysis of Literature and Art (文藝簡論), Lu Xun and His Novels (魯迅與他的小說), Wreaths at the Foot of the Mountain (adaptation) (高山下的花環), In That Place Wholly Faraway (在那遙遠的地方) and Dunhuang Tales of the Night (敦煌夜譚).

SENIOR MANAGEMENT

Mr. Wang Yong, aged 51, was appointed as a deputy chief executive officer of the Company on 1 December 2019. He is the director and vice president of DTXS Investment since 2009. He is also the chairman of Beijing Phoenixstar International Auction Co., Ltd.* (北京景星麟鳳國際拍賣有限公司) and the chairman and general manager of Beijing Phoenixstar Information Consultancy Company Limited* (北京景星麟鳳資訊諮詢有限公司) since 2016, both of which are the subsidiaries of the Company, and the director of the art and cultural division of a subsidiary of the Company since 2017.

Mr. Wang Yong is the vice chairman and associate researcher of the committee of Xi'an Tang West Market Museum* (西安大唐西市博物館), the chairman of DTXS International Auction Co., Ltd* (大唐西市國際拍賣有限公司), the secretary-general of Non State Museum Committee of Chinese Museums Association* (中國博物館協會非國有博物館專業委員會), the secretary-general of the Silk Road Committee of Dunhuang-Turfan Society* (中國敦煌吐魯番學會絲綢之路專業委員會), the deputy secretary-general of China Cultural Chamber of Commerce for the Private Sector* (中國民營文化產業商會), the member and deputy secretary-general of the Shaanxi Cultural Relics Committee* (陝西省文物鑒定委員會) and the member of the 13th Xi'an Municipal Committee of the Chinese People's Political Consultative Conference.

Mr. Wang Yong obtained a bachelor's degree from the Faculty of Arts and Culture, Northwest University. He served as deputy director of Xi'an Cultural Relics Protection and Restoration Centre* (西安文物保護修復中心) and the secretary-general and vice dean of Cultural Heritage Protection Planning and Design Institute of Shaanxi Province* (陝西省文化遺產保護規劃設計研究院). He has over 20 years of experience in cultural industry operations, specialized in relic protection management, relic and artwork authentication and art financing and investment.

Mr. Tang Man Joe ("Mr. Tang") was appointed as the company secretary and the chief financial officer of the Company on 18 September 2018 and 30 September 2018, respectively. He has over 20 years of experience in overseeing and handling finance matters, company secretarial matters, corporate finance projects and mergers and acquisitions, as well as maintaining investor relations and corporate compliance matters. Mr. Tang graduated from University of Wisconsin-Madison with a bachelor's degree in business administration. He is a member of the American Institute of Certified Public Accountants and also a member of Hong Kong Institute of Certified Public Accountants.

* *For identification purpose only*

The board of directors (the "Board") of DTXS Silk Road Investment Holdings Company Limited (the "Company") is pleased to present the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) auction business and arts and collections related business; (ii) e-Commerce, including making and sales of wine; and (iii) marine engineering and related services during the financial year. The principal activities and other particulars of the subsidiaries of the Company are set out in note 1 to the consolidated financial statements.

On 3 February 2020, the disposal of UDL Ventures Limited has been completed. As at the date of this annual report, the Group no longer engaged in the marine engineering and related services.

On 12 March 2020, the acquisition of HK DTXS Enterprise Holdings Limited has been completed. As at the date of this annual report, the Group engaged in the property investment and development.

BUSINESS REVIEW

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the financial year and a discussion on the Group's future business development and outlook of the Company's business, principal risks and uncertainties that the Group may be facing, and important events affecting the Company occurred since the end of the financial year are provided in the section headed "Chairman's Statement" on pages 3 to 5 and the section headed "Management Discussion and Analysis" on pages 6 to 14 of this annual report. These discussions form part of this Directors' Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group supports sustainable development by conducting its business in an environmentally responsible manner. It has established a culture of energy saving in business operations and carried out various measures to mitigate its carbon emissions.

Discussions on the Group's environmental policies and performance during the financial year are set out in the section headed "Environmental, Social and Governance Report" on pages 44 to 51 of this annual report. These discussions form part of this Directors' Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operations of the Group. During the financial year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees are one of the most important assets of the Group and their contribution and support are valuable. The Group would regularly review the employees' compensation and benefits packages to reward and recognise those with outstanding performance. Other fringe benefits, such as employees' provident fund and share options, if applicable, are provided to attract and retain talents helping the Group in success.

The Group maintains effective communications with its customers and strives to satisfy customers' requirements from time to time, in order to provide high quality services to its customers.

The Group establishes co-operative relationships with reputable suppliers within the industries and conducts a fair appraisal of its suppliers on regular intervals.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 58 to 147 of this annual report.

The Board does not recommend the payment of a dividend for the year ended 31 December 2019 (2018: nil).

DIVIDEND POLICY

The Company has adopted a dividend policy. The Board shall consider the following factors before declaring or recommending dividends:

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

The payment of dividend is also subject to any restrictions under the applicable laws and regulations and the bye-laws of the Company (the "Bye-Laws"). The Board will review such policy as appropriate from time to time.

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year, the Group's five largest customers in aggregate was 64% (2018: 70%) of the Group's total revenue from continuing operations and the largest customer included therein amounted to 32% (2018: 34%).

The percentage of purchases attributable to the five largest suppliers of the Group in aggregate was 83% (2018: 84%) of the Group's total purchases from continuing operations and the largest supplier included therein amounted to 42% (2018: 22%).

During the financial year, none of the directors, their close associates or any shareholders of the Company (the "Shareholders") (which to the knowledge of the directors own more than 5% of the issued shares of the Company) had any interest in the Group's five largest customers or suppliers.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to the results by business segments and geographical information for the financial year are set out in note 6 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A financial summary of the published results of the Group and of its assets and liabilities for the last five financial years/period is set out on page 148 of this annual report. The summary does not form part of the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the financial year are set out in note 30 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the financial year are set out in the Consolidated Statement of Changes in Equity on page 62 and note 42 to the consolidated financial statements respectively.

NON-CURRENT ASSETS

Details of the Group's other movements in non-current assets (including property, plant and equipment, investment property, right-of-use assets, intangible assets and goodwill) during the financial year are set out in notes 18 to 22 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Group's principal subsidiaries are set out in note 1 to the consolidated financial statements.

BORROWINGS

Particulars of the borrowings of the Group are set out in notes 15 and 28 to the consolidated financial statements.

MAJOR PROPERTY HELD

The following table sets out the particulars of the major property held by the Group for the year ended 31 December 2019:

Location	Approximate gross floor area (sq.m.)	Group's interest (%)	Land use	Leasehold term
1st floor shop section, 5th floor function room section and 6th floor exhibition section, Tang Dynasty West Market Hotel No. 118, South Labor Road, Xi'an City, the People's Republic of China	3,408.53	100	Commercial, hotel catering and exhibition centre and function room	Medium

DIRECTORS

The directors of the Company (the "Directors") during the financial year and up to the date of this annual report were:

Executive Directors:

Mr. Lu Jianzhong *(Chairman)*
Mr. Yang Xingwen
Mr. Lai Kim Fung *(Chief Executive Officer)*
Mr. Wong Kwok Tung Gordon Allan *(Deputy Chief Executive Officer)*

Non-executive Directors:

Mr. Jean-Guy Carrier
Dr. Cheng Kar-Shun, Henry (appointed on 28 August 2019)

Independent Non-executive Directors:

Mr. Cheng Yuk Wo
Ms. Fan Chiu Fun, Fanny (resigned on 1 May 2019)
Mr. Tsui Yiu Wa, Alec
Mr. Tse Yung Hoi
Mr. Wang Shi (re-designated from Non-executive Director to Independent Non-executive Director on 29 November 2019)

Biographical details of the Directors as of the date of this annual report are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 15 to 19 of this annual report.

In accordance with bye-law 99(A) and 182(vi) of the Bye-Laws, Mr. Lu Jianzhong, Mr. Tsui Yiu Wa, Alec, Mr. Tse Yung Hoi and Mr. Wang Shi will retire from office by rotation at the forthcoming annual general meeting of the Company (the "2020 AGM"). Mr. Cheng Yuk Wo will voluntarily retire from office at the 2020 AGM. Mr. Cheng Yuk Wo and Mr. Tsui Yiu Wa, Alec had indicated their intention not to offer themselves for re-election due to their other business commitments. Mr. Lu Jianzhong, Mr. Tse Yung Hoi and Mr. Wang Shi being eligible, offer themselves for re-election at the 2020 AGM.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers that all the Independent Non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Mr. Wang Shi has entered into an appointment agreement with the Company commencing from 29 November 2019 under which he agreed to act as Independent Non-executive Director for three years. The appointment may be terminated before such expiry by not less than one month written notice. He will receive an annual Director's fee of HK$360,000 pursuant to the terms of appointment.

Saved as disclosed above, none of the Directors proposed for re-election at the 2020 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the change(s) in information of the Director(s) subsequent to the date of the 2019 interim report of the Company is as follows:

Mr. Cheng Yuk Wo, an Independent Non-executive Director, was appointed as an independent non-executive director and the chairman of the audit committee and the member of the corporate governance committee of C.P. Pokphand Co. Ltd (stock code: 43) on 1 January 2020 and he was an independent non-executive director, the chairman of audit committee and remuneration committee and the member of nomination committee of C.P. Lotus Corporation, which was listed in Hong Kong until its withdrawal from listing effective on 29 October 2019.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained Directors and Officers liability insurance that provides appropriate cover for the Directors and the officers of the Group.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the section headed "Connected Transactions" below and in the section headed "Related Party Transactions" in note 35 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his or her connected entity has or had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Group were entered into or existed during the financial year.

COMPETING BUSINESS INTERESTS OF DIRECTORS

As at the date of this annual report, the following Director(s) were considered to have interests in the following businesses ("Competing Business") which compete or are likely to compete, either directly or indirectly, with the businesses of the Group as defined in the Listing Rules as set out below:

Name of Director	Name of entity of the Competing Business	Description of the Competing Business	Nature of interest of the Director in the entity
Dr. Cheng Kar-Shun, Henry	New World Development Company Limited and its group of companies	Retail of consumer products, duty free liquor, fine wines and cosmetics and general merchandise, construction of building, and provision of transportation services	Director

As the Board is independent from the board of directors of the aforesaid companies, and as none of the above Director controls the Board, the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of the aforesaid companies.

Save as disclosed above, none of the Directors were interested in any businesses apart from the Company's businesses, which competed or was likely to compete, either directly or indirectly, with the Company's businesses during the financial year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed below in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares" and "Share Option Scheme", at no time during the financial year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executives of the Company or any of their associates in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) 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 in which they were taken or deemed to have under such provisions of the SFO); or (ii) to be recorded into the register kept by the Company pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(a) Interests in shares and underlying shares of the Company

	Number of ordinary shares of HK$0.50 each and nature of interests			Number of share options[4]		
Name of Director	Personal interests	Corporate interests	Number of underlying shares held	Personal interests	Total interests	Approximate percentage of shareholding[5]
Mr. Lu Jianzhong	4,996,000	373,496,736[1, 2]	111,187,538[3]	3,500,000	493,180,274	73.89%
Mr. Yang Xingwen	—	—	—	2,500,000	2,500,000	0.37%
Mr. Lai Kim Fung	—	—	—	3,000,000	3,000,000	0.45%
Mr. Wong Kwok Tung Gordon Allan	—	—	—	2,500,000	2,500,000	0.37%
Mr. Jean-Guy Carrier	—	—	—	250,000	250,000	0.04%
Mr. Cheng Yuk Wo	—	—	—	250,000	250,000	0.04%
Mr. Tsui Yiu Wa, Alec	—	—	—	250,000	250,000	0.04%
Mr. Tse Yung Hoi	—	—	—	250,000	250,000	0.04%
Mr. Wang Shi	—	—	—	250,000	250,000	0.04%

Notes:

1. 373,496,736 shares were held by Da Tang Xi Shi International Holdings Limited ("DTXS International Holdings"). DTXS International Holdings was wholly-owned by Da Tang Xi Shi International Group Limited, which was wholly-owned by Da Tang Xi Shi Investments Group Limited* (大唐西市文化產業投資集團有限公司) ("DTXS Investment"). Mr. Lu Jianzhong, being the controlling shareholder of DTXS Investment, was interested in approximately 50.60% of the issued registered capital of DTXS Investment. As such, Mr. Lu Jianzhong was deemed to be interested in 373,496,736 shares.

2. 20,000,000 shares held by DTXS International Holdings were pledged in favour of the third party lenders as security.

3. 111,187,538 underlying shares represent the number of option shares that may be sold by Ion Tech Limited ("Ion Tech") as grantee to DTXS International Holdings as grantor pursuant to the exercise of the put option or the triggered put option (as the case may be) pursuant to the put option deed dated 16 July 2019 (the "Put Option Deed").

4. Particulars of share options of the Company are set out in the section headed "Share Option Scheme" in this Directors' Report.

5. The total number of issued shares was 667,459,230 as at 31 December 2019.

(b) Interests in shares of DTXS Investment, an associated corporation of the Company

Name of Director	Number of shares	Approximate percentage of issued registered capital of DTXS Investment
Mr. Lu Jianzhong	110,000,000	50.60%
Mr. Yang Xingwen	30,000,000	13.80%

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executives of the Company and any of their associates had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, the persons or corporations (not being a Director or chief executive of the Company) who had an interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of shareholder	Nature of interests/ capacity	Number of ordinary shares of HK$0.50 each(1)	Approximate percentage of shareholding(14)
DTXS International Holdings(2)	Beneficial owner	484,684,274 (L)(12 &13)	72.62%
Da Tang Xi Shi International Group Limited(2)	Interests in controlled corporation	484,684,274 (L)(12 & 13)	72.62%
DTXS Investment(2)	Interests in controlled corporation	484,684,274 (L)(12 & 13)	72.62%
Ms. Zhu Ronghua(3)	Interests of spouse	493,180,274 (L)	73.89%
Ion Tech	Beneficial owner	111,187,538 (L) 111,187,538 (S)(11)	16.66%
Citiplus Investment Limited(4)	Interests in controlled corporation	111,187,538 (L) 111,187,538 (S)(11)	16.66%
New World Development Company Limited(5)	Interests in controlled corporation	111,187,538 (L) 111,187,538 (S)(11)	16.66%
Chow Tai Fook Enterprises Limited(6)	Interests in controlled corporation	111,187,538 (L) 111,187,538 (S)(11)	16.66%
Chow Tai Fook (Holding) Limited(7)	Interests in controlled corporation	111,187,538 (L) 111,187,538 (S)(11)	16.66%
Chow Tai Fook Capital Limited(8)	Interests in controlled corporation	111,187,538 (L) 111,187,538 (S)(11)	16.66%
Cheng Yu Tung Family (Holdings II) Limited(9)	Interests in controlled corporation	111,187,538 (L) 111,187,538 (S)(11)	16.66%
Cheng Yu Tung Family (Holdings) Limited(10)	Interests in controlled corporation	111,187,538 (L) 111,187,538 (S)(11)	16.66%

Notes:

1. The letters "L" and "S" denote a long positions and a short positions in the shares respectively.

2. DTXS International Holdings was wholly-owned by Da Tang Xi Shi International Group Limited, which was wholly-owned by DTXS Investment, which was owned as to approximately 50.60% by Mr. Lu Jianzhong and approximately 13.80% by Mr. Yang Xingwen.

3. Ms. Zhu Ronghua was deemed to be interested in 493,180,274 shares through the interests held by her spouse, Mr. Lu Jianzhong.

4. Citiplus Investment Limited ("Citiplus") held 100% direct interest in Ion Tech and was accordingly deemed to have an interest in the shares held by Ion Tech.

5. New World Development Company Limited ("NWD") held 100% direct interest in Citiplus and was accordingly deemed to have an interest in the shares deemed to be interested by Citiplus.

6. Chow Tai Fook Enterprises Limited ("CTFE"), together with its subsidiaries, held more than one third of the issued shares of NWD and was accordingly deemed to have an interest in the shares deemed to be interested by NWD.

7. Chow Tai Fook (Holding) Limited ("CTFH") held 100% direct interest in CTFE and was accordingly deemed to have an interest in the shares deemed to be interested by CTFE.

8. Chow Tai Fook Capital Limited ("CTFC") held approximately 81.03% direct interest in CTFH and accordingly deemed to have an interest in the shares deemed to be interested by CTFH.

9. Cheng Yu Tung Family (Holdings II) Limited held approximately 46.65% direct interest in CTFC and was accordingly deemed to have an interest in the shares deemed to be interested by CTFC.

10. Cheng Yu Tung Family (Holdings) Limited held approximately 48.98% direct interest in CTFC and was accordingly deemed to have an interest in the shares deemed to be interested by CTFC.

11. Ion Tech entered into the subscription agreement dated 16 July 2019 to conditionally subscribe for 111,187,538 shares, and in connection therewith, DTXS International Holdings conditionally granted a put option to Ion Tech to require DTXS International Holdings to purchase all or part of the option shares pursuant to the Put Option Deed.

12. Comprises 373,496,736 Shares held by DTXS International Holdings and 111,187,538 underlying shares representing the number of option shares that may be sold by Ion Tech to DTXS International Holdings pursuant to the exercise of the put option or the triggered put option (as the case may be) pursuant to the Put Option Deed.

13. 20,000,000 shares held by DTXS International Holdings were pledged in favour of the third party lenders as security.

14. The total number of issued shares was 667,459,230 as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other person or corporation having an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme was adopted by the Shareholders on 6 December 2012 (the "2012 Scheme"). A summary of the principal terms of the 2012 Scheme is set out below:

1.	Purpose:	(i) To recognise and acknowledge the contributions eligible participants had or may have made to the Group; and (ii) to provide eligible participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (a) motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (b) attract and retain or otherwise maintain on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Group.
2.	Participants:	Eligible participants means (i) any full-time employees of the Group; (ii) any Directors of the Group; (iii) any advisers, consultants, suppliers and agents to the Group; and (iv) such other persons who have contributed to the Group.

3.	Total number of shares available for issue under the 2012 Scheme and percentage of the issued share capital that it represents as at the date of this annual report:	The original maximum number of shares which could be issued upon exercise of all options granted or to be granted under the 2012 Scheme was 27,229,248 shares (the "2012 Scheme Mandate Limit"), representing approximately 10% of the issued shares as at 6 December 2012, the date on which an ordinary resolution was passed by the Shareholders to approve the 2012 Scheme. The 2012 Scheme Mandate Limit was refreshed and increased to 47,463,590 shares, representing approximately 10% of the issued shares as at 2 June 2016, the date on which an ordinary resolution was passed by the Shareholders to approve the refreshment of the 2012 Scheme Mandate Limit. The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the 2012 Scheme is 47,463,590 shares (including options to subscribe for 15,292,000 shares that have been granted but not yet lapsed, cancelled or exercised), representing 7.1% of the issued shares of the Company as at the date of this annual report.
4.	Maximum entitlement of each participant:	The total number of shares issued and which may fall to be issued upon exercise of the options granted to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.
5.	Period within which the shares must be taken up under an option:	The period during which an option may be exercised is determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.
6.	Minimum period for which an option must be held before it can be exercised:	As determined by the Board.
7.	Amount payable on acceptance of an option and the period within which payments shall be made:	HK$1 shall be payable to the Company upon acceptance of the option not later than 30 days after the date of offer.
8.	Basis of determination of the exercise price:	The exercise price shall not be less than the highest of (i) the closing price of the shares as quoted on the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as quoted on the Stock Exchange for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.
9.	Remaining life of the 2012 Scheme:	Valid and effective for a term of 10 years from the date of adoption until 5 December 2022.

The following table sets out the movements of the number of share options granted under the 2012 Scheme during the year ended 31 December 2019 and the outstanding share options at the beginning and end of the year:

Eligible participants	Date of grant	Exercise price per share (HK$)	Exercise Period[2]	Number of share options: At 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2019
(a) Directors								
Mr. Lu Jianzhong	28/01/2016	3.000	28/01/2017 to 27/01/2026	3,500,000	—	—	—	3,500,000
Mr. Yang Xingwen	28/01/2016	3.000	28/01/2017 to 27/01/2026	2,500,000	—	—	—	2,500,000
Mr. Lai Kim Fung	04/09/2017	4.814	04/09/2018 to 03/09/2027	3,000,000	—	—	—	3,000,000
Mr. Wong Kwok Tung Gordon Allan	28/01/2016	3.000	28/01/2017 to 27/01/2026	2,500,000	—	—	—	2,500,000
Mr. Jean-Guy Carrier	28/01/2016	3.000	28/01/2017 to 27/01/2026	250,000	—	—	—	250,000
Mr. Cheng Yuk Wo	28/01/2016	3.000	28/01/2017 to 27/01/2026	250,000	—	—	—	250,000
Ms. Fan Chiu Fun, Fanny (resigned on 1 May 2019)	28/01/2016	3.000	28/01/2017 to 27/01/2026	250,000	—	—	250,000	—
Mr. Tsui Yiu Wa, Alec	28/01/2016	3.000	28/01/2017 to 27/01/2026	250,000	—	—	—	250,000
Mr. Tse Yung Hoi	28/01/2016	3.000	28/01/2017 to 27/01/2026	250,000	—	—	—	250,000
Mr. Wang Shi	28/01/2016	3.000	28/01/2017 to 27/01/2026	250,000	—	—	—	250,000
Sub-total				13,000,000	—	—	250,000	12,750,000
(b) Other eligible participants in aggregate	28/01/2016	3.000	28/01/2017 to 27/01/2026	2,400,000	—	326,000	300,000	1,774,000
	21/12/2016	3.710	21/12/2017 to 20/12/2026	2,200,000	—	8,000	2,000,000	192,000
	04/01/2019	3.902	04/12/2019 to 03/01/2029	—	750,000	—	—	750,000
Sub-total				4,600,000	750,000	334,000	2,300,000	2,716,000
Total				17,600,000	750,000	334,000	2,550,000	15,466,000

Notes:

1. Share options granted under the 2012 Scheme on 28 January 2016, 21 December 2016 and 4 September 2017, respectively shall vest in the grantees in accordance with the timetable below for this purpose, the date or each such date on which the share options are to vest and the consideration paid by each grantee for each grant of options was HK$1.00:

Vesting date	Percentage of share options to vest
First anniversary of the date of grant	40% of the total number of share options granted
Second anniversary of the date of grant	30% of the total number of share options granted
Third anniversary of the date of grant	30% of the total number of share options granted

2. Share options granted under the 2012 Scheme on 4 January 2019 shall vest in the grantee in accordance with the timetable below for this purpose, the date or each such date on which the share options are to vest and the consideration paid by the grantee for the grant of options was HK$1.00:

Vesting date	Percentage of share options to vest
On 4 December 2019	40% of the total number of share options granted
On 4 December 2020	30% of the total number of share options granted
On 4 December 2021	30% of the total number of share options granted

3. In respect of the share options exercised during the year, the weighted average share price at the date of exercise was HK$5.36 per share.

Details of value of share options granted during the financial year are set out in note 31 to the consolidated financial statements.

CONNECTED TRANSACTIONS

The following transactions constituted the connected transactions of the Company under the Listing Rules during the financial year ended 31 December 2019 and up to the date of this annual report:

On 16 July 2019, the Company and Ion Tech (the "Subscriber") entered into the subscription agreement (the "Subscription Agreement") under which the Company conditionally agreed to allot and issue and the Subscriber conditionally agreed to subscribe for 111,187,538 new shares (the "Subscription Shares") at the subscription price of HK$5.3873 per Subscription Share (the "Subscription"). In connection with the Subscription Agreement, on 16 July 2019, DTXS International Holdings, the controlling shareholder of the Company, as the grantor (the "Grantor"), the Subscriber as the grantee and Mr. Lu Jianzhong as the guarantor entered into the Put Option Deed pursuant to which the Grantor has granted the put option to the Subscriber. The Grantor irrevocably grants to the Subscriber an option, but not the obligation, to require the Grantor to purchase or procure the purchase of all or part of the option shares in accordance with the terms set out in the Put Option Deed. Since 373,596,736 shares, representing approximately 67.20% of the issued share capital of the Company as at 16 July 2019, were owned by the Grantor. As such, the Grantor and Mr. Lu Jianzhong, the ultimate controlling shareholder of the Company, are connected persons of the Company under Chapter 14A of the Listing Rules. Therefore, the Subscription Agreement, the Put Option Deed and the transactions contemplated thereunder as a whole constituted as a connected transaction of the Company, which is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Subscription was completed on 28 August 2019.

On 29 November 2019, DTXS Silk Road Investment Development Company Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement with Da Tang Xi Shi International Group Limited, a wholly owned subsidiary of DTXS Investment, which is owned as to approximately 50.60% by Mr. Lu Jianzhong and approximately 13.80% by Mr. Yang Xingwen, in respect of the proposed acquisition of the entire issued share capital of HK DTXS Enterprise Holdings (BVI) Limited (the "Target Company") (the "Proposed Acquisition") together with the guarantee arrangements. The Target Company indirectly holds approximately 69.97% of the equity interest of Xi'an Da Tang Xi Shi Enterprise Limited* (西安大唐西市實業有限公司), which is the sole legal and beneficial owner of the properties and land located in the Tang West Market in Xi'an City, Shaanxi Province, the People's Republic of China (the "Project"). Therefore, the Target Company owns approximately 69.97% of the equity interest of the Project. Since 373,596,736 Company's shares, representing approximately 55.97% of the issued share capital of the Company as at 29 November 2019, were owned by DTXS International Holdings, which is a wholly owned subsidiary of Da Tang Xi Shi International Group Limited. As such, DTXS International Holdings, Da Tang Xi Shi International Group Limited and DTXS Investment are connected persons of the Company under Chapter 14A of the Listing Rules and the Proposed Acquisition constituted a major and connected transaction of the Company under Chapter 14 and 14A of the Listing Rules and the guarantee arrangements constituted a discloseable and connected transaction of the Company under Chapter 14 and 14A of the Listing Rules. The Proposed Acquisition was completed on 12 March 2020.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 35 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year, the Company and its subsidiaries had not purchased, sold or redeemed any of the listed securities of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-Laws and there are no restrictions against such rights under the laws of Bermuda where the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the issued shares as required under the Listing Rules.

AUDITOR

On 29 November 2019, Ernst & Young has been appointed as the auditor of the Company to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu.

Ernst & Young will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the 2020 AGM.

CLOSURE OF REGISTER OF MEMBERS FOR 2020 AGM

The 2020 AGM will be held on Friday, 29 May 2020. For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2020 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by not later than 4:30 p.m. on Monday, 25 May 2020.

On behalf of the Board

Lu Jianzhong
Chairman

Hong Kong, 31 March 2020

* *For identification purpose only*

Corporate Governance Report

The board of directors (the "Board") of DTXS Silk Road Investment Holdings Company Limited (the "Company") is committed to establish and maintain good corporate governance standards. The Board believes that maintaining good standard of corporate governance practices are essential in providing a framework for the Company to enhance corporate value and accountability to the shareholders of the Company (the "Shareholders").

The Company has applied the principles and complied with the code provisions (the "Code") of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2019, save for deviation from the relevant Code A.6.7 listed below.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors") and senior management of the Company.

The Company has made specific enquiries to all the Directors and they have confirmed their compliance with the requirements as set out in the Model Code throughout the financial year of 2019.

Senior management who, because of their offices in the Company, are likely to be in possession of inside information in relation to the Company's securities, have also been requested to comply with the provisions of the Model Code when dealing in the securities of the Company.

THE BOARD

Board Composition

The Board has a balanced composition of executive and non-executive Directors. As at the date of this annual report, the Board comprises ten Directors, comprising four Executive Directors, two Non-executive Directors and four Independent Non-executive Directors, as follows:

Executive Directors:
Mr. Lu Jianzhong *(Chairman)*
Mr. Yang Xingwen
Mr. Lai Kim Fung *(Chief Executive Officer)*
Mr. Wong Kwok Tung Gordon Allan *(Deputy Chief Executive Officer)*

Non-executive Directors:
Mr. Jean-Guy Carrier
Dr. Cheng Kar-Shun, Henry

Independent Non-executive Directors:
Mr. Cheng Yuk Wo
Mr. Tsui Yiu Wa, Alec
Mr. Tse Yung Hoi
Mr. Wang Shi

The biographical information of all Directors as of the date of this annual report are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 15 to 19 of this annual report. The list of Directors and their role and function is also disclosed in the websites of the Company and the Stock Exchange. None of the members of the Board is related to one another.

Chairman, Chief Executive Officer and Deputy Chief Executive Officer

The positions of the Chairman, Chief Executive Officer and Deputy Chief Executive Officers of the Company are separately held by Mr. Lu Jianzhong, Mr. Lai Kim Fung, Mr. Wong Kwok Tung Gordon Allan and Mr. Wang Yong respectively.

The major roles of the Chairman are to provide leadership to the Board and spearhead overall corporate development and strategic planning whilst the chief executive officer, together with the deputy chief executive officers, are responsible for execution of the decisions and strategies approved by the Board, focusing on business development and managing day-to-day operations of the Company and its subsidiaries (the "Group") with the support of Executive Directors and senior management team.

Non-executive Directors

The Non-executive Directors provide the Board with a wide range of expertise and experience and bring professional opinions on issues relating to the Group's strategies, development, performance and risk management.

Independent Non-executive Directors

The Independent Non-executive Directors play a significant role in the Board by providing their independent judgment and their views on the strategic decisions, directions, and financial and risk management of the Company. They also provide independent and objective opinions to the Board, give adequate checks and balances to protect the overall interests of the Shareholders and the Group.

Following the appointment of Dr. Cheng Kar-Shun, Henry as Non-executive Director on 28 August 2019, the Board comprised ten members (including four Executive Directors, three Non-executive Directors and three Independent Non-executive Directors) and the Company was therefore not in compliance with rule 3.10A of the Listing Rules, which stipulate that a listed company must appoint independent non-executive directors representing at least one-third of its board of directors.

In order to fulfill the said requirement, Mr. Wang Shi, the Non-executive Director, had been re-designated to an Independent Non-executive Director on 29 November 2019. Subsequent to his re-designation, the number of Independent Non-executive Directors on the Board represents more than one-third of the Board and the Company is thus in compliance with rule 3.10A of the Listing Rules.

The Company has received annual confirmation of independence from each of the Independent Non-executive Directors of the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that all of the Independent Non-executive Directors are independent.

Directors' Appointment and Re-election

Code A.4.1 stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas Code A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Executive Directors, Non-executive Directors and Independent Non-executive Directors is appointed for a specific term and is subject to retirement by rotation once every three years. The Company has issued formal letters of appointment to all Directors setting out the key terms of their appointments as required under the Listing Rules.

In accordance with bye-law 99(A) and 182(vi) of the bye-laws of the Company (the "Bye-Laws"), Mr. Lu Jianzhong, Mr. Tsui Yiu Wa, Alec, Mr. Tse Yung Hoi and Mr. Wang Shi will retire from office by rotation at the forthcoming annual general meeting of the Company (the "2020 AGM"). Mr. Cheng Yuk Wo will voluntarily retire from office at the 2020 AGM. Mr. Cheng Yuk Wo and Mr. Tsui Yiu Wa, Alec had indicated their intention not to offer themselves for re-election due to their other business commitments. Mr. Lu Jianzhong, Mr. Tse Yung Hoi and Mr. Wang Shi being eligible, offer themselves for re-election at the 2020 AGM.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Company's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors take decisions objectively in the interests of the Group.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the relevant information of the Company as well as the services and advice from the Company Secretary and other senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for performing their duties to the Company.

The Directors should disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company. All Directors have confirmed that they have given sufficient time and attention to the affairs of the Company.

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Directors' Induction and Continuous Professional Development

Every newly appointed Director will receive necessary induction and information to ensure appropriate understanding of the business and operations of the Company and full awareness of his/her responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Pursuant to the CG Code, all Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be issued to Directors where appropriate.

During the financial year, all Directors have participated in appropriate continuous professional trainings and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

BOARD COMMITTEES

The Board has proper delegation of its powers and has established three board committees, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, "Board Committees"), for overseeing particular aspects of the Company's affairs. Board Committees are established with defined written terms of reference which deal clearly with their authorities and duties and are published on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee has been established by the Board and comprises three members who are all Independent Non-executive Directors. Mr. Cheng Yuk Wo is the chairman and Mr. Tsui Yiu Wa, Alec and Mr. Tse Yung Hoi are the members.

The Board has revised and adopted the terms of reference of the Audit Committee which are in line with the Code as set out in the CG Code. The role and function of the Audit Committee are set out in its revised terms of reference which are posted on the websites of the Company and the Stock Exchange. The Audit Committee is responsible for reviewing and supervision of the Group's financial reporting system, risk management and internal control systems, the scope and nature of the external audit and matters concerning the engagement of external auditor.

The Audit Committee held four meetings during the financial year. The Audit Committee reviewed the audit plan; reviewed and considered the reports from the external auditor; reviewed the Company's audited consolidated financial statements for the year ended 31 December 2018 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 with recommendations to the Board for approval; reviewed internal control system of the Group and discussed with the management and external auditor on any changes in accounting policies and practices which may affect the Group and financial reporting matters; reviewed the framework and policy of risk management and internal control systems; and made recommendations to the Board in respect of the change of external auditor.

Remuneration Committee

The Remuneration Committee has been established by the Board and comprises three members with a majority of Independent Non-executive Directors. Mr. Tsui Yiu Wa, Alec is the chairman and Mr. Cheng Yuk Wo and Mr. Lai Kim Fung are the members.

The Board has adopted the terms of reference of the Remuneration Committee which are in line with the Code as set out in the CG Code. The role and function of the Remuneration Committee are set out in its terms of reference which are posted on the websites of the Company and the Stock Exchange. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Director and senior management and the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held two meetings during the financial year. The Remuneration Committee reviewed the remuneration package of the Directors, subject to approval of Shareholders at the annual general meeting, and senior management for the year with recommendations to the Board for approval; reviewed the terms of reference of the Remuneration Committee of which no revision was required; and made recommendation to the Board for the remuneration package of the newly appointed deputy chief executive officer and the re-designated Independent Non-executive Director. Details of the remuneration of Directors for the financial year are set out in Note 12 to the consolidated financial statements. In addition, written resolutions were passed by all members of the Remuneration Committee and recommendations were made to the Board as and when needed.

Nomination Committee

The Nomination Committee has been established by the Board and comprises three members with a majority of Independent Non-executive Directors. Mr. Lu Jianzhong is the chairman and Mr. Cheng Yuk Wo and Mr. Tsui Yiu Wa, Alec are the members.

The Board has adopted the terms of reference of the Nomination Committee which are in line with the Code as set out in the CG Code. The role and function of the Nomination Committee are set out in its terms of reference which are posted on the websites of the Company and the Stock Exchange. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors and assessing the independence of Independent Non-executive Directors.

The Nomination Committee held two meetings during the financial year to review the structure, size and composition of the Board and the board diversity policy; to assess the independence of the Independent Non-executive Directors; to consider the qualifications of the retiring Directors standing for election at the annual general meeting held on 30 May 2019; and to propose and made recommendation to the Board for the appointment of Mr. Wang Yong as the deputy chief executive officer and the re-designation of Mr. Wang Shi as an Independent Non-executive Director. In addition, written resolutions were passed by all members of the Nomination Committee and recommendations were made to the Board as and when needed.

The Board has adopted the board diversity policy on 25 March 2014. Composition of the Board will be based on a range of diversity perspective, including but not limited to gender, age, cultural and educational background, knowledge and skills, professional experience, length of service, independence and other qualities of the members of the Board. The Company maintains that appointments of the Board should be based on merit while having due regard to the diversity and overall effective function of the Board as a whole. The Nomination Committee shall review the candidate profile and then submit a recommendation to the Board for consideration after taking into account all the requirements set out above and all other applicable factors relevant to the Company.

The Board also adopted the director nomination policy on 13 December 2018. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

Corporate Governance Functions

The Board is responsible for performing the functions as set out in the Code D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices; training and continuous professional development of Directors and senior management; the Company's policies and practices on compliance with legal and regulatory requirements; and the compliance of the Model Code and the CG Code and disclosures in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND BOARD COMMITTEES MEMBERS

During the financial year, the Board held four meetings. With regards to general meetings, the Company held an annual general meeting on 30 May 2019 and a special general meeting on 23 August 2019. The attendance record of individual Director at the Board meetings, Board Committees meetings and the general meetings of the Company held during the financial year is set out in the table below:

	Attendance/No. of meetings entitled to attend				
Name of Director	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	General Meeting
Executive Directors					
Mr. Lu Jianzhong *(Chairman)*	3/4	N/A	1/2	N/A	1/2
Mr. Yang Xingwen	4/4	N/A	N/A	N/A	1/2
Mr. Lai Kim Fung *(Chief Executive Officer)*	4/4	N/A	N/A	2/2	2/2
Mr. Wong Kwok Tung Gordon Allan *(Deputy Chief Executive Officer)*	3/4	N/A	N/A	N/A	1/2
Non-executive Directors					
Mr. Jean-Guy Carrier	4/4	N/A	N/A	N/A	2/2
Dr. Cheng Kar-Shun, Henry (appointed on 28 August 2019)	0/2	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Cheng Yuk Wo	4/4	4/4	2/2	2/2	2/2
Ms. Fan Chiu Fun, Fanny (resigned on 1 May 2019)	1/1	2/2	N/A	N/A	N/A
Mr. Tsui Yiu Wa, Alec	4/4	4/4	2/2	2/2	2/2
Mr. Tse Yung Hoi	4/4	2/2	N/A	N/A	2/2
Mr. Wang Shi (re-designated from Non-executive Director to Independent Non-executive Director on 29 November 2019)	1/4	N/A	N/A	N/A	0/2

COMPANY SECRETARY

The Company Secretary of the Company is responsible for facilitating the Board processes, ensuring the Board procedures are followed and Board activities are efficiently and effectively conducted, as well as ensuring good information flow among Board members with senior management and the Shareholders.

Mr. Tang Man Joe ("Mr. Tang") was appointed as the Company Secretary of the Company with effect from 18 September 2018. Mr. Tang is a full-time employee of the Group and has day-to-day knowledge of the Company's affairs. During the financial year, Mr. Tang has complied with the relevant professional training requirement under rule 3.29 of the Listing Rules. The biographical details of Mr. Tang are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 15 to 19 of this annual report.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

The Board is accountable to the Shareholders and is committed to presenting comprehensive and timely information to the Shareholders on assessment of the Company's performance, financial position and prospects.

Financial Reporting

The Directors acknowledge their responsibilities for preparing the financial statements of the Company, which give a true and fair view of the Group's state of affairs, results and cash flows for the year ended 31 December 2019. The Directors consider that the financial statements have been prepared in conformity with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Companies Ordinance, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment, and had prepared the financial statements on a going concern basis.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report" on pages 52 to 57 of this annual report.

Auditors' Remuneration

On 18 November 2019, Deloitte Touche Tohmatsu ("Deloitte") has resigned as the auditor of the Company and on 29 November 2019, Ernst & Young ("EY") has been appointed as the auditor of the Company to fill the casual vacancy following the resignation of Deloitte. The Audit Committee has been notified of the nature and the charges of non-audit services performed by Deloitte and EY during the year under review and considered that such non-audit services have no adverse effect on the independence of the external auditors.

During the financial year, the fees payable to Deloitte and EY in respect of its audit and non-audit services provided to the Group respectively were as follows:

	Deloitte HK$'000	EY HK$'000
Audit services for annual financial statements	—	1,800
Audit-related services for M&A transactions	1,361	2,250
Non-audit services(Note)	914	580
Total	2,275	4,630

Note:

The non-audit services primarily included tax advisory service and risk management, internal control and other review services.

Risk Management and Internal Control

The Directors acknowledge their responsibilities to evaluate and determine the nature and the extent of risks that shall be taken in achieving the Group's strategic objectives and has the overall responsibilities for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. The Board, through the Audit Committee, conducts reviews of the effectiveness of such systems at least annually, covering all material controls including financial, operational and compliance controls.

The Group has formulated and adopted a risk management policy in providing directions in identifying, evaluating and management significant risks. At least on an annual basis, the senior management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritises the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

The Group has engaged an international advisory firm in performing annually internal control review on internal control system of the Group. The scope of the review has to be approved by the Audit Committee. Risk management report and internal control report are submitted to the Audit Committee at least once a year.

During the financial year, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the Group's risk management and internal control systems. After reviewing, the Board considered that the Group's risk management and internal control systems were effectively implemented for the Group as a whole during the financial year.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company places a great deal of importance on timely, accurate and transparent communication with the Shareholders and the investment community. The Board has adopted a shareholders communication policy which is posted on the Company's website and provides a framework to maintain direct, open and timely communication with the Shareholders. The Company shall ensure effective and timely dissemination of relevant information at all times.

The Company considers that effective communication with the Shareholders and the investment community in a fair and timely basis is essential so as to keep them abreast of Company's business strategy and development. The Company endeavors to maintain an on-going dialogue with the Shareholders and, in particular, through annual general meeting and other general meetings. At the general meetings, Directors (or their delegates as appropriate) are available to meet the Shareholders and answer their enquiries.

In addition, the Company maintains a website at www.dtxs.com as a communication platform with the Shareholders and investors, where the Group's financial reports (interim and annual reports), notices of general meetings, circulars, announcements, press releases and other business information are available for public access.

SHAREHOLDERS' RIGHTS

Right to put enquiries to the Board

The Company encourages the Shareholders to attend general meetings which provide an opportunity for communications between the Shareholders and the Board. Other than communications at the general meetings, Shareholders may put forward any enquiries to the Board by sending written enquiries by post to the Company's principal place of business in Hong Kong for the attention of the Company Secretary. The Company will not normally deal with verbal or anonymous enquiries.

Right to put forward proposals at general meetings

Shareholders can submit a requisition to move a resolution at a general meeting pursuant to section 79 of the Companies Act 1981 of Bermuda (the "Act"). The number of Shareholders necessary for a requisition shall be any number of Shareholders representing not less than one-twentieth of the total voting rights of all Shareholders having at the date of the requisition a right to vote at the meeting; or not less than 100 Shareholders.

The written requisition must state the resolution, with a statement not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the meeting; be signed by the requisitionist(s) (may consist of one or several documents in like form each signed by one or more requisitionist(s)); be deposited at the Company's principal place of business in Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in case of a requisition requiring notice of a resolution and not less than one week before the meeting in case of any other requisition; and be deposited with a sum reasonably sufficient to meet the Company's expenses in giving notice of the resolution and circulating the statements of the proposed resolution to all Shareholders in accordance with the requirements under the applicable laws and rules.

Right to propose a person for election as a Director

A Shareholder can submit a notice to propose a person (other than a retiring Director) for election as a Director at any general meeting pursuant to bye-law 103 of the Bye-Laws. The Shareholder should deposit a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his/her willingness to be elected and the information as required to be disclosed under the relevant rules of the Listing Rules and the Bye-Laws as prevailing from time-to-time at the Company's principal place of business in Hong Kong for the attention of the Company Secretary at least seven days before the date of the general meeting.

Right to convene a special general meeting

Shareholders can submit a requisition to convene a special general meeting ("SGM") pursuant to section 74 of the Act. The number of Shareholders necessary for a requisition shall be representing not less than one-tenth of the Company's paid-up capital as at the date of the deposit of the requisition having the right to vote at general meeting of the Company.

The written requisition must state the purpose of the SGM; be signed by the requisitionist(s) (may consist of one or several documents in like form each signed by one or more requisitionist(s)); and be deposited at the Company's principal place of business in Hong Kong for the attention of the Company Secretary.

If the requisition is in order, the Company Secretary will request the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the request has been verified invalid, the requisitionist(s) will be advised of this outcome and accordingly, a SGM will not be convened as requested.

If within 21 days from the date of the deposit of the proper and orderly requisition which the Board fails to proceed to convene such SGM, the requisitionist(s) may themselves convene a SGM in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s), but any meeting so convened shall not be held after the expiration of three months from the said date.

CONSTITUTIONAL DOCUMENTS

During the financial year, there was no change to the Company's constitutional documents. An up-to-date version of the Company's memorandum of association and the Bye-Laws is available on the websites of the Company and the Stock Exchange.

COMPLIANCE WITH THE CODE

Throughout the year under review, the Company has complied with the Code of the CG Code as set out in Appendix 14 of the Listing Rules, except Code A.6.7.

Code A.6.7 — Given that the independent non-executive directors and other non-executive directors should attend general meetings. Due to other pre-arranged business commitments which had to be attended, one Non-executive Director was absent from the annual general meeting held on 30 May 2019 and the special general meeting held on 23 August 2019. Other Non-executive Directors and Independent Non-executive Directors had attended two general meetings to ensure effective communication with the Shareholders.

Environmental, Social and Governance Report

ABOUT THIS REPORT

DTXS Silk Road Investment Holdings Company Limited (the "Company") together with its subsidiaries, (collectively, the "Group") hereby presents the Environmental, Social and Governance Report of the financial year 2019 ("FY2019", or the "current year"). The purpose of this report is to outline the Group's commitment and actions on corporate social responsibility, which the Group regards as an important value to its business operations going forward, as well as to enhance our communication with stakeholders.

REPORTING GUIDELINE

This report is written in accordance with the "comply or explain" provisions as set out in the Environment, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. This report provides a holistic overview of the Group's sustainability performance and corporate social responsibility between 1 January 2019 and 31 December 2019 ("the reporting period"), which aligns with the financial year as reported in this annual report.

SCOPE OF THIS REPORT

For the reporting period, the scope of this report covers the Company's Head Office in Hong Kong, which includes back-end operations such as executive, administration, human resources and accounting, as well as operations from its e-Commerce division. However, this report does not cover the relevant information with regards to the business from the winery division and the arts and cultural division. The scope is decided based on its operations in Hong Kong, which will create the greatest potential for managing the environmental and social impacts of the Group's operations in a holistic manner.

CONTENT OF THIS REPORT

This report summarizes the overall status of the Group in respect to corporate environmental and social responsibility for FY2019. It is prepared based on the material and relevant environmental and social aspects that pertains to the Group. The Group has gathered all relevant data and information from the best of the Group's knowledge, in good faith and due care. The data measurement techniques and calculation methods used for this report are stated where appropriate. Data and information from FY2019, as well as prior year ("FY2018") for comparison purpose, are shown where appropriate.

1. Environmental

The Group is committed to minimize its environmental impacts by responsibly managing its business, reducing its carbon footprint and using resources effectively.

1.1 Emissions

Greenhouse gas (GHG) emissions are categorized into three scopes:

- **Scope 1:** Direct emissions from sources that are owned or controlled by the Group
- **Scope 2:** Indirect emissions from the generation of electricity consumed by the Group
- **Scope 3:** All other indirect emissions as a consequence of the activities of the Group that occur from sources not owned or controlled by the Group

For FY2019, the Group does not own or operate any equipment that causes direct emissions (Scope 1), hence no air pollutants, including nitrogen oxides (NOx), sulphur oxides (SOx), Methane (CH_4), refrigerants, and particulate matter (PM), were emitted. Consequently, the Group does not violate any relevant laws and regulations set under the Air Pollution Control Ordinance in FY2019.

The Group's emissions mainly comprised of GHG emissions from the daily operations from the e-Commerce division and the back-office, namely electricity consumption (Scope 2), office paper usage, water consumption and business air travel (Scope 3).

To the Group's knowledge, there are no waste discharges into the water and land, and no generation of hazardous waste were recorded in the current year. Thus, the Group does not violate any laws and regulations in relations to hazardous waste, such as the Hazardous Chemicals Control Ordinance.

The emission breakdowns of the Company are stipulated below:

	FY2019 data (in tons of CO_2-equivalent)	**Percentage**	FY2018 data (in tons of CO_2-equivalent)	Percentage
Scope 1:				
• N/A	**—**	**—**	—	—
Total:	**—**	**—**	—	—
Scope 2:				
• Electricity Consumption	**43.26**	**83.13%**	14.29	70.53%
Total:	**43.26**	**83.13%**	14.29	70.53%
Scope 3:				
• Office Paper Usage	**1.23**	**2.36%**	2.32	11.45%
• Use of Fresh Water[1]	**0.01**	**0.02%**	0.02	0.10%
• Business Air Travel	**7.54**	**14.49%**	3.63	17.92%
Total:	**8.78**	**16.87%**	5.97	29.47%
Grand Total:	**52.04**	**100.00%**	20.26	100.00%

During the reporting period, the Company's total greenhouse gas emissions was 52.04 tons of CO2equivalent ("CO_2e"), in which electricity consumption accounted for 83.13% of the total emissions (54,090 kWh). 14.48% of greenhouse gas emissions derived from employees' business air travel also contributed to the overall emissions.

1 Use of Fresh Water for the Company during the reporting period: $35m^3$

The total emission was higher than last year by 156.86% (FY2019: 52.04 tons of CO_2e; FY2018: 20.26 tons of CO_2e). Such increase was mainly due to the expansion of the scope of reporting, which includes the e-Commerce division in this year's report.

As a Group, we will continue to maintain close monitoring to mitigate our emissions by taking effective measures to minimize the usage of resources.

1.2 Carbon Reduction Measures and Resources Reduction Measures

The Group understands that its operations impacts carbon emissions, hence the Group initiated several carbon reduction measures, and made efforts on reducing the use of resources.

Electricity

As a services orientated group, electricity usage contributes to most of the GHG emissions. The Group has put effort in using energy more efficiently. For example, the Group has elected to use efficiency lighting lamps, such as T5 and LED, when moving into the new office premise in FY2019. An intelligent water dispensing machines with automatic on-off feature has also been installed. Employees are also frequently reminded via email, printed notice and verbal promotion, to switch off air-conditioning, light switches and other electronic equipment after use.

Water

To reduce water usage, signs are posted near faucets to remind staff to conserve water. A dishwasher with water saving feature was installed in the office, reducing time, effort and water resource to wash office kitchenware.

Waste management

The Group has a implemented a comprehensive recycling practices to reduce waste and conserve resources. For office paper usage, the company defaulted two-sided printing and photocopying, while reusing one sided copy paper from paper recycling tray. New to this year, we have also started to use reusable envelopes when sending mail. In reflective of our efforts in regards to using paper, the Group recorded a 46.98% reduction of greenhouse gas emitted from paper usage.

We have also implemented recycling programs for aluminum cans, toner, batteries and newspaper, with recycling bins are clearly labeled. Recycling has been heavily promoted within the Group.

We will continue to commit and make consistent effort to find new ways to minimize the environmental impact from our operations whenever possible.

2. Social

The Group believes that employees are valuable assets, and their continuous contributions and efforts are vital to the Group's success. The Group believes in providing a pleasant, motivating and value-adding work environment that will lead to an improved well-being for all employees, and long-term retention of its employees.

2.1 Employment

The Group strives to attract and retain talents. In doing so, the Group has implemented and established the following measures:

Compliance

Adhering to relevant employment laws included in the Employment Ordinance, Sex Discrimination Ordinance, and Race Discrimination Ordinance, the Group's employment contracts, policies and remuneration packages are in compliance with the required laws and regulations. During the reporting period, no non-compliance regarding employment was noted.

Employment

To retain talent, the Group offers competitive remuneration packages and fringe benefits, corresponding to employees' experience, performance and job duties. The Group updated its Employment Handbook during the reporting period. Employees can refer to the new Employment Handbook, which gives all employees information on compensation, benefits, dismissal, working hours, rest days, leaves etc.

Equal opportunity

The Group is also an equal opportunity employer. All employees are entitled to equal opportunities and fair treatment for their career development. All job applicants and existing employees are judged based on academics, personal achievements, individual performances. Factors such as race, gender, age, religious belief, marital status, sexual orientation, or other status protected by law, are not used and considered for recruitment selection or promotion opportunities.

The breakdown of the Group's staff is as follows:

	Head Office	e-Commerce division	Total
Gender:			
Male	8	3	11
Female	9	2	11
Employment type:			
Top management	4	1	5
Middle management	10	4	14
Staff	3	—	3
Age group:			
18–20	—	—	—
21–30	2	—	2
31–40	8	1	9
41–50	4	4	8
51–60	3	—	3
61 above	—	—	—
Education:			
University or above	13	4	17
High Diploma	2	1	3
Secondary school or below	2	—	2
Human Resources:			
Hiring	2	1	3
Turnover	3	1	4

2.2 Health and Safety

The Group upholds the belief that employee's safety is the first priority in our workplace. We are committed to providing a healthy and safe working environment for all our employees. In doing so, we strictly abide by the Occupational Safety and Health Ordinance, ensuring the health and safety of our employees and to prevent work-related injuries. During the reporting period, the Group was not aware of any non-compliance with any laws and regulations related to health and safety.

Health

To ensure our employees are in healthy condition, air purifiers and plants are installed wherever appropriate in the office. Furthermore, we purchase employee medical compensation for all our employees, which includes a free annual medical checkup and dental insurance.

Safety

We make sure our employees are in a safe working environment. The Group participates in fire/emergency evacuation drills organized by the tenant on a regular basis, which raises employee awareness and responsiveness in case of a fire emergency. In addition, the Group has purchased several types of insurances to cover for employees in case of unforeseeable accidents. This includes Fire and Office insurance and traveling insurance for employees who required business travelling.

With our efforts in ensuring employee's health and safety, the Group had recorded zero working injury and fatality cases for FY2019.

2.3 Development and Training

The Group considers the skills and knowledge of our employees a vital importance to the Group's growth.

Development

The Group is an equal-opportunity employer. We have implemented a fair and open appraisal system to monitor and evaluate an employee's performance on an annual basis. The appraisal system can assist supervisors or department heads in making objective decisions on each employee's performance and promotion opportunities. Furthermore, it provides a good opportunity to strengthen communication between employees and supervisors to gather feedbacks, provide concrete suggestions for improvement, and discuss on career development and career aspirations.

Training

The Group believes in creating a workplace that can foster growth by providing training opportunities for our employees to enhance their working capabilities and management competence. By doing so, we sponsor our employees to take continuous professional development (CPD) trainings provided by professional bodies. In FY2019, two training courses on corporate governance and global mobility compliance were provided to staff to participate.

2.4 Labor Standards

The Group fully complies with the relevant labor laws legislation in Hong Kong that prohibits child labor and forced labor. We ensure new recruits are valid for working by cross checking on the personal information written on the CV, to the personal information in valid identification and/or working visas during the recruitment process. Any forms of child labor, illegal workers and/or forced labor are strictly prohibited in our business operations. In addition also monitor our suppliers to ensure that no cases of child labour or forced labour occurred.

Employees are provided with a workplace that is safe and healthy, creating a working environment with mutual respect, support and transparency. All employees work freely and equally in the Group without forced labor. We have zero tolerance to any sort of discrimination or harassment behavior.

During the reporting period, the Group has not been notified of any violation of laws and regulations on employee discrimination, anti-child-labor, and forced-labor.

2.5 Supply Chain Management

The Group's primary operation revolves around back-office works and general information technology operations. Thus, the required supplies fall into several categories, including office supplies, information technology, communications and utilities.

For the Group supply chain practice, we have mechanisms to ensure principled and practical purchasing of supplies. For instance, proper segregation of duties are in place when ordering supplies. The person initiating the purchase must be reviewed by another person, usually his/her supervisor. For any single purchase over HK$10,000, an approval by the Chief Executive Officer of the Company is necessary. In addition, when an employee wishes to order supplies, an evaluation will be made by the Human Resources Department to determine if it is necessary or not with the purchase order. In addition, employees dealing with suppliers and contractors are required to declare any conflict of interest, and communication channels are in place so that any concerns about suspected misconduct, malpractice or impropriety could be raised confidentially.

To align with the Group's stance on protecting the environment, supplies are purchased locally to minimize excess emissions from shipping logistics, and will purchase certified with environmental labels (e.g. PEFC certified paper) whenever possible. In addition, the Group heavily promotes the re-use of supplies to minimize unnecessary purchasing and waste.

2.6 Product Responsibility

The Group's e-Commerce division, namely eSilkTrade, is a business-to-business platform on information for cross-border trading of wine, cosmetics, electronics, while also integrating with suppliers, buyers, and logistic service providers. Its operations mainly focused in Hong Kong.

In order to maintain a safe internet platform for clients, the following principles are adopted in regards to data and security:

- The platform only collects relevant company information that is required for communication. We do not request for any personal information of our clients.
- The Group does not share personal data to any organization and/or business that is not a member of the platform.
- The website and all data are encrypted to protect against unauthorized access to company information.
- We regularly update our computer system to avoid any possible hackers' activities.

2.7 Anti-Corruption

The Group strictly prohibits any corruption and bribery activities that compromise the interest of our shareholders, investors, customers, and other stakeholders. We comply with the law and regulation regarding bribery, extortion, fraud and money laundering as stipulated in the Prevention of Bribery Ordinance. Employees at all levels are expected to behave with integrity, impartiality and ethically. We have zero tolerance on any forms of bribery, corruption and fraud.

The Group has established and implemented anti-corrupting measures. Anti-bribery policies are clearly stated in the staff handbook. We have also established a prevention system, which sets up relevant whistle-blowing procedures by setting up a private communication channel on reporting suspicious fraudulent actions to the Group's management directly. Furthermore, training on anti-corruption are provided from time to time.

The conduct of employee is closely monitored by management in preventing corruption. We conduct reviews on the effectiveness of the internal control systems, as well as providing training to employees on anti-corruption on a timely basis.

During FY2019, the Group did not receive any non-compliance with relevant laws and regulations on anti-corruption.

2.8 Community

As a responsible company, the Group understands the importance for making positive contribution towards the community where it operates.

In FY2019, we supported the community through purchasing environmentally friendly stationaries from a stationary store operated by a disabled owner as one of our methods for social responsibility. We strongly encourage our employees to locate and source supplies from social enterprises whenever possible as well.

The Group will continue to actively encourage employees to participate on any community-based activities, giving back to the community in Hong Kong.

Independent Auditor's Report

EY 安永

To the shareholders of
DTXS Silk Road Investment Holdings Company Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of DTXS Silk Road Investment Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 147, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill As at 31 December 2019, the Group had goodwill, net of impairment, of HK$128,563,000, relating to the cash-generating unit ("CGU") of the Group's auction business. The Group's impairment assessment of goodwill is performed by using the value in use calculation based on the discounted cash flow method. The impairment assessment of goodwill has been identified as a key audit matter due to the materiality of the carrying value of the goodwill and the significant judgements and estimations involved in the estimation of the value in use of the CGU of the auction business, including expected future cash flows and the discount rate. The accounting policies and disclosures in relation to the impairment assessment of goodwill are included in notes 4, 5 and 22 to the consolidated financial statements.	Our audit procedures to assess the impairment assessment of goodwill included the following: • enquiring of management in relation to the key assumptions applied in the cash flow projection, such as the revenue growth rates and gross margins, and comparing them to historical information and our understanding of the latest operating information and conditions; • involving our internal valuation specialists to assist us in the assessment of the methodology and the discount rate used to determine the recoverable amount; and • assessing the adequacy of the disclosures of the Group's impairment assessment of goodwill in the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of advances to consignors and related interest receivables	
As at 31 December 2019, the aggregate balance of the Group's advances to consignors of works of art (the "Advances to Consignors") amounted to HK$435,339,000, which represented 31% of the total assets of the Group as at that date. The related interest receivables arising from the Advances to Consignors amounted to HK$36,048,000 as at 31 December 2019. The Group provides certain consignors of works of art with advances secured by the works of art which are held by the Group as collateral. The advances granted to consignors generally do not exceed 40% of the collateral's market value estimated by the Group's internal art experts. If the work of art is sold in auction, the proceeds received from the buyer, after deducting commission, advances, interest and relevant taxes, will be paid to the consignor. If the work of art remains unsold, the consignor will be required to repay the advance together with interest before the work of art is returned to the consignor. The impairment assessment of the Advances to Consignors and related interest receivables has been identified as a key audit matter because the aggregate balance of the Advances to Consignors and related interest receivables as at 31 December 2019 was significant to the consolidated financial statements and significant judgements and estimations were required by management to determine the appropriate level of loss allowances for such advances and related interest receivables which involve the estimation of the market value of works of art. The Group also engaged external art experts to perform the valuations of works of art which were held by the Group as collateral as at the year end date. The accounting policies and disclosures are included in notes 4, 5, 24(b) and 39 to the consolidated financial statements.	Our audit procedures to assess the impairment assessment of the Advances to Consignors and related interest receivables included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls over the approval, monitoring and collection of the Advances to Consignors and related interest receivables; • obtaining and reviewing the expected credit loss calculation prepared by management; • evaluating, on a sampling basis, management's assessment of the value of collateral held by the Group by comparing management's estimation with the valuation reports from the art experts, comparing the carrying value of each of the Advances to Consignors with the value of collateral, and reviewing historical auction prices of collateral sold; • assessing the internal and external art experts' experience, qualifications and credentials by inspecting the Group's records and information in the public domain; and • testing the historical settlement pattern and the subsequent settlement of the Advances to Consignors and related interest receivables on a sampling basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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.

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

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

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

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

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

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

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

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

We communicate with the 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.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Wong Cheuk Keung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE			
Revenue from contracts with customers	*7*	**195,304**	108,009
Interest income from advances to consignors	*7*	**39,451**	27,971
Gross rental income	*7*	**666**	—
		235,421	135,980
Other income	*8*	**3,181**	174
Changes in inventories		**(176,768)**	(91,964)
Auction and related services costs		**(5,508)**	(5,562)
Staff costs	*9(a)*	**(21,794)**	(34,245)
Depreciation and amortisation expenses	*9(b)*	**(18,458)**	(17,049)
Other operating expenses	*9(c)*	**(25,088)**	(37,627)
Other gains and losses	*10*	**(10,098)**	(33,838)
Finance costs	*11*	**(283)**	—
LOSS BEFORE TAXATION FROM CONTINUING OPERATIONS	*9*	**(19,395)**	(84,131)
Income tax expense	*14*	**(2,384)**	(102)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(21,779)**	(84,233)
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	*15*	**29,946**	(44,673)
PROFIT/(LOSS) FOR THE YEAR		**8,167**	(128,906)
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(7,839)**	(20,456)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of property, plant and equipment		**6,314**	—
Income tax effect		**(939)**	—
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		**(2,464)**	(20,456)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**5,703**	(149,362)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000 (Restated)
Profit/(loss) for the year attributable to:			
Owners of the parent		**10,286**	(126,909)
Non-controlling interests		**(2,119)**	(1,997)
		8,167	(128,906)
Total comprehensive income/(expense) attributable to:			
Owners of the parent		**9,347**	(148,100)
Non-controlling interests		**(3,644)**	(1,262)
		5,703	(149,362)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*17*		
Basic			
— For profit/(loss) for the year		**HK1.73 cents**	HK(22.83) cents
— For loss from continuing operations		**HK(3.31) cents**	HK(14.74) cents
Diluted			
— For profit/(loss) for the year		**HK1.72 cents**	HK(22.83) cents
— For loss from continuing operations		**HK(3.31) cents**	HK(14.74) cents

Consolidated Statement of Financial Position

31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*18*	**121,656**	181,422
Investment property	*19*	**52,377**	—
Intangible assets	*21*	**80,300**	89,578
Goodwill	*22*	**128,563**	131,354
Deposit and other receivables	*24*	**63,501**	6,726
Total non-current assets		**446,397**	409,080
CURRENT ASSETS			
Inventories	*23*	**49,019**	43,557
Trade and other receivables	*24*	**515,984**	312,903
Loans receivable	*25*	**—**	9,719
Cash and cash equivalents	*26*	**350,066**	54,437
		915,069	420,616
Assets of a disposal group classified as held for sale	*15(a)*	**32,540**	—
Total current assets		**947,609**	420,616
CURRENT LIABILITIES			
Trade and other payables	*27*	**51,329**	78,856
Interest-bearing other borrowings	*28*	**—**	55,888
Tax liabilities		**9,223**	6,098
		60,552	140,842
Liabilities directly associated with the assets classified as held for sale	*15(a)*	**31,103**	—
Total current liabilities		**91,655**	140,842
NET CURRENT ASSETS		**855,954**	279,774
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,302,351**	688,854

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables	20(b), 27	8,602	—
Deferred tax liabilities	29	20,932	22,992
Total non-current liabilities		29,534	22,992
Net assets		1,272,817	665,862
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	333,730	277,969
Reserves	32	931,277	378,356
		1,265,007	656,325
Non-controlling interests		7,810	9,537
Total equity		1,272,817	665,862

Lai Kim Fung
Director

Wong Kwok Tung Gordon Allan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent											
	Share capital HK$'000	Share premium HK$'000 *(note 32(a))*	Share option reserve HK$'000 *(note 31)*	Capital redemption reserve HK$'000 *(note 32(a))*	Exchange fluctuation reserve HK$'000	Scheme reserve HK$'000 *(note 32(b))*	Revaluation reserve HK$'000	Capital reserve HK$'000 *(note 32(c))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	277,569	1,022,986	28,275	1,264	16,009	1,054,095	3,293	5,223	(1,612,112)	796,602	15,178	811,780
Reclassification adjustment *(note 32(d))*	—	—	—	—	—	(1,054,095)	—	(5,223)	1,059,318	—	—	—
At 1 January 2018 (at restated)	277,569	1,022,986	28,275	1,264	16,009	—	3,293	—	(552,794)	796,602	15,178	811,780
Loss for the year	—	—	—	—	—	—	—	—	(126,909)	(126,909)	(1,997)	(128,906)
Other comprehensive expense for the year:												
Exchange differences related to foreign operations	—	—	—	—	(21,191)	—	—	—	—	(21,191)	735	(20,456)
Total comprehensive expense for the year	—	—	—	—	(21,191)	—	—	—	(126,909)	(148,100)	(1,262)	(149,362)
Disposal of subsidiaries *(note 33(b))*	—	—	—	—	—	—	—	—	—	—	(4,379)	(4,379)
Exercise of share options *(notes 30 and 31)*	400	3,924	(1,356)	—	—	—	—	—	—	2,968	—	2,968
Equity-settled share option arrangements *(note 31)*	—	—	4,855	—	—	—	—	—	—	4,855	—	4,855
At 31 December 2018 and 1 January 2019	**277,969**	**1,026,910***	**31,774***	**1,264***	**(5,182)***	**—***	**3,293***	**—***	**(679,703)***	**656,325**	**9,537**	**665,862**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**10,286**	**10,286**	**(2,119)**	**8,167**
Other comprehensive income/(expense) for the year:												
Exchange differences related to foreign operations	**—**	**—**	**—**	**—**	**(6,314)**	**—**	**—**	**—**	**—**	**(6,314)**	**(1,525)**	**(7,839)**
Gain on revaluation of property, plant and equipment, net of tax	**—**	**—**	**—**	**—**	**—**	**—**	**5,375**	**—**	**—**	**5,375**	**—**	**5,375**
Total comprehensive income/(expense) for the year	**—**	**—**	**—**	**—**	**(6,314)**	**—**	**5,375**	**—**	**10,286**	**9,347**	**(3,644)**	**5,703**
Issue of shares *(note 30(a))*	**55,594**	**543,407**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**599,001**	**—**	**599,001**
Disposal of subsidiaries *(note 33(a))*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,917**	**1,917**
Exercise of share options *(notes 30 and 31)*	**167**	**1,345**	**(504)**	**—**	**—**	**—**	**—**	**—**	**—**	**1,008**	**—**	**1,008**
Share issue expenses	**—**	**(2,073)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,073)**	**—**	**(2,073)**
Transfer of share option reserve upon the forfeiture of share options	**—**	**—**	**(7,710)**	**—**	**—**	**—**	**—**	**—**	**7,710**	**—**	**—**	**—**
Equity-settled share option arrangements *(note 31)*	**—**	**—**	**1,399**	**—**	**—**	**—**	**—**	**—**	**—**	**1,399**	**—**	**1,399**
At 31 December 2019	**333,730**	**1,569,589***	**24,959***	**1,264***	**(11,496)***	**—***	**8,668***	**—***	**(661,707)***	**1,265,007**	**7,810**	**1,272,817**

* These reserve accounts comprise the consolidated reserves of HK$931,277,000 (2018: HK$378,356,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**(19,395)**	(84,131)
From discontinued operations		**29,946**	(44,441)
Adjustments for:			
Depreciation and amortisation expenses		**21,095**	30,685
Impairment of trade and other receivables		**276**	1,268
Impairment of intangible assets	*10*	**—**	5,541
Impairment of goodwill	*10*	**—**	36,000
Impairment of items of property, plant and equipment	*10*	**5,456**	—
Loss on disposal of subsidiaries	*10*	**1,734**	16,948
Gain on disposal of items of property, plant and equipment		**(9)**	(475)
Finance costs		**2,669**	2,294
Bank interest income		**(2,274)**	(208)
Equity-settled share option expense	*9(a)*	**1,399**	4,855
Changes in fair value of contingent consideration payables		**—**	(7,492)
Unrealised exchange loss	*10*	**2,908**	149
		43,805	(39,007)
Decrease/(increase) in inventories		**(5,396)**	2,355
Increase in trade and other receivables		**(218,436)**	(55,450)
Increase/(decrease) in trade and other payables		**(14,462)**	50,998
Cash used in operations		**(194,489)**	(41,104)
Bank interest received		**2,274**	208
Interest paid		**(289)**	—
Hong Kong profits tax paid		**(658)**	(131)
PRC corporate income tax paid		**(373)**	(944)
Net cash flows used in operating activities		**(193,535)**	(41,971)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(254)**	(681)
Proceeds on disposal of items of property, plant and equipment		**51**	2,612
Additions to intangible assets		**—**	(10,165)
Disposal of subsidiaries	*33*	**—**	7,693
Repayment of loans receivable	*25*	**9,719**	7,593
Deposit for the acquisition of subsidiaries		**(63,501)**	—
Net cash flows from/(used in) investing activities		**(53,985)**	7,052

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
New other borrowings		**20,757**	26,650
Repayment of other borrowings		**(71,793)**	(11,147)
Principal portion of lease payments	*34(c)*	**(2,716)**	—
Payment for contingent consideration payables	*34(b)*	**—**	(2,000)
Proceeds from issue of shares		**600,009**	2,968
Share issue expenses		**(1,073)**	—
Net cash flows from financing activities		**545,184**	16,471
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**297,664**	(18,448)
Cash and cash equivalents at beginning of year		**54,437**	72,914
Effect of foreign exchange rate changes, net		**(1,089)**	(29)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**351,012**	54,437
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**180,530**	54,222
Non-pledged time deposits with original maturity of less than three months when acquired		**169,536**	215
Cash and cash equivalents as stated in the statement of financial position		**350,066**	54,437
Cash and cash equivalents attributable to a discontinued operation	*15(a)*	**946**	—
Cash and cash equivalents as stated in the statement of cash flows		**351,012**	54,437

1. CORPORATE AND GROUP INFORMATION

DTXS Silk Road Investment Holdings Company Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Crawford House, 4th Floor, 50 Cedar Avenue, Hamilton HM11, Bermuda and its principal place of business is located at Room 811–817, 8/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

The Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- provision of auction and related services
- production and sale of wines
- trading of merchandise
- sale and leasing of vessels, provision of marine engineering, vessel management and related services (discontinued during the year ended 31 December 2019)
- property investment and development

In the opinion of the Company's directors, the immediate holding company of the Company is Da Tang Xi Shi International Holdings Limited, which is established in the British Virgin Islands ("BVI"), and the ultimate holding company of the Company is 大唐西市文化產業投資集團有限公司 (Da Tang Xi Shi Investments Group Limited*, "DTXS Investments") which is established in the People's Republic of China (the "PRC").

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Phoenixstar International Auction Co., Ltd.* ("Beijing Phoenixstar") 北京景星麟鳳國際拍賣有限公司#	PRC	RMB10,000,000	—	100	Auction business
China King Sing Lun Fung Company Limited ("KSLF (HK)")	Hong Kong	HK$1	—	100	Auction business
DTXS Silk Road Investment (Hong Kong) Limited	Hong Kong	HK$1,000,000	—	100	Investment holding
DTXS Jewellery Resources (HK) Limited	Hong Kong	HK$100,000	—	100	Investment holding
Silk Road Online Limited	Hong Kong	HK$1	—	100	Trading business
Xian Silk Road Commercial Consultancy Company Limited* 西安絲綢之路商務信息諮詢有限公司##	PRC	RMB40,000,000	—	100	Property investment
Wealthy Forest-Puy Bardens SAS	France	EUR4,630,000	—	70	Vineyard business
East Coast Towing Limited@	Hong Kong	HK$11,000,000	—	100	Investment holding
UDL Ship Management Limited@	Hong Kong	HK$2	—	100	Sale and leasing of vessels
UDL Ventures Limited@ ("UDL Ventures")	Hong Kong	HK$2,000	100	—	Investment holding

* The English name of these companies represent the best effort made by management of the Company to directly translate their Chinese names as they have not been registered any official English names.

\# Registered as a domestic limited liability company under PRC law and controlled by the Group through certain structured agreements as detailed in note 2 to the financial statements.

\## Registered as a wholly-foreign-owned enterprise under PRC law.

@ These companies were disposed of by the Group subsequent to 31 December 2019, and are classified as discontinued operations as detailed in note 15 to the financial statements.

Details of subsidiaries disposed of during the year are included in note 33 to the financial statements.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for floating craft and vessels, which are classified as property, plant and equipment, and an investment property which have been measured at fair value. In addition, disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 4 to the financial statements. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

2. BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest, and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Structured arrangements

Following the completion of the acquisition of KSLF (HK) and the execution of certain structured arrangements in 2016, the Group commenced the auction business in the PRC through Beijing Phoenixstar, an indirect wholly-owned subsidiary of KSLF (HK).

The legal ownership of Beijing Phoenixstar is registered under the names of two individuals (the "Registered Shareholders") and the Group entered into a series of agreements with the Registered Shareholders to effect that the Group has control over Beijing Phoenixstar so as to obtain benefits from its activities (the "Structured Arrangements"). The Structured Arrangements with the Registered Shareholders comprise the following agreements:

(i) Exclusive Operation and Technology Support Services Agreement;

(ii) Exclusive Right to Purchase Agreement;

(iii) The Voting Rights Proxy Agreement; and

(iv) Equity Pledge Agreement.

Details of the Structured Arrangements are set out in the section headed "the Structured Contractual Arrangements" in Company's announcement dated 20 June 2016.

The Structured Arrangements are irrevocable and enable the Group to:

- Exercise effective financial and operational control over Beijing Phoenixstar;
- Exercise equity holders' voting rights of Beijing Phoenixstar;
- Receive substantially all of the economic returns generated by Beijing Phoenixstar in consideration for the exclusive technical and management consultancy services;
- Obtain an irrevocable and exclusive right to purchase all or part of equity interests in Beijing Phoenixstar from the respective Registered Shareholders; and
- Obtain a pledge over the entire equity interest of Beijing Phoenixstar as collateral security under the Structured Arrangements.

The above Structured Arrangements effectively transfer the controls over the economic benefits and pass the risks associated with the business of Beijing Phoenixstar to the Group. Accordingly, Beijing Phoenixstar is accounted for as a wholly-owned subsidiary of the Group since the completion of the acquisition of KSLF (HK) for accounting purposes.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

HKFRS 16 — *Leases*

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

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balances as at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 16 — *Leases* *(Continued)*

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impact on transition

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

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets as part of the elements of property, plant and equipment in the statement of financial position. The right-of-use assets also include the leasehold land recognised previously under finance leases of HK$109,976,000 that were reclassified from land and buildings.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application; and

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 16 — *Leases* *(Continued)*

Financial impact at 1 January 2019

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

	HK$'000
Assets	
Increase in right-of-use assets (included under property, plant and equipment) and total assets	4,042
Liabilities	
Increase in trade and other payables and total liabilities	4,042

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	10,832
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(6,201)
	4,631
Weighted average incremental borrowing rate as at 1 January 2019	5.03%
Lease liabilities as at 1 January 2019	4,042

3.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

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

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

3.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

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

4. SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

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

Fair value measurement

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than floating craft and vessels, are stated at cost less accumulated depreciation and any impairment losses. Floating craft and vessels which were classified as part of the disposal group as at 31 December 2019 are stated at valuation less accumulated depreciation and any impairment losses.

When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of revalued property, plant and equipment are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the revaluation reserve to accumulated losses is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to accumulated losses as a movement in reserves.

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

Owned assets	
Freehold land	Not depreciated
Buildings	2% to 10%
Leasehold improvements	Over the shorter of the lease terms and 33.3%
Floating craft and vessels	9% to 100%
Plant, machinery and workshop equipment	10% to 25%
Furniture, fixtures and office equipment	10% to 33.3%
Motor vehicles	10% to 33.3%
Bearer plants	2.5% to 6.7%
Right-of-use assets	
Leasehold land	Over the remaining term of the lease
Buildings	1.5 to 2 years

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Investment property

Investment property is interest in land and building held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment property are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

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

Non-current assets and disposal groups held for sale

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

Brands, customer relationship, developed technology, capitalised development costs and computer software

Brands, customer relationship, developed technology, capitalised development costs and computer software are stated at cost less any impairment losses and are amortised on the straight line basis over their estimated useful lives as follows:

Brands	10–20 years
Customer relationship	5 years
Developed technology	5 years
Capitalised development costs	3 years
Computer software	3 years

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases (applicable from 1 January 2019)

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee

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

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as detailed in the policy under "Property, plant and equipment and depreciation" above.

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "Investment property" above.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

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

The Group's lease liabilities are included in trade and other payables.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office properties and staff quarters (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessor

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

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

Leases that transfer substantially all the rewards and risks and rewards incidental to ownership of an underlying asset to the lessee other than legal title, are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement *(Continued)*

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

General approach

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*

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

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

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

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

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

Simplified approach

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

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and borrowings.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

(a) Sale of merchandise

Revenue from the sale of merchandise is recognised at the point in time when control of the goods is transferred to the customer, generally on the delivery of goods.

(b) Provision of auction and related services

Revenue from the provision of auction services mainly includes commission from auction services. Commission from auction services includes buyer's and seller's commission, the services provided to each of which is regarded as a distinct performance obligation satisfied at a point in time when the full payment of auction items is settled by the buyer and the transaction price of which is based on a percentage of the hammer price of the auction sales.

(c) Provision of marine engineering services (discontinued operations in the current year)

The provision of marine engineering services mainly includes the provision of marine engineering, vessel management and related services. Revenue from the provision of marine engineering services is recognised over time when the customers simultaneously receive and consume the benefits from the Group's performance.

(d) Sale of vessels (discontinued operations in the current year)

Revenue from the sale of vessels is recognised at the point in time when control of the vessel is transferred to the customer, generally on delivery of the vessel.

(e) Provision of fintech services and software licence leasing (discontinued operations in the prior year)

Revenue from the provision of fintech services mainly includes the leasing of the right to access the financial trading platform and solutions to its customers and the sale of software licences. Revenue from software licence leasing is generated from providing the customer with a right to access the financial trading platform and solutions of the Group. The nature of the Group's performance obligation in granting the licence is considered to be a right to access the Group's intellectual property. The Group accounts for the grant of the right-to-access licence as a performance obligation satisfied over time. For the sale of software licences, the Group considers the sales to be a grant to the customers of a right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the right-to-use license is granted.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Interest income

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provision of services

In respect of the arrangement for the provision of the specified goods or services by another party, the Group considers it is an agent as its performance obligation is to arrange for the provision of the specified goods or services by another party. The Group does not control the specified goods or services provided by another party before those goods or services are transferred to the customer. Income is recognised in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Contract liabilities

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

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the consolidated financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

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

Other employee benefits

Pension schemes

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute 5% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss is translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Structured Arrangements

The Group conducts a substantial portion of the business through Beijing Phoenixstar in the PRC under the Structured Arrangements due to the regulatory restrictions on auction business in the PRC. The Group does not have any equity interest in Beijing Phoenixstar. The directors of the Company assessed whether or not the Group has control over Beijing Phoenixstar based on whether the Group has the power over Beijing Phoenixstar, has rights to variable returns from its involvement with Beijing Phoenixstar and has the ability to affect those returns through its power over Beijing Phoenixstar. The directors of the Company concluded that the Group has control over Beijing Phoenixstar as a result of the Structured Arrangements and accordingly, the Group has consolidated the financial information of Beijing Phoenixstar since 2016.

Nevertheless, the Structured Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Beijing Phoenixstar and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Beijing Phoenixstar. The directors of the Company, based on the advice from its legal counsel, consider that the Structured Arrangements among the Company, Beijing Phoenixstar and the Registered Shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable. Changes in market conditions or interpretations of the PRC laws and regulations in future may have a material impact on the assessment of control over Beijing Phoenixstar.

Estimation uncertainty

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances results in downward revision of future cash flows, further impairment losses may arise. As at 31 December 2019, the carrying amount of goodwill was HK$128,563,000 (net of provision for impairment of HK$36,000,000) (2018: HK$131,354,000 (net of provision for impairment of HK$36,000,000)). Details of the Group's goodwill and its impairment assessment are disclosed in note 22 to the financial statements.

Impairment assessment of advances to consignors and related interest receivables

The Group provides certain consignors with advances secured by auction items (works of art) as collateral (the "Collateral"). The provision for expected credit losses is measured at the difference of the asset's carrying amount and the present value of estimated future cash flows, which included the consideration of cash flows from sale of the Collateral for each advance to a consignor. Therefore, the impairment assessment for these advances together with the related interest receivables requires the estimation of the fair value of the Collateral as at the end of the reporting period. Management relies on the valuation opinion of art experts who consider a number of factors including recent transactions for comparable works of art and supply and demand and the current economic environment. Due to the subjectivity involved in estimating the realisable value, if the artwork market deteriorates and the overall economic condition were to deteriorate, actual credit losses would be higher than estimated. If the artwork market were to deteriorate, actual impairment losses on advances to consignors for art financing business and related interest receivables would be higher than estimated. For more details of the impairment assessment of the advances to consignors, please refer to notes 24(b) and 39 to the financial statements.

Estimation of fair value of an investment property

The Group transferred an owner-occupied property to investment property during the year ended 31 December 2019. The property was revalued as at the date of transfer and 31 December 2019 based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each revaluation date.

6. OPERATING SEGMENT INFORMATION

The Group manages its businesses by division. Segment information is disclosed in a manner consistent with the way in which information is reported internally to the Group's Chief Operating Decision Maker ("CODM"), being the executive directors of the Company, for the purposes of performance assessment and resources allocation.

The Group has four reportable segments as follows:

- Arts and Cultural Division — mainly represents auction business and sale of antiques, art financing business and Art Central Business District business ("ACBD business")
- Winery Division — mainly represents operation of vineyard, production and sale of wines and related business
- e-Commerce Division — mainly represents trading of merchandise (including electronic devices, cosmetics and other consumer products) and provision of related services
- Engineering Services Division — mainly represents sale and leasing of vessels, provision of marine engineering, vessel management and related services (discontinued during the year ended 31 December 2019)

No operating segments have been aggregated in arriving at the reportable segments of the Group.

The businesses of the Group's Engineering Services Division were discontinued in the current year and details of which are disclosed in note 15 to the financial statements. The segment information reported does not include any amount for the discontinued operation and accordingly, segment information for the prior year has been restated to reflect this change of segment composition.

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

6. OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment results

During the year ended 31 December 2019, for performance assessment and resource allocation, the CODM focused on segment revenue and results attributable to each segment, which is measured by reference to respective segments' results before taxation. No analysis of the Group's assets and liabilities is regularly provided to the CODM for review.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4 to the financial statements. Segment results represent the profit/loss of each segment without allocation of central administration costs, directors' remuneration, gain/loss on disposal of subsidiaries, finance costs and gain arising from changes in fair value of contingent consideration payables.

Continuing operations

	Arts and Cultural Division		Winery Division		e-Commerce Division		Total		Eliminations		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue *(note 7)*												
Revenue from external customers	**15,783**	12,020	**1,909**	6,100	**178,278**	89,889	**195,970**	108,009	**—**	—	**195,970**	108,009
Interest income from advances to consignors	**39,451**	27,971	**—**	—	**—**	—	**39,451**	27,971	**—**	—	**39,451**	27,971
Intersegment sales	**—**	59	**415**	—	**—**	276	**415**	335	**(415)**	(335)	**—**	—
Revenue from continuing operations	**55,234**	40,050	**2,324**	6,100	**178,278**	90,165	**235,836**	136,315	**(415)**	(335)	**235,421**	135,980
Segment results*	**20,663**	5,259	**(7,056)**	(1,702)	**1,259**	(596)	**14,866**	2,961	**—**	—	**14,866**	2,961
Reconciliation:												
Unallocated other income											**2,182**	1
Unallocated other gains and losses											**(4,109)**	7,492
Unallocated corporate and other expenses											**(32,334)**	(94,585)
Loss before taxation for the year from the continuing operations											**(19,395)**	(84,131)

* Segment results are before taxation

	Arts and Cultural Division 2019	Arts and Cultural Division 2018	Winery Division 2019	Winery Division 2018	e-Commerce Division 2019	e-Commerce Division 2018	Total 2019	Total 2018	Eliminations 2019	Eliminations 2018	Consolidated 2019	Consolidated 2018
Other segment information:												
Depreciation and amortisation	**12,335**	14,695	**373**	485	**190**	106	**12,898**	15,286	**—**	—	**12,898**	15,286
Unallocated											**5,560**	1,763
											18,458	17,049
Capital expenditure*	**172**	480	**228**	73	**—**	—	**400**	553	**—**	—	**400**	681
Unallocated											**16,192**	—
											16,592	681
Impairment of goodwill	**—**	36,000	**—**	—	**—**	—	**—**	36,000	**—**	—	**—**	36,000
Impairment of property, plant and equipment	**—**	—	**5,456**	—	**—**	—	**5,456**	—	**—**	—	**5,456**	—

* Capital expenditure consists of additions to property, plant and equipment.

6. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

The Group's operations are located in Hong Kong, Mainland China and France. The following table sets out information about the geographical locations of (i) the Group's revenue from continuing operations from external customers for the years ended 31 December 2019 and 2018; and (ii) the Group's property, plant and equipment, investment property, goodwill and intangible assets ("specified non-current assets") as at 31 December 2019 and 2018. The geographical location of customers is based on the location at which services were provided and goods are delivered and title has passed. The geographical location of property, plant and equipment and investment property is based on the physical location of the assets and the geographical location of goodwill and intangible assets is based on the location of the respective business operations.

	Revenue from external customers		Specified non-current assets	
	2019 HK$'000	2018 HK$'000 (Restated)	**2019 HK$'000**	2018 HK$'000
Hong Kong	**211,254**	107,875	**16,769**	111,832
Mainland China	**23,779**	28,105	**344,424**	261,387
France	**388**	—	**21,703**	29,135
	235,421	135,980	**382,896**	402,354

(c) Information about major customers

Revenue from each major customer which accounted for 10% or more of the total revenue of the Group for the corresponding years is as follows:

	2019 HK$'000	2018 HK$'000
e-Commerce Division		
Customer A	**75,858**	45,671
Customer B	**36,635**	19,178

7. REVENUE

An analysis of revenue from continuing operations is as follows:

	2019 HK$'000	2018 HK$'000 (Restated)
Revenue from contracts with customers		
Sale of merchandise	**180,716**	95,989
Auction and related services	**14,588**	12,020
	195,304	108,009
Revenue from other sources		
Interest income from advances to consignors	**39,451**	27,971
Gross rental income from investment property operating leases — with fixed lease payments	**666**	—
	40,117	27,971
Total revenue	**235,421**	135,980

(a) Disaggregation of revenue information

For the year ended 31 December 2019

Segments	Arts and Cultural Division HK$'000	Winery Division HK$'000	e-Commerce Division HK$'000	Total HK$'000
Types of goods or services				
Sale of merchandise	529	1,909	178,278	180,716
Auction and related services	14,588	—	—	14,588
Total revenue from contracts with customers	15,117	1,909	178,278	195,304
Geographical markets				
Mainland China	10,105	—	523	10,628
Hong Kong	5,012	1,521	177,755	184,288
France	—	388	—	388
Total revenue from contracts with customers	15,117	1,909	178,278	195,304

7. REVENUE *(Continued)*

(a) Disaggregation of revenue information *(Continued)*

For the year ended 31 December 2018

Segments	Arts and Cultural Division HK$'000	Winery Division HK$'000	e-Commerce Division HK$'000	Total HK$'000 (Restated)
Types of goods or services				
Sale of merchandise	—	6,100	89,889	95,989
Auction and related services	12,020	—	—	12,020
Total revenue from contracts with customers	12,020	6,100	89,889	108,009
Geographical markets				
Mainland China	9,885	6,100	—	15,985
Hong Kong	2,135	—	89,889	92,024
Total revenue from contracts with customers	12,020	6,100	89,889	108,009

All revenue from contracts with customers is recognised at the point in time when the control of the assets is transferred or the services are provided to the customers.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of merchandise	**348**	—
Provision of fintech services (included in discontinued operations)	**—**	3,224
	348	3,224

7. REVENUE *(Continued)*

(b) Performance obligations for contracts with customers

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

Sale of merchandise

The performance obligation is satisfied upon delivery of goods and payment is generally due within 30 to 90 days from delivery.

Auction and related services

The performance obligation is satisfied at a point in time when the full payment of auction items is settled by the buyer.

The performance obligation of the sale of merchandise and the provision of auction and related services are parts of the contracts that have an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts in relation to these services is not disclosed.

8. OTHER INCOME

	2019 **HK$'000**	2018 HK$'000 (Restated)
Continuing operations		
Bank interest income	**2,272**	90
Sundry income	**909**	84
	3,181	174

9. LOSS BEFORE TAXATION

Loss before taxation from continuing operations has been arrived at after charging:

	2019 HK$'000	2018 HK$'000 (Restated)
(a) Staff costs (including the directors' remuneration)		
Salaries, wages and other benefits	**19,671**	28,568
Contributions to defined contribution retirement plans	**724**	822
Share-based payment expenses	**1,399**	4,855
	21,794	34,245
(b) Depreciation and amortisation expenses		
Depreciation of owned assets	**6,242**	10,034
Less: Amount included in inventory overheads	**(1,161)**	(1,025)
	5,081	9,009
Depreciation of right-of-use assets	**5,831**	—
Amortisation of intangible assets	**7,546**	8,040
	18,458	17,049
(c) Other items (included in other operating expenses)		
Auditor's remuneration	**1,893**	1,610
Legal and professional fees	**7,080**	3,648
Secretarial and registration fees	**936**	843
Operating lease changes in respect of office premises	**—**	14,583
Lease payments not included in the measurement of lease liabilities	**6,332**	—

10. OTHER GAINS AND LOSSES

	Notes	2019 HK$'000	2018 HK$'000 (Restated)
Continuing operations			
Impairment of goodwill	*22*	**—**	(36,000)
Impairment of intangible assets	*21*	**—**	(5,181)
Impairment of items of property, plant and equipment	*18*	**(5,456)**	—
Foreign exchange differences, net		**(2,908)**	(149)
Gains arising from changes in fair value of contingent consideration payables		**—**	7,492
Loss on disposal of subsidiaries	*33(a)*	**(1,734)**	—
		(10,098)	(33,838)

11. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2019 HK$'000	2018 HK$'000
Interest on lease liabilities	**283**	—

12. DIRECTORS' REMUNERATION

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

	2019 HK$'000	2018 HK$'000
Fees	**2,044**	2,160
Other emoluments:		
Salaries, allowances and benefits in kind	**3,991**	4,370
Equity-settled share option expense	**1,560**	5,394
Pension scheme contributions	**54**	50
	5,605	9,814
	7,649	11,974

12. DIRECTORS' REMUNERATION *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2019					
Executive directors:					
Lai Kim Fung *(Chief Executive Officer)*	—	2,911	1,443	36	4,390
Lu Jianzhong *(Chairman)*	—	360	41	—	401
Wong Kwok Tung Gordon Allan *(Deputy Chief Executive Officer)*	—	360	29	18	407
Yang Xingwen	—	360	29	—	389
Non-executive directors:					
Cheng Kar-Shun, Henry*	124	—	—	—	124
Jean-Guy Carrier	360	—	3	—	363
Independent non-executive directors:					
Cheng Yuk Wo	360	—	3	—	363
Fan Chiu Fun, Fanny**	120	—	3	—	123
Tsui Yiu Wa, Alec	360	—	3	—	363
Tse Yung Hoi	360	—	3	—	363
Wang Shi#	360	—	3	—	363
	2,044	3,991	1,560	54	7,649

In the prior years, certain directors were granted share options, in respect of their services to the Group under the share option schemes of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which was recognised in profit or loss over the vesting period, was determined as at the date of grant and the amounts are included in the above directors' remuneration disclosures.

* Cheng Kar-Shun, Henry has been appointed as a non-executive director of the Company with effect from 28 August 2019.

** Fan Chiu Fun, Fanny has resigned as an independent non-executive director of the Company with effect from 1 May 2019.

Wang Shi has been re-designated from a non-executive director to an independent non-executive director of the Company with effect from 29 November 2019.

12. DIRECTORS' REMUNERATION *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2018					
Executive directors:					
Lai Kim Fung *(Chief Executive Officer)*	—	3,290	3,697	32	7,019
Lu Jianzhong *(Chairman)*	—	360	595	—	955
Wong Kwok Tung Gordon Allan *(Deputy Chief Executive Officer)*	—	360	425	18	803
Yang Xingwen	—	360	425	—	785
Non-executive directors:					
Wang Shi	360	—	42	—	402
Jean-Guy Carrier	360	—	42	—	402
Independent non-executive directors:					
Cheng Yuk Wo	360	—	42	—	402
Fan Chiu Fun, Fanny	360	—	42	—	402
Tsui Yiu Wa, Alec	360	—	42	—	402
Tse Yung Hoi	360	—	42	—	402
	2,160	4,370	5,394	50	11,974

Note:

The remuneration of executive directors shown above were paid for their services in connection with the management of the affairs and for serving as directors of the Company and the Group, and those to non-executive directors and independent non-executive directors are for serving as directors of the Company. There was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the year (2018: Nil).

During the years ended 31 December 2019 and 2018, no amount was paid or payable by the Group to any director and the highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2018: two directors), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining four (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	3,592	5,404
Pension scheme contributions	72	47
Equity-settled share option expense	829	40
	4,493	5,491

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of individual	
	2019	2018
Nil to HK$1,000,000	3	1
HK$1,000,001 to HK$1,500,000	—	1
HK$2,000,001 to HK$2,500,000	1	—
HK$3,000,001 to HK$3,500,000	—	1
	4	3

During the year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

14. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2019 **HK$'000**	2018 HK$'000
Current tax		
Hong Kong	**2,338**	342
PRC	**1,891**	1,683
	4,229	2,025
Deferred tax *(note 29)*	**(1,845)**	(1,923)
	2,384	102

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

	2019 **HK$'000**	2018 HK$'000 (Restated)
Loss before taxation from continuing operations	**(19,395)**	(84,131)
Tax at the statutory tax rates of different jurisdictions	**(4,169)**	(14,562)
Lower tax rate enacted by local authority	**(165)**	—
Income not subject to tax	**(80)**	—
Expenses not deductible for tax	**1,931**	9,361
Tax losses utilised for previous periods	**(213)**	—
Tax losses not recognised	**5,080**	5,303
Tax charge at the Group's effective rate	**2,384**	102

15. DISCONTINUED OPERATIONS

	2019 HK$'000	2018 HK$'000 (Restated)
Profit/(loss) for the year from discontinued operations:		
— Engineering Services Division *(note (a))*	**29,946**	(24,903)
— Fintech Division *(note (b))*	**—**	(919)
Loss on disposal of the Digital Mind Group *(notes (b) and 33(b))*	**—**	(18,851)
Total profit/(loss) for the year from discontinued operations	**29,946**	(44,673)
Earnings/(loss) per share:		
Basic, from the discontinued operations	**HK5.04 cents**	HK(8.09) cents
Diluted, from the discontinued operations	**HK5.00 cents**	HK(8.09) cents

Details of the calculation of basic and diluted earnings/(loss) per share amounts for the discontinued operations are disclosed in note 17 to the financial statements.

Notes:

(a) Engineering Services Division

On 30 December 2019, the Group entered into a sale and purchase agreement (the "UDL Disposal Agreement") to dispose of its entire equity interests in UDL Ventures to an independent third party, namely Harbour Front Limited, at a consideration of approximately HK$16.8 million. UDL Ventures and its subsidiaries (the "UDL Group") carried out all of the Group's business of the Engineering Services Division. The disposal was effected in order to focus the Group's resources on its other businesses and further details of the disposal are set out in the Company's announcement dated 30 December 2019. As at 31 December 2019, the assets and liabilities attributable to the UDL Group were classified as a disposal group held for sale and as a discontinued operation.

The results of the UDL Group for the year are presented below:

	2019 HK$'000	2018 HK$'000
Revenue	**51,110**	13,853
Other income	**27,323**	116
Staff costs	**(4,191)**	(4,933)
Marine engineering, vessel management and related service costs	**(36,589)**	(24,934)
Other gains and losses	**9**	425
Depreciation and amortisation expenses	**(2,637)**	(3,711)
Other operating expenses	**(2,693)**	(5,328)
Gain on disposal of subsidiaries of UDL Ventures	**—**	1,903
Finance costs	**(2,386)**	(2,294)
Income tax expense	**—**	—
Profit/(loss) for the year from the UDL Group	**29,946**	(24,903)

15. DISCONTINUED OPERATIONS *(Continued)*

Notes: (Continued)

(a) Engineering Services Division *(Continued)*

The major classes of assets and liabilities of the UDL Group classified as held for sale as at 31 December 2019 are as follows:

	Notes	**2019 HK$'000**
Assets		
Property, plant and equipment	*18*	**11,417**
Inventories		**1,095**
Trade and other receivables	*(i)*	**19,082**
Cash and cash equivalents		**946**
Assets classified as held for sale		**32,540**
Liabilities		
Trade and other payables	*(ii)*	**26,251**
Interest-bearing other borrowing	*(iii)*	**4,852**
Liabilities directly associated with the assets classified as held for sale		**31,103**
Net assets directly associated with the disposal group		**1,437**
Reserve attributable to the disposal group		
Revaluation reserve		**5,850**

The net cash flows incurred by the UDL Group are as follows:

	2019 HK$'000	2018 HK$'000
Operating activities	**53,920**	(19,613)
Investing activities	**50**	4,193
Financing activities	**(53,481)**	15,503
Net cash inflows	**489**	83

15. DISCONTINUED OPERATIONS *(Continued)*

Notes: (Continued)

(a) Engineering Services Division *(Continued)*

Notes:

(i) Trade and other receivables

	2019 HK$'000
Trade receivables	15,018
Impairment	(1,143)
	13,875
Prepayments	4,014
Deposits	263
Other receivables	6,780
Impairment	(5,850)
	5,207
	19,082

The trading terms with customers are mainly on credit. The credit terms granted by the UDL Group to customers generally range from 30 to 90 days. Trade receivables are unsecured and non-interest-bearing.

An ageing analysis of the trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2019 HK$'000
0–30 days	2,345
31–90 days	2,620
91–180 days	2,828
181–360 days	6,082
	13,875

15. DISCONTINUED OPERATIONS *(Continued)*

Notes: (Continued)

(a) Engineering Services Division *(Continued)*

Notes: (Continued)

(i) Trade and other receivables (Continued)

The movement in the loss allowance for impairment of trade receivables is as follows:

	2019 HK$'000
At beginning of year	1,143
Impairment losses, net	—
At end of year	1,143

Other receivables represented non-trade related receivables from independent third parties. The balances are unsecured and non-interest-bearing. Except for the gross balances of HK$5,850,000 which are from credit-impaired debtors, none of the other receivables is past due and related to debtors with no recent history of default.

The movement in the loss allowance for impairment of other receivables is as follows:

	2019 HK$'000
At beginning of year	5,574
Impairment losses, net	276
At end of year	5,850

Details of ECLs are disclosed in note 39 to the financial statements.

(ii) Trade and other payables

Included in the trade and other payables are trade payables of HK$4,179,000. The credit period of trade creditors is normally within three months. The ageing analysis of trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2019 HK$'000
0–30 days	2,710
31–90 days	60
91–180 days	1,037
181–360 days	141
Over 360 days	231
	4,179

15. DISCONTINUED OPERATIONS *(Continued)*

Notes: (Continued)

(a) Engineering Services Division *(Continued)*

Notes: (Continued)

(iii) Interest-bearing other borrowing

At 31 December 2019, the carrying amount of the interest-bearing other borrowing represents an unsecured variable rate borrowing which carries interest at the best leading rate quoted by The Hongkong and Shanghai Banking Corporation Limited plus 1% per annum and is repayable on demand.

(b) Fintech Division

On 24 December 2018, DTXS Technologies Limited, a non-wholly owned subsidiary of which the Company indirectly owned 85% of the issued share capital, entered into a sale and purchase agreement to dispose of its entire equity interests in Digital Mind Holdings Limited and its subsidiaries (collectively, the "Digital Mind Group"), which carried out all of the Group's financial trading platform and solutions operation (the "Fintech Division"), to the non-controlling shareholders of the Digital Mind Group. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The disposal was completed on 28 December 2018.

The results of the Digital Mind Group for the period from 1 January 2018 to 28 December 2018, which have been included in profit or loss were as follows:

	Period ended 28 December 2018 HK$'000
Revenue from provision of fintech services	29,597
Financial trading technologies and related value-added services costs	(4,453)
Other income	118
Staff costs	(11,584)
Other gains and losses	(1,514)
Depreciation and amortisation expenses	(9,135)
Other operating expenses	(3,716)
Loss before taxation	(687)
Taxation	(232)
Loss for the period	(919)

During the year ended 31 December 2018, the Digital Mind Group contributed HK$8 million to the Group's net operating cash flows, paid HK$9 million in respect of investing activities and no cash flow contributed to the Group's financing activities.

The carrying amounts of the assets and liabilities of the Digital Mind Group at the date of disposal are disclosed in note 33(b).

16. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

17. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings or loss per share amounts is based on the profit/loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 594,453,839 (2018: 555,823,000) in issue during the year.

For the year ended 31 December 2019, the calculation of the diluted earnings per share amounts attributable to discontinued operations and for the Group are based on the profit for the year attributable to ordinary equity holders of the parent for the discontinued operations and for the Group. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares is assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for the continuing operations for the year ended 31 December 2019 (2018: basic loss per share presented for that year and for continuing operations and discontinued operations) in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

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

	2019 **HK$'000**	2018 HK$'000 (Restated)
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**(19,660)**	(81,947)
From discontinued operations	**29,946**	(44,962)
Profit/(loss) attributable to ordinary equity holders of the parent	**10,286**	(126,909)

	Number of shares **2019**	 2018
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**594,453,839**	555,823,000
Effect of dilution — weighted average number of ordinary shares: Share options	**4,336,858**	—
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**598,790,697**	555,823,000

18. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets			Owned assets/Assets held under finance leases									
	Leasehold land HK$'000	Buildings HK$'000	Total HK$'000	Leasehold improvements HK$'000	Floating craft and vessels* HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and workshop equipment HK$'000	Motor vehicles HK$'000	Buildings HK$'000	Freehold land HK$'000	Bearer plants HK$'000	Total HK$'000	Total HK$'000
31 December 2019													
At 1 January 2019 (as originally presented):													
Cost	—	—	—	11,562	—	1,591	3,342	90	164,005	1,132	6,120	187,842	187,842
Valuation	—	—	—	—	9,263	—	—	—	—	—	—	9,263	9,263
Accumulated depreciation	—	—	—	(4,845)	—	(223)	(1,221)	(90)	(8,849)	(47)	(408)	(15,683)	(15,683)
Net carrying amount	—	—	—	6,717	9,263	1,368	2,121	—	155,156	1,085	5,712	181,422	181,422
Effect of the adoption of HKFRS 16	109,976	4,042	114,018	—	—	—	—	—	(109,976)	—	—	(109,976)	4,042
At 1 January 2019 (as restated)	109,976	4,042	114,018	6,717	9,263	1,368	2,121	—	45,180	1,085	5,712	71,446	185,464
At 1 January 2019, net of accumulated depreciation	109,976	4,042	114,018	6,717	9,263	1,368	2,121	—	45,180	1,085	5,712	71,446	185,464
Additions	—	17,082	17,082	—	—	21	233	—	—	—	—	254	17,336
Transfer to investment property	(46,103)	—	(46,103)	—	—	—	—	—	(7,228)	—	—	(7,228)	(53,331)
Surplus on revaluation at the date of transfer to investment property	2,551	—	2,551	—	—	—	—	—	1,206	—	—	1,206	3,757
Revaluation	—	—	—	—	2,557	—	—	—	—	—	—	2,557	2,557
Impairment	—	—	—	—	—	—	—	—	(5,456)	—	—	(5,456)	(5,456)
Disposal of subsidiaries *(note 33)*	—	—	—	—	—	(2)	—	—	—	—	—	(2)	(2)
Disposal	—	—	—	—	(42)	—	—	—	—	—	—	(42)	(42)
Depreciation provided for the year	(2,800)	(3,124)	(5,924)	(3,054)	(2,528)	(954)	(205)	—	(1,747)	—	(298)	(8,786)	(14,710)
Assets included in discontinued operations *(note 15(a))*	—	(653)	(653)	(1,275)	(9,250)	(50)	(189)	—	—	—	—	(10,764)	(11,417)
Exchange realignment	(1,508)	(68)	(1,576)	(12)	—	(2)	225	—	(947)	17	(205)	(924)	(2,500)
At 31 December 2019, net of accumulated depreciation and impairment	62,116	17,279	79,395	2,376	—	381	2,185	—	31,008	1,102	5,209	42,261	121,656
At 31 December 2019:													
Cost	67,700	20,291	87,991	8,826	—	1,545	2,706	—	35,241	1,102	5,971	55,391	143,382
Accumulated depreciation and impairment	(5,584)	(3,012)	(8,596)	(6,450)	—	(1,164)	(521)	—	(4,233)	—	(762)	(13,130)	(21,726)
Net carrying amount	62,116	17,279	79,395	2,376	—	381	2,185	—	31,008	1,102	5,209	42,261	121,656

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold improvements HK$'000	Floating craft and vessels* HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and workshop equipment HK$'000	Motor vehicles HK$'000	Land and buildings HK$'000	Freehold land HK$'000	Bearer plants HK$'000	Total HK$'000
31 December 2018									
At 1 January 2018:									
Cost	13,870	—	5,385	3,418	1,030	167,170	1,178	6,369	198,420
Valuation	—	15,082	—	—	—	—	—	—	15,082
Accumulated depreciation	(1,970)	—	(1,630)	(1,195)	(1,013)	(3,999)	—	(156)	(9,963)
Net carrying amount	11,900	15,082	3,755	2,223	17	163,171	1,178	6,213	203,539
At 1 January 2018, net of accumulated depreciation	11,900	15,082	3,755	2,223	17	163,171	1,178	6,213	203,539
Additions	400	—	175	106	—	—	—	—	681
Disposal of subsidiaries *(note 33)*	(544)	—	(543)	—	—	—	—	—	(1,087)
Disposal	—	(2,137)	—	—	—	—	—	—	(2,137)
Depreciation provided for the year	(5,003)	(3,682)	(2,007)	(123)	(16)	(5,105)	(53)	(284)	(16,273)
Exchange realignment	(36)	—	(12)	(85)	(1)	(2,910)	(40)	(217)	(3,301)
At 31 December 2018, net of accumulated depreciation	6,717	9,263	1,368	2,121	—	155,156	1,085	5,712	181,422
At 31 December 2018:									
Cost	11,562	—	1,591	3,342	90	164,005	1,132	6,120	187,842
Valuation	—	9,263	—	—	—	—	—	—	9,263
Accumulated depreciation	(4,845)	—	(223)	(1,221)	(90)	(8,849)	(47)	(408)	(15,683)
Net carrying amount	6,717	9,263	1,368	2,121	—	155,156	1,085	5,712	181,422

* As at 31 December 2018, had the floating craft and vessels been carried at cost less accumulated depreciation, the carrying amount would have been HK$7,462,000.

As at 31 December 2019, the Group had property, plant and equipment of HK$21,876,000 related to the cash-generating unit of the Winery Division. Given the Winery Division was loss making during the year, an impairment assessment has been performed and as a result, an impairment loss of HK$5,456,000 (2018: Nil) was recognised in respect of the land and buildings of the Winery Division. The recoverable amount was determined based on the fair value less costs of disposal, using a market approach, which took into account current prices of properties of similar locations and conditions and such fair value measurement was categorised within Level 3 of the fair value hierarchy.

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Valuation of floating craft and vessels

Fair value hierarchy

	Fair value measurements as at 31 December 2018 using			
	Quoted price in active market Level 1 HK$'000	Significant observable input Level 2 HK$'000	Significant unobservable input Level 3 HK$'000	Total HK$'000
Recurring fair value measurement for:				
Floating craft and vessels held for own use				
— Hong Kong	—	—	9,263	9,263

During the year ended 31 December 2018, there were no transfers into or out of Level 3.

All of the floating craft and vessels held for own use were revalued as at 31 December 2018. The valuations were carried out by an independent firm of surveyors, Win Well Engineering & Surveyors Limited, a firm of independent qualified professional valuers in Hong Kong and is a member of the Hong Kong Institute of Surveyors, with recent experiences in the location and category of assets being valued. The Group's fleet manager has discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

Information about Level 3 fair value measurements as at 31 December 2018:

Assets	Valuation technique	Unobservable inputs	Range
Floating craft and vessels	Market comparison approach	Premium/(discount) on quality of the vessels	10% to 40%

The fair value of floating craft and vessels located in Hong Kong was determined using market comparison approach by reference to recent sale prices of comparable vessels on a price per tonnage, adjusted for a premium or discount specific to the quality of the Group's vessels compared to the recent sales.

In estimating the fair value of the floating craft and vessels, the highest and best use of the floating craft and vessels is their current use.

19. INVESTMENT PROPERTY

	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January	—	—
Transfer from owner-occupied property *(note 18)*	53,331	—
Exchange realignment	(954)	—
Carrying amount at 31 December	52,377	—

The Group's investment property consists of a commercial property situated in Mainland China.

The Group's investment property was revalued on 31 December 2019 based on valuation performed by Asset Appraisal Limited, independent professionally qualified valuers, at HK$52,377,000 (2018: Nil).

The Group's property manager and the chief financial officer have discussions with the valuers on the valuation assumptions and valuation results when the valuation is performed.

The investment property is leased to a related party under an operating lease, further summary details of which are included in note 20 to the financial statements.

Fair value hierarchy

For the year ended 31 December 2019, the fair value measurement of investment property of the Group was categorised within Level 3 of the fair value hierarchy.

During the year, there were no transfers into or out of Level 3.

Set out below is a summary of the valuation technique used and the key input to the valuation of investment property:

Assets	Valuation technique	Unobservable inputs	Weighted average
Commercial property	Direct comparison	Selling price (per square meter)	HK$62,000 (2018: N/A)

A significant increase/(decrease) in the selling price per square metre in isolation would result in a significant higher/(lower) fair value of the investment property.

20. LEASES

The Group as a lessee

The Group has lease contracts for buildings used in its operations. Certain purchased buildings were developed on leased land and lump sum payments were made upfront to acquire the buildings with the land use rights with lease periods of 50 years and no ongoing payments will be made under the terms of these land leases. Leases of other buildings generally have lease terms between 1.5 to 2 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets (included under property, plant and equipment) and the movements during the year are as follows:

	Leasehold land HK$'000	Buildings HK$'000	Total HK$'000
As at 1 January 2019	109,976	4,042	114,018
Additions	—	17,082	17,082
Surplus on to revaluation at the date of transfer to investment property	2,551	—	2,551
Transfer to investment property	(46,103)	—	(46,103)
Depreciation provided for the year	(2,800)	(3,124)	(5,924)
Transferred to assets classified as held for sale	—	(653)	(653)
Exchange realignment	(1,508)	(68)	(1,576)
At 31 December 2019	62,116	17,279	79,395

20. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Lease liabilities

The carrying amount of lease liabilities (included under trade and other payables) and the movements during the year are as follows:

	Lease liabilities HK$'000
Carrying amount at 1 January 2019	4,042
New leases	17,082
Accretion of interest recognised during the year	289
Payments	(3,005)
Transferred to liabilities directly associated with the assets classified as held for sale *(note 15(a))*	(687)
Exchange realignment	(68)
Carrying amount at 31 December 2019	17,653
Analysed into:	
— Current portion	9,051
— Non-current portion	8,602

The maturity analysis of lease liabilities is disclosed in note 39 to the consolidated financial statements.

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

	2019 HK$'000
Interest on lease liabilities	289
Depreciation charge of right-of-use assets	5,924
Expenses relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019*	7,048
Total amount recognised in profit or loss	13,261

* These expenses are included in other operating expenses and profit/(loss) for the year from discontinued operations as to HK$6,332,000 and HK$716,000, respectively.

(d) The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

20. LEASES *(Continued)*

The Group as a lessor

The Group leases its investment property (note 19) consisting of a commercial property in Mainland China under an operating lease arrangement. The terms of the lease require the tenant to pay security deposits. Rental income recognised by the Group during the year was HK$666,000 (2018: Nil), details of which are included in note 7 to financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under the non-cancellable operating lease with its tenant are as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**2,675**	—
After one year but within two year	**2,452**	—
	5,127	—

21. INTANGIBLE ASSETS

	Licence HK$'000	Brands HK$'000	Customer relationship HK$'000	Developed technology HK$'000	Capitalised development cost HK$'000	Computer software HK$'000	Total HK$'000
31 December 2019							
At 31 December 2018 and 1 January 2019:							
Cost	**472**	**94,180**	**13,439**	**—**	**—**	**500**	**108,591**
Accumulated amortisation	**(472)**	**(11,723)**	**(6,702)**	**—**	**—**	**(116)**	**(19,013)**
Net carrying amount	**—**	**82,457**	**6,737**	**—**	**—**	**384**	**89,578**
Cost at 1 January 2019, net of accumulated amortisation	**—**	**82,457**	**6,737**	**—**	**—**	**384**	**89,578**
Amortisation provided during the year	**—**	**(4,695)**	**(2,717)**	**—**	**—**	**(134)**	**(7,546)**
Exchange realignment	**—**	**(1,669)**	**(63)**	**—**	**—**	**—**	**(1,732)**
At 31 December 2019	**—**	**76,093**	**3,957**	**—**	**—**	**250**	**80,300**
At 31 December 2019:							
Cost	**454**	**92,226**	**13,185**	**—**	**—**	**500**	**106,365**
Accumulated amortisation	**(454)**	**(16,133)**	**(9,228)**	**—**	**—**	**(250)**	**(26,065)**
Net carrying amount	**—**	**76,093**	**3,957**	**—**	**—**	**250**	**80,300**
31 December 2018							
At 1 January 2018:							
Cost	472	106,254	14,087	16,520	9,758	—	147,091
Accumulated amortisation	(472)	(8,279)	(4,153)	(4,681)	(1,285)	—	(18,870)
Net carrying amount	—	97,975	9,934	11,839	8,473	—	128,221
Cost at 1 January 2018, net of accumulated amortisation	—	97,975	9,934	11,839	8,473	—	128,221
Addition	—	—	—	—	9,665	500	10,165
Disposal of subsidiaries *(note 33(b))*	—	(5,435)	—	(8,535)	(10,003)	—	(23,973)
Amortisation provided during the year	—	(5,609)	(2,797)	(3,304)	(2,586)	(116)	(14,412)
Impairment during the year	—	—	—	—	(5,541)	—	(5,541)
Exchange realignment	—	(4,474)	(400)	—	(8)	—	(4,882)
At 31 December 2018	—	82,457	6,737	—	—	384	89,578
At 31 December 2018 and 1 January 2019:							
Cost	472	94,180	13,439	—	—	500	108,591
Accumulated amortisation	(472)	(11,723)	(6,702)	—	—	(116)	(19,013)
Net carrying amount	—	82,457	6,737	—	—	384	89,578

22. GOODWILL

	Auction business HK$'000	Fintech business HK$'000	Total HK$'000
At 1 January 2018			
Cost and net carrying amount	176,305	23,015	199,320
Impairment during the year *(note 10)*	(36,000)	—	(36,000)
Disposal of subsidiaries *(note 33(b))*	—	(23,015)	(23,015)
Exchange realignment	(8,951)	—	(8,951)
At 31 December 2018	131,354	—	131,354
At 31 December 2018:			
Cost	167,354	—	167,354
Accumulated impairment	(36,000)	—	(36,000)
Net carrying amount	131,354	—	131,354
Cost at 1 January 2019, net of accumulated impairment	**131,354**	**—**	**131,354**
Exchange realignment	**(2,791)**	**—**	**(2,791)**
Net carrying amount at 31 December 2019	**128,563**	**—**	**128,563**
At 31 December 2019:			
Cost	**164,563**	**—**	**164,563**
Accumulated impairment	**(36,000)**	**—**	**(36,000)**
Net carrying amount	**128,563**	**—**	**128,563**

22. GOODWILL *(Continued)*

Impairment testing of goodwill

Auction business cash-generating unit

The recoverable amount of the auction business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 22.7% (2018: 24.7%). The growth rate used to extrapolate the cash flows of the auction business beyond the five-year period is 3% (2018: 3%). The growth rate is based on the relevant industry long term growth rate in the jurisdiction in which the auction business cash-generating unit operates.

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

- Forecasted growth rates — The forecasted growth rates are based on the historical operating results, expected market development as well as industry forecasts.

- Forecasted interest income from the consignors — The forecasted interest income from the consignors are based on the balances of the advances to consignors as at the end of the reporting period and expectation of future changes of working capital that are available for advances to consignors.

- Discount rate — the discount rate is based on the estimation of the required rate of returns that reflects the current market assessment of the time value of money, general market risk and specific risks relating to the auction business.

Based on the result of the impairment testing of goodwill, no impairment on the goodwill of the auction business cash-generating unit was considered necessary by the directors of the Company as at 31 December 2019.

In 2018, the Group's commission income generated from the auction business recorded an apparent decrease caused by the economic downturn and policy tightening in the PRC. As a result, an impairment provision of HK$36,000,000 was made on goodwill in respect of the auction business for the year ended 31 December 2018.

Included in the sale and purchase agreement of the acquisition of the auction business in 2016 was a contingent consideration arrangement which has been extended to 31 December 2019. The directors of the Company assessed that the fair value of the contingent consideration receivable was insignificant as at 31 December 2019 and 2018.

23. INVENTORIES

	2019 HK$'000	2018 HK$'000
Vessels held for sale	—	494
Winery	**14,904**	—
Merchandise	**34,115**	43,063
	49,019	43,557

24. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables *(note (a))*		
— Receivables from customers	**21,993**	18,212
— Interest receivables	**36,048**	12,863
Impairment	**—**	(1,143)
	58,041	29,932
Other receivables *(note (b))*		
— Current portion	**457,943**	288,545
— Non-current portion	**63,501**	6,726
Impairment	**—**	(5,574)
	521,444	289,697
	579,485	319,629
Analysed into:		
— Current portion	**515,984**	312,903
— Non-current portion	**63,501**	6,726
	579,485	319,629

Notes:

(a) Trade receivables

The Group's trade receivables include interest receivables from art financing business, rental income receivables from the leasing of investment property, receivables from the trading of merchandise and wines and provision of marine engineering services (which has been discontinued during the year).

The interest receivables derived from the art financing business are secured by pledged auction items provided by consignors as disclosed in note 24(b) below. The Group generally requires consignors to settle the interest receivables in accordance with respective contracted terms, normally due monthly or due together with the advances to consignors for the art financing business.

For contracts related to the provision of engineering services, the Group generally requires customers to settle billings in accordance with contracted terms, normally due within 30 to 90 days from the date of billing. For transactions of the sale of vessels, the Group generally requires customers to pay upon delivery or settle billings within 90 days from the date of billing.

For the sale of merchandise, the Group generally grants credit periods of 30 days upon delivery of goods to customers.

The rental receivable is normally billed in advance and due within the billing period.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(a) Trade receivables *(Continued)*

Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest-bearing. Except for the aforementioned above, the Group does not hold any collateral or other credit enhancements over its trade receivables.

As at 31 December 2019, included in the Group's trade receivables are balances due from related parties amounting to HK$940,000 (2018: HK$251,000).

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

	2019 **HK$'000**	2018 HK$'000
Unbilled	**7,623**	—
0–30 days	**32,439**	9,379
31–90 days	**3,397**	7,549
91–180 days	**4,412**	2,505
181–360 days	**6,253**	5,934
Over 360 days	**3,917**	4,565
	58,041	29,932

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

	2019 **HK$'000**	2018 HK$'000
At beginning of year	**1,143**	2,122
Impairment losses, net	—	1,268
Disposal of subsidiaries	—	(2,247)
Transferred to assets included in a discontinued operation *(notes 15(a))*	**(1,143)**	—
At end of year	—	1,143

Details of ECLs are disclosed in note 39 to the financial statements.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Other receivables

	Notes	**2019 HK$'000**	2018 HK$'000
Advances to consignors for art financing business	*(i)*	**435,339**	259,944
Deposit for the acquisition of subsidiaries	*(ii)*	**63,501**	—
Deferred cash consideration arising from disposal of subsidiaries	*33(b)*	**6,726**	7,726
Other receivables		**12,594**	15,257
Deposits		**3,213**	3,628
Advances and prepayments		**71**	3,142
		521,444	289,697
Analysed into:			
— Current portion		**457,943**	282,971
— Non-current portion		**63,501**	6,726
		521,444	289,697

Notes:

(i) The balance is secured by pledged auction items (Chinese art collectibles and antiques) from consignors and bears interest at fixed interest rates ranging from 10% to 24% per annum (2018: 10% to 18% per annum). These advances to consignors for art financing business are generally repayable within a period of 1 year of the draw-down date or 60 days after the pledged auction items are listed in auction. As at 31 December 2019, based on the due dates of the respective receivables, approximately 2.7% (2018: approximately 2.4%) of the advances were aged over 180 days and all the remaining balances were not yet due.

(ii) The balance represents the deposit of RMB57 million paid to Da Tang Xi Shi International Group Limited ("DTXS International Group"), an intermediate holding company of the Company, for the acquisition of HK DTXS Enterprise Holdings (BVI) Limited (the "Target Company"). Further details of this acquisition are set out in note 35(b) to the financial statements.

The movements in the loss allowance for impairment of other receivables are as follows:

	Note	**2019 HK$'000**	2018 HK$'000
At beginning of year		**5,574**	5,682
Impairment losses, net		**276**	—
Disposal of subsidiaries		**—**	(108)
Transferred to assets included in a discontinued operation	*15(a)*	**(5,850)**	—
At end of year		**—**	5,574

Details of ECLs are disclosed in note 39 to the financial statements.

25. LOANS RECEIVABLE

At 31 December 2018, loans receivable amounting to HK$9,719,000 were made to an independent third party. The loans were repayable by instalments with an original term of 2 years, bearing interest at a fixed interest rate of 7.07% per annum and were secured by a marine plant of the independent third party. The loans receivable amounting to HK$9,719,000 were fully settled during the year ended 31 December 2019.

26. CASH AND CASH EQUIVALENTS

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**181,476**	54,222
Time deposit with original maturity of less than three months	**169,536**	215
Less: Included in the assets of a disposal group classified as held for sale *(note 15(a))*	**(946)**	—
Cash and cash equivalents	**350,066**	54,437
HK$	**322,727**	19,516
Renminbi ("RMB")	**27,069**	33,768
Other currencies	**270**	1,153
	350,066	54,437

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$27,069,000 (2018: HK$33,768,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates ranging from of 0.01% to 3.25% (2018: 0.01% to 1.4%) per annum. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27. TRADE AND OTHER PAYABLES

	Notes	2019 HK$'000	2018 HK$'000
Trade creditors	(a)	2,324	4,354
Accruals		6,236	8,953
Lease liabilities	20(b)	17,653	—
Other payables	(b)	33,718	65,201
Contract liabilities	(c)	—	348
		59,931	78,856
Analysed into:			
— Current portion		51,329	78,856
— Non-current portion		8,602	—
		59,931	78,856

Notes:

(a) The credit period of trade creditors is normally within three months. The ageing analysis of trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
0–30 days	524	1,014
31–90 days	298	307
91–180 days	16	642
181–360 days	444	235
Over 360 days	1,042	2,156
	2,324	4,354

(b) As at 31 December 2018, other payables include the carrying amount of HK$35,000,000 that the Group received from a third party to purchase target arts and cultural collectibles on behalf of the third party.

27. TRADE AND OTHER PAYABLES *(Continued)*

Notes: (Continued)

(c) Details of contract liabilities are as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000	1 January 2018 HK$'000
Sale of merchandise	—	348	—
Provision of fintech services	—	—	3,224
	—	348	3,224

28. INTEREST-BEARING OTHER BORROWINGS

	2019 HK$'000	2018 HK$'000
Other loans		
Secured *(note (a))*	—	570
Unsecured	—	55,318
	—	55,888

Notes:

(a) The secured loan was secured by a pledge over certain vessels held by the Group with a carrying amount of HK$417,000 as at 31 December 2018.

(b) All borrowings were in denominated in Hong Kong dollars.

(c) The loans carrying a variable rate at 31 December 2018 were carried at the lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited.

(d) As at 31 December 2018, the amount of HK$55,888,000 containing a repayment on demand clause was classified as a current liability.

29. DEFERRED TAX LIABILITIES

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

	Accelerated depreciation allowance HK$'000	Revaluation of property HK$'000	Fair value adjustment upon acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2018	1,630	—	27,226	28,856
Disposal of subsidiaries	(1,630)	—	(2,127)	(3,757)
Deferred tax charged credited to profit or loss	—	—	(2,107)	(2,107)
At 31 December 2018 and 1 January 2019	—	—	**22,992**	**22,992**
Deferred tax charged credited to profit or loss	—	—	**(1,845)**	**(1,845)**
Deferred tax charged to the other comprehensive income	—	**939**	—	**939**
Exchange realignment	—	**(17)**	**(1,137)**	**(1,154)**
At 31 December 2019	—	**922**	**20,010**	**20,932**

The Group has tax losses arising in Hong Kong of HK$176,761,000 (2018: HK$186,533,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. These tax losses are subject to approval of the Hong Kong Inland Revenue Department. The Group also has tax losses arising from overseas operations of HK$7,219,000 (2018: HK$1,302,000), subject to approval of the relevant tax bureaus, that are available for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$3,965,000 (2018: HK$2,985,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of tax losses of HK$187,945,000 as at 31 December 2019 (2018: HK$190,820,000), as it is not considered probable that there would be sufficient future taxable profits to utilise such amount.

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

29. DEFERRED TAX LIABILITIES *(Continued)*

At 31 December 2019 and 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Company's directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$28,952,000 at 31 December 2019 (2018: HK$23,696,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. SHARE CAPITAL

	2019 **HK$'000**	2018 HK$'000
Issued and fully paid: 667,459,230 (2018: 555,938,692) ordinary shares of HK$0.5 each	**333,730**	277,969

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** HK$'000
At 1 January 2018	555,137,692	277,569
Exercise of share options *(note (b))*	800,000	400
As at 31 December 2018 and 1 January 2019	**555,937,692**	**277,969**
Issue of shares on 28 August 2019 *(note (a))*	**111,187,538**	**55,594**
Exercise of share options *(note (b))*	**334,000**	**167**
At 31 December 2019	**667,459,230**	**333,730**

Notes:

(a) On 16 July 2019, the Company entered into a subscription agreement with an independent third party for the subscription of 111,187,538 shares at HK$5.3873 per share which amounted to a total consideration of HK$599,001,000. The shares subscription was completed on 28 August 2019.

(b) During the year ended 31 December 2019, share options to subscribe for 326,000 and 8,000 shares (2018: Nil and 800,000) of HK$0.50 each were exercised at HK$3.00 and HK$3.71 per share (2018: HK$3.71 per share), respectively. These shares rank pari passu with other shares in issue in all respects.

31. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants to the Scheme include the Company's directors, including independent non-executive directors and other employees of the Group. The Scheme became effective on 6 December 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

On 28 January 2016 and 21 December 2016, 15,500,000 and 6,000,000 share options were granted to eligible participants with a valid period of 10 years from the grant date. 40% of these share options vest on the first anniversary of the grant date and each of the remaining 30% of these share options vest on the second and third anniversary of the grant date respectively. The exercise price is HK$3.000 and HK$3.710 per share, respectively, which are the closing price of the ordinary shares of the Company on the corresponding grant dates.

On 4 September 2017, 3,000,000 share options were granted to an eligible participant with a valid period of 10 years from the grant date. 40% of these share options vest on the first anniversary of the grant date and each of the remaining 30% of these share options vest on the second and third anniversary of the grant date respectively. The exercise price is HK$4.814, which is approximately equal to the closing price of the ordinary shares of the Company on the grant date.

31. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

On 4 January 2019, 750,000 share options were granted to eligible participants with a valid period of 10 years from the grant date. 40% of these share options vest after 3 December 2019 and each of the remaining 30% of these share options vest after 3 December 2020 and 3 December 2021 respectively. The exercise price is HK$3.902, which is approximately equal to the closing price of the ordinary shares of the Company on the grant date.

The following share options were outstanding under the Scheme during the year:

	2019		2018	
	Weighted average exercise price HK$ per share	**No. of options '000**	Weighted average exercise price HK$ per share	No. of options '000
At 1 January	**3.398**	**17,600**	3.376	22,600
Granted during the year	**3.902**	**750**	—	—
Forfeited during the year	**3.557**	**(2,550)**	3.220	(4,200)
Exercised during the year	**3.017**	**(334)**	3.710	(800)
At 31 December	**3.404**	**15,466**	3.398	17,600

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.360 per share (2018: HK$4.838 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019

Number of options '000	**Exercise price HK$**	**Exercise period**
11,524	**3.000**	**28 January 2017–27 January 2026**
192	**3.710**	**21 December 2017–20 December 2026**
3,000	**4.814**	**4 September 2018–3 September 2027**
750	**3.902**	**4 December 2019–3 January 2029**

2018

Number of options '000	Exercise price HK$	Exercise period
12,400	3.000	28 January 2017–27 January 2026
2,200	3.710	21 December 2017–20 December 2026
3,000	4.814	4 September 2018–3 September 2027

31. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The fair value of equity-settled share options granted under the Scheme was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Date of grant	4 January 2019	4 September 2017	21 December 2016	28 January 2016
Dividend yield (%)	0	0	0	0
Expected volatility (%)	74.00	43.37	43.63	43.56
Risk-free interest rate (%)	1.84	1.39	2.01	1.69
Exit rates of the grantees (%)	0	0	0	0
Fair value at measurement date (HK$'000)	1,350	7,121	10,460	22,750
Exercise price (HK$)	3.902	4.814	3.710	3.000

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The Group recognised a share option expense of HK$1,399,000 (2018: HK$4,855,000) during the year ended 31 December 2019.

At the end of the reporting period, the Company had 15,466,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 15,466,000 additional ordinary shares of the Company and additional share capital of HK$7,733,000 and share premium of HK$44,920,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 15,292,000 share options outstanding under the Scheme, which represented approximately 2.29% of the Company's shares in issue as at that date.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) The application of the share premium account and the capital redemption reserve is governed by Section 40 of the Companies Act 1981 of Bermuda.

(b) In 2000, the Company and certain of its then subsidiaries (the "Scheme Participating Companies") entered into a restructuring scheme of arrangement with its creditors (the "Scheme"), which was duly approved by the Scheme creditors and sanctioned by the court on 18 April 2000 and became effective on 28 April 2000. The scheme reserve represents the net liabilities of the Scheme Participating Companies and the Company as at 28 April 2000, which were discharged pursuant to the Scheme.

(c) The capital reserve arose from the disposal of certain subsidiaries of the Group to the joint venture jointly and equally owned by the Group and the then ultimate holding company in prior years.

(d) The scheme reserve and the capital reserve represent distributable profits arising from transactions completed prior to 1 January 2018 and, in the opinion of the directors of the Company, they should have been released to profit or loss upon completion of the settlement of the Scheme and the disposal of the related joint venture, respectively, prior to 1 January 2018. Accordingly, a reclassification adjustment was made to transfer the entire amount of the scheme reserve and the capital reserve as at 1 January 2018 to accumulated losses. There was no effect on the Group's profit or loss for the years ended 31 December 2018 and 2019 and assets and liabilities as at 1 January 2018, 31 December 2018 and 31 December 2019.

33. DISPOSAL OF SUBSIDIARIES

Year ended 31 December 2019

(a) Disposal of subsidiaries for the year ended 31 December 2019

On 1 November 2019, DTXS Technologies Limited, a non-wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to dispose of the entire equity interests in DTXS FinTech Holdings Limited and its wholly-owned subsidiary (collectively, the "DTXS Fintech Group") to the non-controlling interests holder of DTXS Fintech Group for a consideration of HK$7.8, with a contingent consideration of a royalty fee equal to 30% of the one-time licence fee for grant of use of licence for a period of three years.

On 1 November 2019, DTXS Economic Services Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to dispose of the entire equity interests in DTXS PrimeTime Holdings Limited and its wholly-owned subsidiary (collectively, the "DTXS Primetime Group") to the non-controlling interests holder of DTXS Fintech Group for a consideration of HK$7.8, with a contingent consideration of a US$600 royalty fee per month per customer for a period of three years representing part of the licence fee earned by this subsidiary.

The net assets disposed of by the Group in the above transactions are as follows:

	At 1 November 2019 HK$'000
Non-controlling interests	1,917
Property, plant and equipment	2
Other receivables	440
Net assets disposed of	2,359
Loss on disposal of subsidiaries	(1,734)
	625
Satisfied by:	
Cash	—
Contingent consideration	625

33. DISPOSAL OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2018

(b) Disposal of the Digital Mind Group

As referred to in note 15(b), on 28 December 2018, the Group discontinued its financial trading platform and solutions operation at the time of the disposal of the Digital Mind Group by entering into a sale and purchase agreement with the non-controlling shareholder of the Digital Mind Group. The net assets of the Digital Mind Group at the date of disposal were as follows:

	HK$'000
Cash received	8,000
Deferred cash consideration*	7,726
Offset against other payables to the purchaser**	20,144
Total consideration	35,870

	At 28 December 2018 HK$'000
Analysis of assets and liabilities over which control was lost:	
Goodwill	23,015
Property, plant and equipment	1,087
Intangible assets	23,973
Trade and other receivables	20,313
Cash and cash equivalents	3,000
Trade and other payables	(2,778)
Contract liabilities	(3,851)
Tax liabilities	(1,902)
Deferred tax liabilities	(3,757)
Net assets disposed of	59,100
Loss on disposal of subsidiaries:	
Consideration received and receivable	35,870
Net assets disposed of	(59,100)
Non-controlling interests	4,379
Loss on disposal of subsidiaries	(18,851)
Net cash inflow arising on disposal:	
Cash consideration	8,000
Less: Cash and cash equivalents disposed of	(3,000)
	5,000

* The deferred consideration amounting to HK$1,000,000 has been settled during the year ended 31 December 2019 and the remaining deferred consideration which is recognised at the present value of the estimated future cash outflows amounting to HK$6,726,000 will be settled on or before 30 June 2020 in cash by the purchaser.

** For the year ended 31 December 2018, other receivables of HK$20,144,000 arising from the disposal of the Digital Mind Group had been offset against other payables to the purchaser of the Digital Mind Group.

33. DISPOSAL OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2018 *(Continued)*

(b) Disposal of the Digital Mind Group *(Continued)*

The disposal of the Digital Mind Group involves contingent consideration receivable from the purchaser which aims to nullify the amount of contingent consideration payables relating to the acquisition of this business in 2016. During the year ended 31 December 2018, the directors of the Company assessed it is unlikely that the required profit guarantee can be achieved and considered that the fair value of the contingent consideration payables was insignificant and the fair values of both contingent payments were insignificant as at 31 December 2018.

The impact of the Digital Mind Group on the Group's results and cash flows in the prior year is disclosed in note 15(b).

(c) Disposal of UDL Dredging Limited

On 31 December 2018, UDL Ventures, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal of the entire equity interests in UDL Dredging Limited for a total cash consideration of HK$17,369,000. The net assets of UDL Dredging Limited at the date of disposal were as follows:

	HK$'000
Cash received	2,711
Offset against other payables to the purchaser*	14,658
Total consideration	17,369

	At 31 December 2018 HK$'000
Analysis of assets and liabilities over which control was lost:	
Trade and other receivables	14,594
Contract assets	1,688
Cash and cash equivalents	18
Trade and other payables	(834)
Net assets disposed of	15,466
Gain on disposal of subsidiaries:	
Consideration received and receivable	17,369
Net assets disposed of	(15,466)
Gain on disposal of subsidiaries	1,903
Net cash inflow arising on disposal:	
Cash consideration	2,711
Less: cash and cash equivalents disposed of	(18)
	2,693

* During the year ended 31 December 2018, other receivable of HK$14,658,000 arising from the disposal of UDL Dredging Limited, had been offset against other payables to the purchaser of UDL Dredging Limited.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$17,082,000 and HK$17,082,000, respectively, in respect of lease arrangements for buildings included in property, plant and equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Interest-bearing other borrowings HK$'000	Lease liabilities HK$'000	Contingent consideration payables HK$'000	Total HK$'000
2019				
At 31 December 2018	**55,888**	**—**	**—**	**55,888**
Effect of adoption of HKFRS 16	**—**	**4,042**	**—**	**4,042**
At 1 January 2019 (restated)	**55,888**	**4,042**	**—**	**59,930**
Changes from financing cash flows	**(51,036)**	**(2,716)**	**—**	**(53,752)**
New leases	**—**	**17,082**	**—**	**17,082**
Foreign exchange movement	**—**	**(68)**	**—**	**(68)**
Interest expenses	**—**	**289**	**—**	**289**
Interest paid classified as operating cash flows	**—**	**(289)**	**—**	**(289)**
Transferred to liabilities directly associated with the assets classified as held for sale	**(4,852)**	**(687)**	**—**	**(5,539)**
At 31 December 2019	**—**	**17,653**	**—**	**17,653**
2018				
At 1 January 2018	38,091	—	11,492	49,583
Changes from financing cash flows	15,503	—	(2,000)	13,503
Interest expenses	2,294	—	—	2,294
Reclassification to other payable *(note (b))*	—	—	(2,000)	(2,000)
Fair value adjustments *(note (a))*	—	—	(7,492)	(7,492)
At 31 December 2018	55,888	—	—	55,888

Notes:

(a) The fair value of the contingent consideration payables as at 28 December 2018 was insignificant as disclosed in note 33(b) to the financial statements and fair value change was credited to profit or loss as disclosed in note 10 to the financial statements.

(b) During the year ended 31 December 2018, contingent consideration payables of HK$2,000,000 were settled and the remaining balances has been reclassified to other payables and offset against receivables from the same counterparty.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019 HK$'000
Within operating activities	7,335
Within financing activities	2,716
	10,051

35. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties during the year:

(a) During the year, rental income of HK$666,000 (2018: Nil) was generated from the investment property leased to a related company controlled by DTXS Investments, at rates ranging from HK$147 to HK$245 per square metre.

(b) On 29 November 2019, the Group entered into a sale and purchase agreement with DTXS International Group, a company controlled by DTXS Investments for the acquisition of the entire issued share capital of the Target Company (the "HK DTXS Acquisition") at a consideration of RMB190,000,000 (equivalent to approximately HK$211,667,000). The Target Company and its subsidiaries are principally engaged in property development and investment in the PRC. Further details of the HK DTXS Acquisition are set out in the Company's circular dated 21 February 2020.

On 11 March 2020, the HK DTXS Acquisition was approved by the shareholders of the Company in the Special General Meeting.

(c) Outstanding balance with related parties:

(i) The Group had a deposit paid to its intermediate holding company of HK$63,501,000 (2018: nil) as at the end of reporting period. The balance is related to the HK DTXS Acquisition as mentioned in note 35(b) above.

(ii) The Group had an outstanding balance due from companies controlled by DTXS Investments of HK$940,000 (2018: HK$251,000 as at the end of the reporting period. The balance is unsecured, interest-free and repayable on demand.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel of the Group

Remuneration for key management personnel, including amounts paid to the directors of the Company as disclosed in note 12, is as follows:

	2019 HK$'000	2018 HK$'000
Salaries, wages and other benefits	**3,991**	12,720
Equity-settled share option expense	**1,542**	5,484
Pension scheme contributions	**54**	115
	5,587	18,319

Further details of directors' and the chief executive's remuneration are included in note 12 to the financial statements.

36. COMMITMENTS

(a) The Company had the following capital commitment at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Acquisition of subsidiaries	**148,707**	—

(b) Operating lease commitments as at 31 December 2018

The Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	7,785
In the second to fifth years, inclusive	3,047
	10,832

Operating lease payments represented rental payable by the Group for certain office premises and plant. Leases were negotiated for terms of one to five years with a fixed rental provision included in the contracts.

37. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at 31 December 2019 and 2018 were financial assets and financial liabilities stated at amortised cost respectively.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, financial assets included in trade and other receivables, loans receivable and financial liabilities included in trade and other payables and interest-bearing other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing other borrowings and cash and cash equivalents deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 4 to the financial statements.

Foreign currency risk

The Group's business operations are principally in Hong Kong, the Mainland China, and France. The majority of the business transactions were denominated in local currencies and there were only insignificant balances of financial assets and liabilities that were denominated in foreign currencies as at 31 December 2019. Hence, the Group is not exposed to significant foreign exchange risk.

The Group has not used any financial instruments to hedge against currency risk. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group constantly reviews the economic situation and its foreign currency risk profile and considers implementing appropriate hedging measures in future if the need arises.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the senior management.

As at 31 December 2019 and 2018, the Group's maximum exposure to credit risk is limited to the carrying amounts of the Group's financial assets. 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 and advances to consignors for the art financing business are mitigated because they are secured by marine plant and the pledged auction items as discussed below.

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate. At the end of the reporting period, the Group has a certain concentration of credit risk arising from trade receivables as 37% (2018: 43%) of the total receivables were due from the Group's five largest customers.

Impairment assessment of trade and other receivables

Trade receivables

In respect of the trade receivables other than interest receivables arising from the art financing business, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. As at 31 December 2019, except for the trade receivables included in assets of a disposal group classified as held for sale, management considered that the ECL rate for the Group's trade receivables was minimal and therefore no provision for impairment of trade receivables was necessary.

Set out below is the information about the credit risk exposure on the Group's trade receivables included in assets of a disposal group classified as held for sale that using a provision matrix as at 31 December 2019:

		Past due			
	Current	Less than 3 months	Over 3 months	Credit-impaired	Total
Expected credit loss rate	0%	0.3%	0.7%	100%	
Gross carrying amount (HK$'000)	4,965	2,837	6,123	1,093	15,018
Expected credit losses (HK$'000)	—	9	41	1,093	1,143

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Impairment assessment of trade and other receivables *(Continued)*

Trade receivables *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix at 31 December 2018:

		Past due			
	Current	Less than 3 months	Over 3 months	Credit-impaired	Total
Expected credit loss rate	0%	0.5%	1.2%	100%	
Gross carrying amount (HK$'000)	12,186	1,646	3,287	1,093	18,212
Expected credit losses (HK$'000)	—	9	41	1,093	1,143

Advances to consignors and interest receivables

In respect of the interest receivables and the advances to consignors for the art financing business, the Group applied the general approach to provide for the ECLs prescribed by HKFRS 9. As at 31 December 2019, the balances that were overdue amounted to HK$25,400,000 (2018: HK$11,228,000). All the balances were categorised within Stage 1 or Stage 2 for the measurement of ECLs.

The balances are either repayable upon the pledged auction items dealt through auction successfully or repayable within 12 months from the date of advance in accordance with the respective agreements. As part of the Group's risk management policy, the amount advanced to consignors generally is less than 40% of the estimated fair value of their pledged auction items. The Group reviews the credit loss of advance balances individually and regularly. Before acceptance of the pledged auction items, the Group involves internal experts to prove the authenticity and to value the pledged auction items. As part of this review, the Group considers the fair value movement of the pledged auction items and monitors the credit risk of the consignors. In the opinion of the directors, there has been no significant deterioration in the fair value of the pledged auction items during the current or prior year.

An impairment analysis is performed throughout the reporting period, which are estimated by applying the probability of default approach with reference to the comparable companies and individuals and adjusted by marco-economic factors, industry practice and forward-looking information. The Group measures the provision for credit loss equal to 12-month ECLs, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECLs. The amount of ECLs provided takes into account the fair value of the pledged auction items. The Group has not provided any ECLs for advances to consignors, as in the opinion of the directors, the fair value of the pledged auction items exceeds the outstanding advances and related interest receivables on an individual basis.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Impairment assessment of trade and other receivables *(Continued)*

Other receivables

In respect of other receivables other than the foresaid, the management of the Group makes individual assessment on the recoverability of these financial assets based on credit risk assessment and historical settlement records and past experience, if any, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The expected credit losses which are estimated by applying the probability of default approach with reference to the risks of default of the debtors or comparable companies and adjusted for forward-looking adjustments.

As at 31 December 2018, in respect of gross carrying amounts of other receivables of HK$5,850,000 which were from credit-impaired debtors, the Group considered the balance was in default since there has been a significant deterioration in the operating results of the debtor. Hence, the Group has fully provided for the ECLs.

As at 31 December 2019, the Group has provided for additional impairment of HK$276,000 for the credit-impaired debtors. The balance was related to the Engineering Services Division and classified under assets of a disposal group classified as held for sale.

Cash and bank balances

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

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Financial assets included in trade and other receivables					
— normal*	532,021	25,400	—	21,993	579,414
Cash and cash equivalents					
— not yet past due	350,066	—	—	—	350,066
	882,087	25,400	—	21,993	929,480

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Financial assets included in trade and other receivables — normal*	287,097	11,228	6,667	18,212	323,204
Loans receivables — normal*	9,719	—	—	—	9,719
Cash and cash equivalents — not yet past due	54,437	—	—	—	54,437
	351,253	11,228	6,667	18,212	387,360

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

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

	Within 1 year or on demand HK$'000	**In the second year HK$'000**	**In the third to fifth years, inclusive HK$'000**	**Total HK$'000**
At 31 December 2019				
Trade and other payables (including lease liabilities)	**45,518**	**7,892**	**879**	**54,289**

	Within 1 year or on demand HK$'000	In the second year HK$'000	In the third to fifth years, inclusive HK$'000	Total HK$'000
At 31 December 2018				
Trade and other payables	69,555	—	—	69,555
Interest-bearing other borrowings	55,888	—	—	55,888
	125,443	—	—	125,443

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent. Net debt includes total borrowings less cash and cash equivalents. The Group aims to maintain a healthy and stable net gearing ratio.

	2019 **HK$'000**	2018 HK$'000
Other borrowings	—	55,888
Less: Cash and cash equivalents	**(350,066)**	(54,437)
Net debt	**(350,066)**	1,451
Equity attributable to owners of the parent	**1,265,007**	656,325
Net gearing ratio	**N/A**	0.2%

40. EVENTS AFTER THE REPORTING PERIOD

(a) On 30 December 2019, the Group entered into the UDL Agreement for the disposal of the UDL Group (the "UDL Disposal") as further detailed in note 15(a) to the financial statements. The UDL Disposal was completed on 3 February 2020 and the Group recognised a gain on disposal of subsidiaries of approximately HK$15.3 million.

(b) The HK DTXS Acquisition as detailed in note 35(b) to the financial statements was completed on 12 March 2020 and the Target Company became a wholly-owned subsidiary of the Group by then.

(c) The outbreak of the coronavirus disease 2019 ("COVID-19") since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from COVID-19 on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the directors of the Company confirmed that there has been no material adverse change in the financial or trading position of the Group up to the date of approval of these financial statements. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information becomes available.

41. COMPARATIVE AMOUNTS

The comparative consolidated statement of profit or loss and other comprehensive income has been re-presented as if the operations classified as a discontinued operation during the current year had been discontinued at the beginning of the comparative period (note 15).

As further explained in note 3 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

In addition, certain comparative accounts have been reclassified/re-presented to conform to the current year's presentation and disclosures.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**9,832**	—
Investments in subsidiaries	**1,214,098**	687,115
	1,223,930	687,115
CURRENT ASSETS		
Due from subsidiaries	—	52,410
Other receivables	**32**	142
Bank balances and cash	**59,713**	39
	59,745	52,591
CURRENT LIABILITIES		
Other payables	**9,751**	4,441
Due to subsidiaries	**10**	39,455
	9,761	43,896
NET CURRENT ASSETS	**49,984**	8,695
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,273,914**	695,810
NON-CURRENT LIABILITIES		
Other payables	**4,681**	—
Net assets	**1,269,233**	695,810
CAPITAL AND RESERVES		
Share capital *(note 30)*	**333,730**	277,969
Reserves *(note)*	**935,503**	417,841
Total equity	**1,269,233**	695,810

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus* HK$'000	Share option reserve HK$'000	Scheme reserve HK$'000 *(note 32(b))*	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	1,022,986	1,264	21,689	28,275	287,524	(842,441)	519,297
Reclassification adjustment *(note 32(d))*	—	—	—	—	(287,524)	287,524	—
At 1 January 2018	1,022,986	1,264	21,689	28,275	—	(554,917)	519,297
Loss for the year	—	—	—	—	—	(108,879)	(108,879)
Equity-settled share option arrangements *(note 31)*	—	—	—	4,855	—	—	4,855
Exercise of share options *(notes 30 and 31)*	3,924	—	—	(1,356)	—	—	2,568
At 31 December 2018 and 1 January 2019	**1,026,910**	**1,264**	**21,689**	**31,774**	**—**	**(663,796)**	**417,841**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(25,912)**	**(25,912)**
Issue of shares *(note 30(a))*	**543,407**	**—**	**—**	**—**	**—**	**—**	**543,407**
Exercise of share options *(notes 30 and 31)*	**1,345**	**—**	**—**	**(504)**	**—**	**—**	**841**
Share issue expenses	**(2,073)**						**(2,073)**
Transfer of share option reserve upon the forfeiture of share options	**—**	**—**	**—**	**(7,710)**	**—**	**7,710**	**—**
Equity-settled share option arrangements *(note 31)*	**—**	**—**	**—**	**1,399**	**—**	**—**	**1,399**
At 31 December 2019	**1,569,589**	**1,264**	**21,689**	**24,959**	**—**	**(681,998)**	**935,503**

* The contributed surplus of the Company represents the excess of the net assets of the subsidiaries acquired pursuant to the Group Reorganisation in prior years, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances which the Company cannot currently meet.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

Five Year Financial Summary

A summary of the results of the Group and of its assets and liabilities for the last five financial periods as extracted from the audited financial statements is set out below:

		Year ended 31 December			Five months ended 31 December
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)		
		Note	*Note*		
RESULTS					
CONTINUING OPERATIONS					
Revenue	**235,421**	135,980	168,316	122,307	60,197
LOSS BEFORE TAXATION	**(19,395)**	(84,131)	(67,824)	(74,071)	(20,669)
Income tax expense	**(2,384)**	(102)	(4,316)	569	—
Loss for the year from continuing operations	**(21,779)**	(84,233)	(72,140)	(73,502)	(20,669)
Profit/(loss) for the year from discontinued operations	**29,946**	(44,673)	7,350	—	—
PROFIT/(LOSS) FOR THE YEAR	**8,167**	(128,906)	(64,790)	(73,502)	(20,669)
Profit/(loss) for the year attributable to:					
Owners of the Company	**10,286**	(126,909)	(63,925)	(73,497)	(20,669)
Non-controlling interests	**(2,119)**	(1,997)	(865)	(5)	—
	8,167	(128,906)	(64,790)	(73,502)	(20,669)

			At 31 December		
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**1,394,006**	829,696	944,862	779,721	701,745
Total liabilities	**(121,189)**	(163,834)	(133,082)	(123,917)	(76,196)
Net assets	**1,272,817**	665,862	811,780	655,804	625,549

Note:

The disposal of the UDL Ventures Group and the Digital Mind Group for the years ended 31 December 2019 and 2018, respectively, constituted discontinued operations (reference to note 15 to the consolidated financial statements). Accordingly, the comparatives for the years ended 31 December 2018 and 2017 have been re-presented in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, it is not practicable to restate the financial information prior to 2017 for comparison purposes.