中金投集团
China Financial Services Holdings Ltd

China Financial Services Holdings Limited

(Incorporated in Hong Kong with limited liability)
(Stock code: 605)

2019 Annual Report

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Luo Rui *(Chief Executive Officer)*
Madam Guan Xue Ling
Dr. Cheung Chai Hong

Non-executive Directors

Mr. Chan Yuk Ming (Chairman)
Mr. Cheung Siu Lam
Mr. Dong Yibing
Madam Huang Mei

Independent Non-executive Directors

Mr. Chan Chun Keung
Mr. Chan Wing Fai
Dr. Zhang Xiao Jun
Madam Zhan Lili

COMPANY SECRETARY

Mr. Chung Chin Keung FCCA, FCPA, FCA, CTA

AUDITORS

Crowe (HK) CPA Limited

AUDIT COMMITTEE

Mr. Chan Wing Fai *(Chairman)*
Mr. Chan Chun Keung
Dr. Zhang Xiao Jun
Madam Huang Mei
Madam Zhan Lili

REMUNERATION COMMITTEE

Mr. Chan Wing Fai *(Chairman)*
Mr. Chan Chun Keung
Mr. Dong Yibing
Dr. Zhang Xiao Jun
Madam Zhan Lili

NOMINATION COMMITTEE

Mr. Chan Yuk Ming *(Chairman)*
Mr. Chan Chun Keung
Mr. Chan Wing Fai
Mr. Dong Yibing
Dr. Zhang Xiao Jun
Madam Zhan Lili

PRINCIPAL BANKER

Bank of Beijing

SHARE REGISTRAR

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Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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56th Floor
Central Plaza
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STOCK CODE: 605

WEBSITE

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INVESTORS RELATION

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FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	Percentage change
	HK$'000	HK$'000	%
Interest and services income	**765,330**	823,013	(7.0)
ROE (Profit attributable to equity shareholders/(Total equity attributable to equity shareholders-Goodwill))	**5.8%**	8.7%	(33.3)
Profit for the year attributable to equity shareholders of the Company	**182,448**	270,427	(32.5)
Basic earnings per share (HK cents)	**4.37**	6.29	(30.5)

CHAIRMAN'S STATEMENT

In 2019, with the escalation of Sino-US trade war, Chinese economy experienced unprecedented challenges due to the combined effects of multiple internal and external factors. Under this environment, the Group continued to adhere to our philosophy of prudent operation by focusing on the control of credit risk and collateral risk of the Group's business, and looked for new market opportunities on the premises of integrating our existing resources.

The Group completed the acquisitions of Shenzhen Credit Gain and Chongqing Credit Gain in 2019. As regional hubs, both Shenzhen and Chongqing have well-developed economies and strong household consumption, providing promising opportunities for our business. So far, the Group has established and acquired entities in Northern China, Southern China, Southwestern China and Hong Kong. A network of financial service providers has begun to take shape, symbolizing a significant milestone and major strategical achievement. The Group will strive to optimize the structure and risk management systems of each subsidiary, explore synergies and realize the intrinsic value by leveraging our extensive management experience, so as to achieve the grand vision of being a cross-region financial services provider.

After a year of extensive research and development, the Fintech online platform jointly established by the Group and NYSE-listed Enova International, has successfully gone through rounds of internal testing at the end of 2019 and will be launched later in 2020 upon further final optimization. The Group strongly believes that the use of technology can boost our long-term development and will follow the contemporary development trends to continue exploring the application of new technology in customer acquisition, risk management and product innovation while setting our sights on long-term development.

2019 has been another milestone of our development. To express our gratitude towards the support from the shareholders, customers and business partners, the Group will continue to strive for excellence and strengthen our long-term competitiveness. Along with the upcoming new obstacles and opportunities in 2020, the Group here calls on all stakeholders to be united as one and forge ahead with a faith to overcome challenges and difficulties together!

Chan Yuk Ming
Chairman

Hong Kong, 26 March 2020

Introduction, Environmental, Social and Governance Policies

China Financial Services Holdings Limited is an integrated financial services provider which mainly provides one-stop financing services to small and medium enterprises, micro-enterprises as well as individuals.

The Group has been dedicated to providing customised financial solutions to small and medium-sized enterprises ("SMEs") in Hong Kong and Mainland China for over twenty years. The Group believes that sustainability is key to achieving continuous success and therefore has actively implemented sustainability elements into our business strategy.

This Environmental, Social and Governance Report (the "ESG Report") summarises the environmental, social and governance ("ESG") initiatives, plans and performances of the Group and demonstrates its commitment to sustainable development.

The ESG Governance Structure

The Group conducts a top-down management approach regarding the ESG issues and the Board of Directors (the "Board") oversees and sets out ESG strategies for the Group.

To systematically manage the ESG issues, the Group has set up an ESG working taskforce (the "Taskforce") that comprises staff from relevant departments. The Taskforce is responsible for collecting relevant ESG data, analysing and identifying the Group's ESG issues. The Taskforce will then report to the Board for the evaluation and subsequent implementation or revision of the Group's ESG strategies.

Scope of Reporting

This Report covers all the business activities in the Group's offices in Beijing, Chengdu, Chongqing, Shenzhen and Hong Kong. The ESG key performance indicator ("KPI") data is gathered and includes companies and subsidiaries that are under the Group's direct operational control. The Group will extend the scope of disclosures when and where applicable. The KPIs are shown in the ESG Report and are supplemented by explanatory notes to establish benchmarks.

Reporting Framework

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on Main Board of The Stock Exchange of Hong Kong Limited.

Information relating to the Group's corporate governance practices can be found in the Corporate Governance Report on page 28 to page 40 of the 2019 Annual Report.

Reporting Period

The ESG Report specifies the ESG activities, challenges and measures taken by the Group during the financial year ended 31 December 2019 ("FY2019").

Stakeholder Engagement

The Group values our stakeholders and their feedback regarding our businesses and ESG aspects. The Group maintains close communication with our key stakeholders, including but not limited to, government and regulatory authorities, shareholders and investors, employees, customers, suppliers, banks, media and the public.

Stakeholders' expectations have been taken into consideration by utilising diversified engagement methods and communication channels, as shown below:

Stakeholders	Communication Channels	Expectations
Government and regulatory authorities	• Routine reports • Written or electronic correspondences • Supervision on local laws and regulations	• Compliance with local laws and regulations • Stability in business operations
Shareholders and investors	• General meeting and other shareholder meetings • Annual and interim reports • Announcements and circulars • Investor meetings • Company website	• Sustainable profitability • Shareholder return • Corporate governance • Business compliance
Employees	• Trainings, seminars and briefing • Performance reviews • Intranet • Regular meetings	• Remuneration, compensation and benefits • Fair and competitive employment • Safe working environment
Customers	• Customer service hotline and email • Face-to-face meetings	• High quality products and services • Rapid response and customer satisfaction
Suppliers	• Suppliers' satisfactory assessment • Face-to-face meetings and on-site visits	• Fair and open procurement • Win-win cooperation

Stakeholders	Communication Channels	Expectations
Banks	• Post-loan tracking • On-site visits • Work conferences	• Repay loans on time • Operate in an honest and credible manner • Closely monitor operating conditions
Media and the public	• ESG report • Company website • Regular reports and announcements	• Transparency of financial and ESG issues disclosure • Compliance with legislations

The Group aims to actively listen to and collaborate with our stakeholders to ensure that their opinions can be voiced out through a proper communication channel. In the long run, the stakeholders' contribution will aid the Group in improving potentially overlooked ESG performances.

Materiality Assessment

As mentioned, the Group attaches great importance to the feedback of the relevant stakeholders and their opinions on what ESG aspects they consider as material. The Group has compiled a questionnaire in reference to the identified material ESG aspects to collect the information from relevant departments and business units of the Group. Through engaging with various groups of stakeholders, the relative importance of material ESG aspects has been established and is shown in the following.

Summary of the Group's material ESG issues included in the ESG Report:

ESG Reporting Guide	Material ESG Issues	Materiality to the Group		
		High	Medium	Low
A. Environmental				
A1. Emission	Greenhouse Gas ("GHG") Emissions		✓	
	Waste Management		✓	
A2. Use of Resources	Energy Efficiency		✓	
A3. The Environment and Natural Resources	Indoor Air Quality		✓	
	Green Finance		✓	

ESG Reporting Guide	Material ESG Issues	Materiality to the Group		
		High	Medium	Low
B. Social				
B1. Employment	Recruitment, Promotion and Remuneration	✓		
	Equal Opportunities, Diversity and Anti-discrimination	✓		
	Other Benefits and Welfare		✓	
B2. Health and Safety	Operational Health and Safety Management	✓		
B3. Development and Training	Training and Development	✓		
B4. Labour Standards	Prevention of Child and Forced Labour		✓	
B5. Supply Chain Management	Supply Chain Management		✓	
	Fair and Open Tendering		✓	
B6. Product Responsibility	Money-lending Assurance	✓		
	Customer Privacy Protection	✓		
	Customer Service Quality	✓		
B7. Anti-corruption	Anti-money Laundering and Counter-financing of Terrorism	✓		
	Whistle-blowing Mechanism	✓		
	Anti-corruption	✓		
B8. Community Investment	Community Participation		✓	

For FY2019, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

Contact Us

The Group welcomes stakeholders to provide their opinions and suggestions. You can provide valuable advice in respect of the ESG report or our performances in sustainable development by writing to: Room 5606, 56/F, Central Plaza, No. 18 Harbour Road, Wan Chai.

A. Environmental

A1. Emissions

General Disclosure and KPIs

The Group is principally engaged in the provision of integrated short-term financing services, comprising short-term financing, funds management related services and consultancy services. Therefore, the Group does not cause a significant impact on the environment.

The Group realises that environmental protection relies on both collective and individual efforts and is also concerned about the possibility of our fund being diverted to enterprises that cause serious environmental impacts or have little concern over sustainability. Thus, the Group continuously improves existing policies and incorporates new policies with the intention of mitigating potential direct and indirect negative environmental impacts arising from our business operations and makes a conscious effort to avoid diverting funds to non-environmentally conscious enterprises.

The Group was not aware of any material non-compliance with laws and regulations, including but not limited to, Waste Disposal Ordinance of Hong Kong, Environmental Protection Law of the People's Republic of China (the "PRC"), Prevention and Control of Environmental Pollution by Solid Waste of the PRC, Water Pollution Prevention and Control Law of the PRC and Prevention and Control of Atmospheric Pollution of the PRC that would have a significant impact on the Group during FY2019.

The major types of emissions produced by the Group's operations include:

- Exhaust gas from company-owned vehicles (covered in this current section – KPI A1.1)
- GHG emissions (will be covered in KPI A1.2)
- Non-hazardous wastes (will be covered in KPI A1.4)

Air Emissions

Due to its business nature, the Group considers that air emissions generated are of an insignificant level. Guidelines to better govern the use of fuel will be described in "Scope 1 – Direct GHG Emissions".

GHG Emissions

The principal GHG emissions of the Group are generated from the petrol consumption of vehicles (Scope 1) and purchased electricity (Scope 2).

Scope 1 – Direct GHG Emissions

The Group has set out guidelines to better govern the use of fuel and to reduce direct GHG emissions from petrol consumption in our operations:

- Plan routes ahead of time to optimise fuel consumption;
- Switch off the engine whenever the vehicle is idling; and
- Regularly service the vehicles to ensure optimal engine performance and fuel use.

Scope 2 – Indirect GHG Emissions

Electricity consumption accounts for the total indirect GHG emissions within the Group. The Group has implemented measures to reduce energy consumption, the measures are mentioned in "Aspect A2 Use of Resources". As a result, the employees' awareness of reducing indirect GHG emissions has been increased through these measures.

Discharges into Water and Land

Due to the Group's business nature, the discharges into land is insignificant. Similarly, there has not been a significant and unreasonable amount of water used in all the Group's offices through business activities.

Summary of GHG emissions performances:

Indicator[1]	Unit	FY2019
Scope 1 – Direct GHG emissions • Petrol consumption	tCO_2e[2]	4.80
Scope 2 – Indirect GHG emissions • Purchased electricity	tCO_2e	95.98
Total GHG emissions	tCO_2e	100.78
Intensity[3]	tCO_2e/employee	0.34

Note:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and is based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG report? – Appendix II: Reporting Guidance on Environmental KPIs" issued by the Hong Kong Stock Exchange, the "Global Warming Potential Values" from the IPCC's Fifth Assessment Report, 2015 (AR5), the latest published Baseline Emission Factors for Regional Power Grids in China, Sustainability Report 2019 published by the CLP Power Hong Kong Limited and the HK Electric Investments Sustainability Report 2018 published by the HK Electric.

2. tCO_2e is defined as tonnes of carbon dioxide equivalent.

3. As at 31 December 2019, the Group had approximately 300 full-time employees. The data is also used for calculating other intensity data.

Waste Management

Hazardous Waste Handling Method

Due to the Group's business nature, no material hazardous waste has been generated by the Group during FY2019.

Non-hazardous Waste Handling Method

The majority of non-hazardous waste generated by the Group was general waste and office paper. Though there has not been a disproportional amount of waste produced, the Group nevertheless makes a conscious effort into encouraging the employees to reduce waste production. Within our policy framework, the Group continuously looks for different opportunities to pursue environmentally friendly initiatives and enhance our environmental performance by reducing energy and the use of other resources.

Green measures include, but not limited to, the following:

- Recycle used single-sided office paper;
- Double-sided printing or photocopying;
- Print electronic correspondences only when necessary;
- Procure paper with FSC Recycled Label; and
- Recycle office and electronic equipment after their life cycle.

As a result, the employees' awareness of waste management has been increased through these implementations.

Summary of major non-hazardous waste discharge performances:

Category of waste	Unit	FY2019
Office paper[4]	Tonnes	3.95
General waste	Tonnes	0.39
Total non-hazardous waste	Tonnes	4.34
Intensity	Tonnes/employee	0.01

Note:

4. Only 80gsm A4 paper was used, the consumption was approximately 815,953 sheets of which, approximately 24,050 sheets were recycled.

A2. Use of Resources

General Disclosure and KPIs

To effectively manage the consumption of natural resources, the Group keeps track of ESG related KPIs and launches an internal monitoring programme on procurement and use of resources. In FY2019, the major resources consumed by the Group were electricity, water, paper and petrol.

Resources most frequently used by the Group were water and energy and less frequently, fuel. Therefore, the Group has established relevant policies and procedures to better govern the usage of these resources. The policies and procedures can also be seen as a powerful tool to commit itself to reducing the usage of resources and GHG emissions.

In particular, the "Construct Green Operation"（《建構綠色運營》）policy clearly stated a number of green measures, including:

- Pre-set air-conditioning temperature at the offices;
- Encourage digitalisation to promote a paperless working environment;
- Promote the use of teleconferences or video conferences; and
- Reduce the frequency of business air travels.

Energy Efficiency

To ensure that all subsidiaries and departments of the Group adhere to the electricity-saving principle, a detailed internal policy has been set in place. All subsidiaries of the Group are required to comply with the Group's energy-saving policy.

Given the Group's business nature, the variety of green measures applicable and possible to be implemented into the Group's policy is limited. Nevertheless, the Group strives to further reduce energy consumption by adopting energy-saving measures, such as the following:

- Adopt operating lighting control systems based on actual need;
- Switch off unnecessary lightings and electrical appliances when not in use;
- Purchase energy-efficient equipment on replacement of retired equipment;
- Set all computer screens and printers to standby mode after a certain period;
- Post eye-catching stickers on energy efficiency as a reminder to employees; and
- Encourage employees to utilise public transportation where possible.

Unexpected high consumption of electricity will be investigated to find out the root cause and take preventive measures.

As a result, the employees' awareness of energy conservation has been increased through these energy-saving measures.

Summary of energy consumption performances:

Type of energy	Unit	FY2019
Petrol[5]	kWh	17,444.18
Intensity	kWh/employee	58.15
Electricity	kWh	142,774.58
Intensity	kWh/employee	475.92
Aggregated energy consumption	kWh	160,218.76
Intensity	kWh/employee	534.07

Note:

5. Actual petrol consumption was approximately 1,805.18 litres.

Water Consumption

Due to the Group's business nature, the usage of water only confined to water used by employees at the office. The Group did not consider to have consumed a disproportionate amount of water.

The Group actively promotes the importance of water conservation to its employees. Apart from posting banners around the office, the Group also regularly inspects water taps to prevent leakage, installs dual flush water cistern in toilets and water-saving thimble in sinks in washrooms where possible. As a result, the employees' awareness of water conservation has been increased through these implementations.

Due to our business nature, we did not encounter any problem in sourcing water that is fit for purpose. The Group did not discover any abnormal water usage in FY2019.

Summary of water consumption performance:

Indicator	Unit	FY2019
Total water consumption	m^3	3,962.30
Intensity	m^3/employee	13.21

Use of Packaging Material

Due to the Group's business nature, the use of packaging material is not considered as a material ESG aspect to the Group.

A3. *The Environment and Natural Resources*

General Disclosure and KPIs

Although the core business of the Group has a small impact on the environment and natural resources, as an ongoing commitment to good corporate social responsibility, the Group realises its responsibility in minimising any negative environmental impacts in its business operations. The Group regularly assesses the environmental risks of its business and adopts preventive measures to reduce the risks and ensures compliance with relevant laws and regulations.

Indoor Air Quality

Indoor air quality in our workplace is regularly monitored and measured. During FY2019, the indoor air quality of the Group's offices has been satisfactory. To improve indoor air quality, air purifying equipment is used in offices and the air conditioning system is cleaned periodically. These measures resulted in controlling indoor air quality at a satisfactory level and filtering out pollutants, contaminants and dust particles.

Green Finance

The Group is currently in the process of establishing a sustainable development framework. In adhering to the national development strategy "One Belt, One Road", the Group has established "Guidelines on Establishing Green Finance System"（《關於構建綠色金融體系的指導意見》） to promote green finance. The Group has steered itself into engaging in the fast-growing green finance sector and takes the lead in shouldering environmental responsibility into investment. The Group provides bespoke financing options for green finance-related enterprises through our internal risk management system.

The Group has also given guidance to its employees in focusing on the sustainable development performance of investment targets when making investment decisions, which includes:

- No investments in enterprises with serious environmental pollution and impact;
- No investments in enterprises with outdated technology; and
- No investments in enterprises with safety hazards.

The Group is of the view that enterprises which place great emphasis on sustainable development sustain lower operational risks, which in turn lower the risk of the Group's investment portfolio and generate a more stable return to the Group.

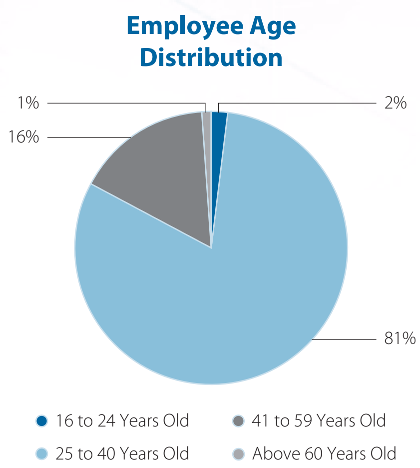
B. Social

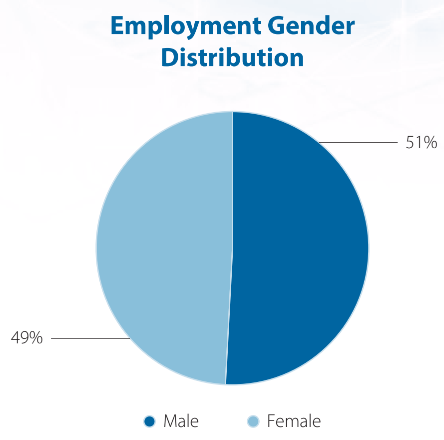
B1. Employment

General Disclosure

Human resources are the foundation of the Group. The Group recognises that sustainable growth of the Group relies on good recruitment and retention practices. Furthermore, the Group upholds the concept of "paying respect to the dedicated, utilising the competent, fostering the aspiring and incentivising the innovative".

As at 31 December 2019, the Group had approximately 300 full-time employees. The age distribution of the Group's employees was as follows: approximately 2% for 16 to 24 years old, 81% for 25 to 40 years old, 16% for 41 to 59 years old and 1% for above 60 years old. The Group prides itself on the equal gender distribution, 51% of the employees are male and 49% are female.





Relevant employment policies are formally documented in the Employee Handbook, covering recruitment and remuneration, compensations, working hours and rest periods, diversity and equal opportunities, etc. The Group periodically reviews these policies and our employment practices to ensure continuous improvement of our employment standards and competitiveness against companies of the similar industry.

During FY2019, the Group was not aware of any material non-compliance with employment-related laws and regulations that would have a significant impact on the Group, including but not limited to Employment Ordinance of Hong Kong, Labour Law of the PRC, Social Insurance Law of the PRC, Company Law of the PRC and Labour Contract Law of the PRC.

Recruitment, Promotion and Remuneration

Talent acquisition is vital to the sustainable development of the Group's business. The Group is committed to promoting equal opportunities and diversity in recruitment. Our employees are recruited via a robust, transparent and fair recruitment process based on their merits and their potential to fulfil the Group's current and future needs.

Remuneration and promotion are based on job-related skills, qualifications and performances. The Group will conduct annual performance and salary review to determine any salary adjustments and/or promotion opportunities. Remuneration packages include variable bonuses, annual leave, maternity leave, paternity leave, birthday leave, marriage leave, bereavement leave, etc.

Working Hours and Rest Periods

The Group has formulated policies in determining the working hours and rest periods for employees following local employment laws.

Compensation and Dismissal

The Group offers fair compensation packages for employees based on employees' personal capability and benchmarks. In addition, the Group complies with the Employees' Compensation Ordinance of Hong Kong and Labour Law of the PRC, which cover employees who sustain personal injury by accident or disease arising out of the course of employment.

Unreasonable dismissal under any circumstances is prohibited, dismissal would be based on reasonable and lawful grounds supported by internal policies. Verbal or written warnings will be issued to provide a fair opportunity to staff for improvement. If no improvement is noted, the Group shall then consider dismissal only upon receiving dismissal instruction from the relevant department.

Equal Opportunities, Diversity and Anti-discrimination

Sustainable growth of the Group relies on the diversity of talents, regardless of their gender, age, sexual orientation or religious backgrounds. The Group is committed to creating and maintaining an inclusive and collaborative workplace culture. Furthermore, the Group is dedicated to providing equal opportunities in all aspects of employment and protecting our employees from discrimination, physical or verbal harassment based on race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation. The Group also strives to ensure that complaints, grievances, concerns and whistle-blowing, are being dealt with promptly and confidentially. The Group does not tolerate sexual harassment or abuse in the workplace in any form.

Other Benefits and Welfare

The Group understands that good benefits and welfare encourages retention and fosters a sense of belonging, therefore the Group actively seeks to introduce additional benefits and welfare. Currently, the Group provides monthly birthday celebrations, birthday leave, medical scheme and festive meals or gifts. The Group also provides travel allowance for employees for their rest period.

The Group has formed a basketball team, yoga team and has held badminton competitions. A rest area is designated at the office to allow employees to recharge during breaks and to foster a positive relationship with the Group. Reading groups are held to unleash employees' potential and interest outside the realm of work.

B2. Health and Safety

General Disclosure

Operational Health and Safety Management

The Group places high priority on providing employees with a safe and healthy working environment. Local laws and regulations are being complied with and occupational health and safety guidelines recommended by the Labour Department and Occupational Safety and Health Council have been adopted.

During FY2019, the Group was not aware of any material non-compliance with health and safety-related laws and regulations that would have a significant impact on the Group, including but not limited to the Occupational Safety and Health Ordinance of Hong Kong, Labour Law of the PRC, Production Safety Law of the PRC, Prevention and Treatment of Occupational Diseases and Fire Protection Law of the PRC.

As mentioned, applicable health and safety measures are limited in an office-based business. The Group stresses the importance of keeping the corridor clean, classifying and recycling wastes, cleaning air-conditioning equipment and carpet on a regular basis and participating in health and safety seminars. All furniture and fixtures have undergone pest tests. Fire extinguishers are strategically placed and fire exits are free from obstruction.

To ensure employees' wellbeing, the following are some examples of training courses or seminars that have been held:

- Fire drills and prevention talks held by the Fire Services Department;
- First Aid Course; and
- Seminars on workplace wellbeing tips.

B3. Development and Training

General Disclosure

Training and Development

Training and continuous development are indispensable to our staff to keep abreast of the ever-changing trend in the industry.

Thus, the Group takes a proactive approach to provide employees with opportunities to advance their careers. Employees are encouraged to apply for internal and external training courses to refresh prior knowledge. Apart from holding job-related seminars or talks, the Group also holds courses that are not related to employees' respective job natures to unleash employees' potential. A broad variety of training courses have been provided during FY2019, including but not limited to the following:

- Induction training;
- Credit report training;
- Risk management training; and
- Anti-money laundering and counter-financing of terrorism seminar.

The Group intends to allow employees to familiarise themselves with newly updated guidelines, maintain their competitiveness within the industry and ensure legal compliance in dealing with sensitive matters and data.

The Group provides its employees with internal workshops, conferences, and seminars that are related to the works, such as anti-corruption training and anti-money laundering training. Training contents are regularly updated to be in line with the industrial standard and the Group's business nature and provide maximum benefit to the employees.

B4. *Labour Standards*

General Disclosure

Prevention of Child and Forced Labour

Child and forced labour are strictly prohibited during the recruitment process as defined by laws and regulations. Personal data is collected during the process to assist the selection of suitable candidates and to verify candidates' personal data. The Human Resources Department also ensures identity documents are carefully checked.

The Human Resources Department has established a reporting mechanism to monitor and ensure compliance with all relevant laws and regulations. If violation is involved, it will be dealt with in the light of the circumstances promptly.

During FY2019, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations that would have a significant impact on the Group, including but not limited to Employment Ordinance of Hong Kong, Labour Law of the PRC, and Labour Contract Law of the PRC.

B5. *Supply Chain Management*

General Disclosure

Supply Chain Management

As a financial service provider, the Group mainly collaborates with third party services providers for the provision of services in information technology, property management, advertising, and legal and consulting sectors. The Group also works with companies for the procurement of office equipment and stationery.

Fair and Open Tendering

The Group engages with service providers under a fair and open tendering process and takes into account suppliers' experience, prevailing market price and reputation. To procure in a more sustainable manner, the Group has implemented the Environmental Procurement Policy to minimise our carbon footprints, support local procurement and give priority to purchase recycled and environmentally friendly products. The Group strives not to over-rely on a specific supplier in order to ensure the stability of the supply chain. Any discrimination against certain vendors without reasonable grounds and any types of business bribery are strictly prohibited.

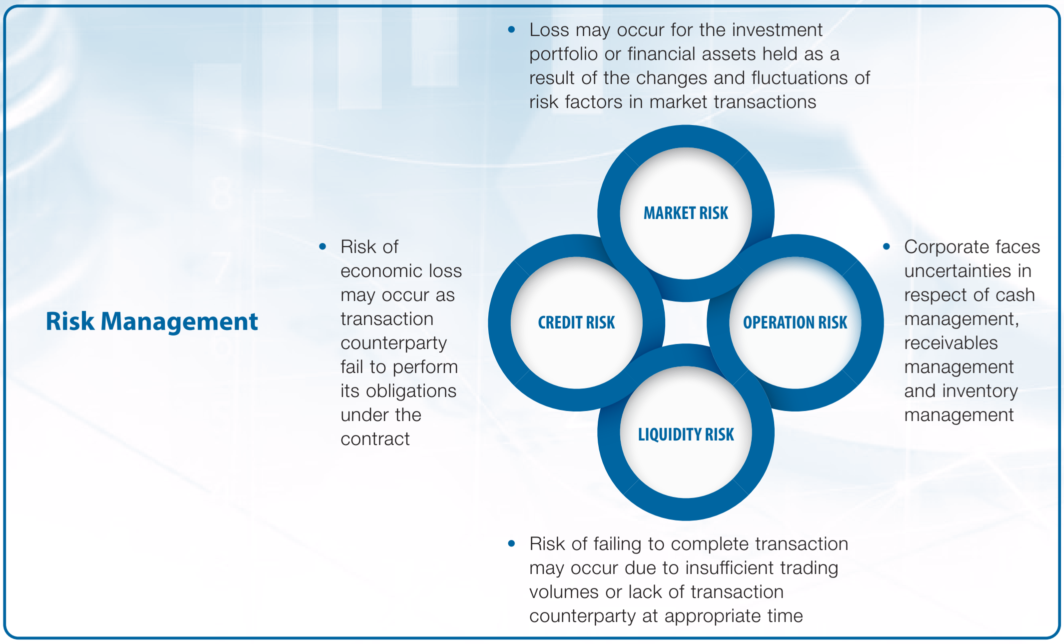
B6. Product Responsibility

General Disclosure

Solid corporate governance and risk management are essential to the Group's long-term development and sustainable growth. The Group endeavours to continuously improve our corporate rules and regulations and to ensure strict compliance with local laws and regulations.

The Group also has a professional risk assessment system and a risk control team, the latter comprises professionals who are certified public accounts, lawyers, certified public valuers and professionals who hold working qualifications in the financial institution. The Audit Committee, composed of independent non-executive directors, periodically reviews the existing risk management system to ensure that relevant procedures remain effective and up-to-date.

The risk management system is monitored, assessed and managed in the following aspect and can be best presented in the form of a diagram.



During FY2019, the Group was not aware of any incidents of non-compliance with laws and regulations that would have a significant impact on the Group, concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to, Money Lenders Ordinance, Personal Data (Privacy) Ordinance, Securities and Futures Ordinance of Hong Kong and Advertising Law of the PRC.

Money-lending Assurance

Guideline on the special requirements in money lending business advertisement is formally documented within the Employee Handbook. The guideline stipulates that advertisement, whether in textual, audio or visual form, must contain the relevant subsidiary's telephone hotline for handling complaints and a well-established risk warning statement. The said risk warning statement must also be clearly audible in the audio part of the advertisement.

Customer Privacy Protection

The Group protects legitimate rights and interests of our customers, respects the rights of customers' information assets and strictly complies with the customers' information security management systems and standards. All employees are trained to respect the confidentiality of our customers' information, while only certain employees can access sensitive customer data. The Group has also implemented firewall, anti-virus, and anti-spam solutions for our IT systems to safeguard confidential information and are routinely upgraded.

Customer Service Quality

The Group strives to provide excellent services in response to customers' enquiries. Feedbacks are recorded in detail and appropriate follow-up actions will be taken.

Due the Group's business nature, the Group has an insignificant amount of business dealing regarding health and safety and labelling matters.

B7. Anti-corruption

General Disclosure

The Group values and upholds integrity, honesty and fairness in how the Group conducts business. The Group emphatically asserts its zero-tolerance stance regarding any behaviours that not only violate local laws and regulations but also severely damage personal integrity and the Group's reputation.

During FY2019, the Group was not aware of any material non-compliance with relevant laws and regulations of bribery, extortion, fraud and money laundering that would have a significant impact on the Group, including but not limited to Money Lenders Ordinance, Personal Data (Privacy) Ordinance, Securities and Futures Ordinance in Hong Kong, Anti-Unfair Competition Law of the PRC and the Criminal Law of the PRC.

Anti-money Laundering and Counter-financing of Terrorism

As a financial services provider, the Group is particularly sensitive to the signs of money laundering and financial crimes. Apart from complying with local laws and guidelines set up by regulatory authorities, the Group recognises that the responsibility to help protect the integrity of the financial system lies within us. Therefore, a number of guidelines are in place to safeguard the interests of the Group, such as a background investigation, due diligence and loan approvals for loan financing applications.

Whistle-blowing Mechanism

The Group has set out a reporting and investigative procedure to encourage employees to report fraudulent activities. The Group intends to protect the whistle-blower from common concerns such as confidentiality and potential retaliation. Whistle-blowers may report verbally or in writing to the relevant department or the senior management of the Group regarding the suspected misconduct with supporting evidence. The management will then conduct an investigation on the suspected illegal behaviour. The Group provides assurance to the whistle-blower reporting in good faith against unfair dismissal or victimisation, even if the reports are subsequently proved to be unsubstantiated.

Anti-corruption

To prevent corrupt practices during our business operation, the Group distributed anti-corruption posters to staff to remind them of anti-corruption practices. Anti-corruption training has also been held during FY2019 to avoid employees from falling into poor practices.

Prevention of Money Laundering, Fraud and Bribery Practices

As a financial services provider, the Group is sensitive to the prevention of poor money laundering, potential fraud and bribery practices. The Group provides guidelines on such policies to employees to remind them of good practices to prevent unnecessary legal complications.

B8. Community Investment

General Disclosure

Community Participation

The Group is committed to giving back to society and supporting the public by means of social participation and contribution.

During FY2019, the Group organised and participated in various charitable and voluntary activities. In particular, the Group organised a children's painting session with the Evangelical Lutheran Church Social Service – Hong Kong. The Group will continue to participate in community events in the future.

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Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions – Air Emissions, GHG Emissions, Discharges into Water and Land, Waste Management
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions – Air Emissions, GHG Emissions
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Emissions – Waste Management Not applicable – Explained
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions – Waste Management
KPI A1.5 ("comply or explain")	Description of reduction initiatives and results achieved.	Emissions – Air Emissions, GHG Emissions, Waste Management
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions – Waste Management

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources – Energy Efficiency
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources – Water Consumption
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources – Energy Efficiency
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources – Water Consumption
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources – Use of Packaging Material Not applicable – Explained
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources – Indoor Air Quality, Green Finance

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment
KPI B1.1 (Recommended Disclosures)	Total workforce by gender, employment type, age group and geographical region.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") is pleased to report to the shareholders on the corporate governance of the Company for the year ended 31 December 2019.

Corporate Governance Practices

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company and its subsidiaries (the "Group") to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as the basis of the Company's corporate governance practices.

The Board is of the view that throughout the year ended 31 December 2019, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.1.1, A.2.1, A.4.1 and A.6.1 and details will be set out below.

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Company Code throughout the year ended 31 December 2019.

The Company has also established written guidelines (the "Employees Written Guidelines") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Board of Directors

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a director to perform his responsibilities to the Company, and whether the director is spending sufficient time performing them.

Board Composition

The Board currently comprises eleven directors, consisting of three executive directors, four non-executive directors and four independent non-executive directors, as follows:

Executive Directors
Mr. Luo Rui *(Chief Executive Officer)*
Madam Guan Xue Ling
Dr. Cheung Chai Hong

Non-executive Directors
Mr. Chan Yuk Ming *(Chairman of the Board, Chairman of the Nomination Committee)*
Mr. Cheung Siu Lam
Mr. Dong Yibing *(Member of the Remuneration Committee and Nomination Committee)*
Madam Huang Mei *(Member of Audit Committee)*

Independent Non-executive Directors
Mr. Chan Chun Keung *(Member of the Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. Chan Wing Fai *(Chairman of the Audit Committee and Remuneration Committee, Member of Nomination Committee)*
Dr. Zhang Xiao Jun *(Member of the Audit Committee, Remuneration Committee and Nomination Committee)*
Madam Zhan Lili *(Member of the Audit Committee, Remuneration Committee and Nomination Committee)*

The biographical information of the directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 45 to 50 of the annual report for the year ended 31 December 2019.

The relationships between the directors are disclosed in the respective director's biography under the section "Biographical Details of Directors and Senior Management" on pages 45 to 50.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Chan Yuk Ming, and the Chief Executive Officer is Mr. Luo Rui. With the support of the senior management, the Chairman is responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Code provision A.2.1 of the CG Code stipulates that the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Board considers that the Chairman's responsibilities are to manage the Board whereas the Chief Executive Officer's responsibilities are to manage the Company's businesses. The responsibilities of the Chairman and the Chief Executive Officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Independent Non-executive Directors

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors are independent.

Appointment and Re-election of Directors

The Company's articles of association provides that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

Under the articles of association of the Company, at each annual general meeting, one-third of the directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years. The retiring directors shall be eligible for re-election.

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. One of the non-executive directors of the Company is not appointed for a specific term but is subject to retirement by rotation at least once every three years according to the articles of association of the Company.

Save for the exception above, all non-executive directors of the Company are appointed for a specific term of 1 year, subject to renewal after the expiry of the current term.

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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.

The independent non-executive directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision 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.

The Company has arranged appropriate insurance coverage on directors' and officers' liabilities in respect of any legal actions taken against directors arising out of corporate activities.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Code provision A.6.1 of the CG Code stipulates that every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the issuer's operations and business and is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary.

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.

During the year ended 31 December 2019, a summary of training received by directors according to the records provided by the directors is as follows:

Directors	**Training on Corporate Governance, Regulatory Development and Other Relevant Topics**
Executive Directors	
Mr. Luo Rui *(Chief Executive Officer)*	✓
Madam Guan Xue Ling	✓
Dr. Cheung Chai Hong	✓
Non-executive Directors	
Mr. Chan Yuk Ming *(Chairman)*	✓
Mr. Cheung Siu Lam	✓
Mr. Dong Yibing	✓
Madam Huang Mei	✓
Independent Non-executive Directors	
Mr. Chan Chun Keung	✓
Mr. Chan Wing Fai	✓
Dr. Zhang Xiao Jun	✓
Madam Zhan Lili	✓

Board Committees

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees and posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held three meetings to review final results for the year ended 31 December 2018 and interim results for the period ended 30 June 2019 and significant issues on the financial reporting.

The Audit Committee also met the external auditors three times.

Remuneration Committee

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual directors and senior management, 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 one meeting to review the remuneration package of executive directors and senior management for the year 2019.

Nomination Committee

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. 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.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee held one meeting to consider and recommend to the Board, with reference to Director Nomination Policy and Board Diversity Policy, on the structure, size and composition of the Board and proposed changes, re-election of directors and independence of Independent Non-Executive directors.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2019, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

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

During the year, the Board had reviewed the Company's corporate governance policies and practices, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Board Meetings and Directors' Attendance Records

Code provision A.1.1 of the CG Code stipulates that at least four regular Board meetings at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. The Board held two regular board meetings during the year ended 31 December 2019 for approving the final results for the year ended 31 December 2018 and interim results for the period ended 30 June 2019 and transacting other business.

Attendance Records of Directors

The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meetings**
Luo Rui	3/5	–	–	–	0/1
Guan Xue Ling	3/5	–	–	–	0/1
Cheung Chai Hong	5/5	–	–	–	1/1
Chan Yuk Ming	5/5	–	–	1/1	1/1
Cheung Siu Lam	1/5	–	–	–	0/1
Huang Mei	1/5	1/3	–	–	0/1
Dong Yibing	2/5	–	0/1	0/1	0/1
Chan Chun Keung	2/5	1/3	1/1	1/1	1/1
Chan Wing Fai	5/5	3/3	1/1	1/1	0/1
Zhang Xiao Jun	1/5	2/3	0/1	0/1	0/1
Zhan Lili	0/5	0/3	0/1	0/1	0/1

Risk Management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records, risk management control and ensuring the reliability of financial information used for business and publication. Qualified management of the Group maintains and monitors the risk management and internal control systems on an ongoing basis. A bottom-up approach was employed for identification, assessment and mitigation of risk at all business unit levels and across all functional areas.

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division/department.

The key elements of the risk management and internal control systems of the Company include the establishment of a register to keep track of and document identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness.

An ongoing risk assessment approach is adopted by the Company for identifying and assessing the key inherent risks that affect the achievement of its objectives. The judgement of the risk is mainly determined in accordance with the likelihood of occurrence and consequence of occurrence of the risk.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provides treatment plans, and monitors the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019.

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure procedures which provide a general guide to the Company's directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

The Board and the management of the Company takes all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited. In the event that there is evidence of any material violation of the procedure, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

Directors' Responsibility in Respect of the Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 65 to 71.

Auditors' Remuneration

During the year under review, the remuneration paid to the auditors of the Group, is set out below:

Service Category	Fees Paid/ Payable
Audit Services	HK$1,700,000
Non-Audit Service	HK$620,000
– Agreed-upon procedures for 2019 interim report	
– Agreed-upon procedures for Chengdu Vision Credit	
	HK$2,320,000

Shareholders' Rights

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening a General Meeting

General meetings may be convened by the Board on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (as the case may be) pursuant to Sections 566 and 568 respectively of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance").

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance and where applicable, the Company's articles of association, for convening a general meeting.

Putting Forward Proposals at General Meetings

Pursuant to Section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders (as the case may be) who have a right to vote at the relevant annual general meeting, may request to circulate a resolution to be moved at an annual general meeting.

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance and where applicable, the Company's articles of association, for circulating a resolution for annual general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Suite 5606, 56/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong (For the attention of the Company Secretary)
Fax:	(852) 2598 8305
Email:	0605IR@cfsh.com.hk

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to its articles of association. An up to date version of the Company's articles of association is also available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders

The Company has adopted a Dividend Policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

On behalf of the Board
Chan Yuk Ming
Chairman

Industry Review

The Sino-US trade war was intensified throughout 2019, with the United States imposing the third and fourth rounds of tariff increase on China in May and August 2019 while China also took countermeasures against the importation of U.S. agricultural products. The trade war has exerted cross-sector and profound impacts on the Chinese economy. The depreciation of RMB and the increase in agricultural product prices had restrained household consumption to a certain extent, and property prices were also under pressure due to lack of investor confidence.

In Hong Kong, apart from the adverse impact of the above factors, such as trade war, Hong Kong's re-export trade volume has also been aggravated by the outbreak of the COVID-19. Local retail, tourism, and hospitality industries all suffered from challenges which put Hong Kong's economy into a "technical recession". In addition to the sluggish consumption and pressure on property prices, Hong Kong's unemployment rate also rised to 3.3% in December 2019.

The Group's principal business is loan services, with mortgages as the main revenue stream, while also running an unsecured loan business. Shrinking overall credit demand and deteriorating credit quality have brought challenges to the Group's business development.

Business Review

Our Group is one of the leading integrated financial services providers in Mainland China and Hong Kong. We mainly engage in the provision of one-stop financing services to small and medium enterprises, microenterprises and individuals.

The Group completed the acquisition of Shenzhen Credit Gain Finance Company Limited (深圳市領達小額貸款有限公司) and Chongqing Credit Gain Finance Company Limited (重慶兩江新區領達小額貸款有限公司) in April 2019 and October 2019, respectively, and made structural adjustments in terms of organization, staff, and business scope. It is expected that the profitability will be substantially improved in the medium term with the orderly adjustment of the Company's loan services.

In 2019, due to the Sino-US trade war, the loan business segment of the Group was slightly affected. At the end of 2019, the Group realized net interest and services income of HK$603.2 million in total, down by 8.4% as compared to the corresponding period of last year.

Future Prospects

In 2020, the Group will continue to improve the business systems of our companies by leveraging our extensive experience in the lending industry. With the successful implementation of our financial technology project, we will continue to broaden our sources of revenue and optimize our revenue structure, so as to improve the overall profitability of the Group.

As the first phase of the Sino-US trade agreement has been concluded and the US presidential election is drawing near, the Group expects the international relations situation will ease in 2020. Although the Coronavirus brought a grinding halt to local economies, we believe household investment and private consumption are only being temporarily suppressed, and momentum of demand will be released after order in the society has been restored. Therefore, the management team is being cautiously optimistic about the long-term development of the Group and will continue to improve our business by actively adopting financial technology with the long-term goal of becoming an all-rounded financial services provider, thereby maximizing the value for our shareholders.

Financial Review

For the year ended 31 December 2019 (the "Reporting Period"), the Group reported a revenue of approximately HK$765,330,000, representing a decrease of 7.0% from HK$823,013,000 as recorded in 2018. Profit attributable to equity shareholders for the year ended 31 December 2019 was approximately HK$182,448,000, down 33% as compared to the corresponding figure last year. The loans receivable as at 31 December 2019 was about HK$4,405,058,000, down 4% as compared to the corresponding period last year.

Interest, guarantee and financing consultancy services income

Interest, guarantee and financing consultancy services income including interest income and services income for pawn loans, micro-lending and money lending amounted to approximately HK$369,919,000, interest and services income for other loans receivable amounted to approximately HK$394,482,000, financial guarantees amounted to approximately HK$929,000.

Interest and handling expenses

Interest and handling expenses represent finance costs for the Reporting Period. The amount was approximately HK$162,117,000, representing a decrease of 1.4% compared to the corresponding figure in 2018.

General and administrative expenses

General and administrative expenses for the Reporting Period were approximately HK$259,048,000, up 15% as compared to the corresponding figure last year. The increase in general and administrative expenses was mainly due to increase in legal and professional fee.

Profit for the year

The profit for the year attributable to equity shareholders for the Company was approximately HK$182,448,000, representing a decrease of 32.5% as compared to approximately HK$270,427,000 for the corresponding period last year. The decrease was mainly attributable to increase in impairment loss of loans receivable and operating expenses.

Financial Resources and Capital Structure

The assets of the Group were mainly comprised of loans receivable of approximately HK$4,405,058,000, accounting for 73.6% of the total assets of the Group as at 31 December 2019. Other major non-current assets include goodwill of approximately HK$597,551,000, intangible assets of approximately HK$19,371,000, other financial assets of approximately HK$53,756,000, deferred tax assets of approximately HK$32,743,000 and interests in associates of approximately HK$17,721,000.

Current assets mainly comprised of accounts receivable of approximately HK$9,580,000, interests receivable of approximately HK$22,551,000, other receivables, deposits and prepayments of approximately HK$41,939,000, amount due from an associate of approximately HK$13,866,000, pledged bank and security deposits paid of approximately HK$34,053,000 and cash and cash equivalents of approximately HK$703,563,000.

Current liabilities mainly comprised of borrowings and other payables of approximately HK$1,073,786,000, bank loans of approximately HK$237,598,000, consideration payables of approximately HK$94,520,000, security deposits received of approximately HK$50,822,000, unsecured bonds of approximately HK$14,914,000, accruals and other deposit received of approximately HK$54,957,000, amount due to an associate of approximately HK$2,885,000, income received in advance of approximately HK$17,171,000 and tax payable of about HK$96,582,000.

Non-current liabilities includes consideration payables of approximately HK$186,190,000, unsecured bonds of approximately HK$279,449,000 and deferred tax liabilities of about HK$35,137,000.

Employee and Remuneration Policies

As at 31 December 2019, the Group had approximately 300 employees in the PRC and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also set up a share option scheme for the purpose of providing incentives to eligible grantees. Total staff costs for the Reporting Period were about HK$89,347,000.

In order to recognize and reward the contribution of certain eligible participants to the growth and development of the Group, the Company adopted a share award plan (the "Share Award Plan") on 14 January 2019. As of the date of this announcement, no awards have been granted or agreed to be granted under the Share Award Plan.

Liquidity and Gearing Ratio

The Group maintains a healthy liquidity position. As at 31 December 2019, the current ratio of the Group was 2.83 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings (including current and non-current borrowings and other payables, bank loans, unsecured bonds, consideration payables, lease liabilities and security deposits received) less cash and cash equivalents and pledged bank and security deposits paid divided by total equity. As at 31 December 2019, the gearing ratio was about 31.5%.

Fair Value Estimation

The carrying amounts less impairment provision of the financial assets and the carrying amounts of the financial liabilities are assumed to approximate their fair values.

Contingent Liabilities

The directors consider that the Group had no material contingent liabilities.

Executive Directors

Mr. Luo Rui, aged 52, is the chief executive officer of the Group who joined the Group in June 2011. He is responsible for the overall business development and daily operation of the Group. Mr. Luo graduated with a Bachelor and Master's Degree in Building Construction of Xi'an University of Architecture and Technology*（西安建築科技大學）. Mr. Luo has over 21 years of experience and a proven track record in commercial real estate investment and financing, assets acquisition, project development, market development and corporate management. Mr. Luo has been the chief architect and deputy general manager of a property developer in Hainan and the deputy general manager of a property management company in Beijing. Mr. Luo has extensive networks with senior management of property developers, major commercial banks and local authorities in Beijing. He is currently a councilor of the Beijing Guarantee Association*（北京市擔保協會）, the Beijing Association of Small and Medium Enterprises*（北京市中小企業協會）, the Beijing Association of Pawn Business*（北京市典當協會）and the Beijing Microcredit Association*（北京市小額貸款協會）.

Mr. Luo does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Madam Guan Xue Ling, aged 46, is the chief operating officer of the Group. Madam Guan has over 12 years of strategic decision making and practical experiences in listed companies auditing, corporate merger and acquisition, equity acquisition, transfer as well as project investment and financing.

Madam Guan joined the Group in June 2011, mainly responsible for risk management, accounting affairs and treasury management of the Group.

Madam Guan successively held the posts of quality control manager, auditing manager, assessment manager, chief auditor and head of the auditing department in domestic accounting firms, large state-owned enterprises, large private companies and foreign-invested companies. She is familiar with accounting and valuation standards. During her years with accounting firms, she had participated in the auditing work of a number of large state-owned enterprises, foreign-invested enterprises and private enterprises, such as China Resources Land, Sinobo Group and Suning Corporation. She also participated in various initial public offerings audit and internal audit, such as BBMG Corporation, Enlight Media and Ningxia Yellow River Rural Commercial Bank. She had led and participated in various auditing projects spanning across the real estate, manufacturing, media, retail, logistic and finance sectors and has extensive experiences in financial auditing and internal auditing.

Madam Guan graduated from Capital University of Economics and Business with a Postgraduate Degree in Business Administration. She is also a certified public accountant, a qualified asset appraiser in the People's Republic of China (the "PRC") and a party member of China Democratic National Construction Association.

Madam Guan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Dr. Cheung Chai Hong, aged 34, is the executive Vice President of the Group. He joined the Group in May 2014, Dr. Cheung is responsible for the daily operations in Hong Kong and heads the investor relations team of the Group.

* *For identification purposes only*

Prior to joining us, he has been the managing director of POC Holdings (HK) Limited and the chairman and leading founder of The Wine Company Limited, a fine wine retail and trading company. Dr. Cheung previously worked in PAG Capital, an Asia-focused asset management company which has an asset under management size over US$16 billion. Prior to joining PAG Capital, he also worked in Barclays Capital and focused on equity research on the retail and FMCG sector. Dr. Cheung Chai Hong holds a Bachelor Degree in Business Studies from University of Warwick, a Master Degree in Analysis, Design and Management of Information Systems from London School of Economics and Political Science and a PhD Degree in International Economic Law from China University of Political Science and Law.

Dr. Cheung Chai Hong is the son of Mr. Cheung Siu Lam, a non-executive director and controlling shareholder of the Company and Madam Lo Wan, a substantial shareholder of the Company. Dr. Cheung is the nephew of Dr. Zhang Xiao Jun, an independent non-executive director of the Company. Save as disclosed above, Dr. Cheung does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Non-Executive Directors

Mr. Chan Yuk Ming, aged 60, joined the Group in 1985 and was the non-executive director of the Company and the vice-chairman of the Group until 30 September 2015. Mr. Chan rejoined the Group as non-executive director and chairman of the board on 30 September 2016 and was appointed as the chairman of the Nomination Committee of the Company on 13 July 2017. Mr. Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Ministry of Commerce.

Mr. Chan does not have any relationship with any directors or senior management or substantial shareholders or controlling shareholders of the Company.

Mr. Cheung Siu Lam, aged 60, is a co-founder of the Group. Before establishing the Group, Mr. Cheung worked for Beijing Machinery Import & Export Company for many years. Mr. Cheung has extensive experience in trading, retailing, food processing and property management in the PRC.

Mr. Cheung Siu Lam is the spouse of Madam Lo Wan, a substantial shareholder of the Company and the father of Dr. Cheung Chai Hong, the executive director of the Company and the executive Vice President of the Group. Mr. Cheung is also the cousin of Dr. Zhang Xiao Jun, an independent non-executive director of the Company. Save as disclosed above, Mr. Cheung does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Dong Yibing, aged 65, joined the Group in April 2018 and is a member of Remuneration Committee and the Nomination Committee of the Company. He has extensive and in-depth experience in compliance and law practices. He holds a Doctorate Degree in Law from Washington University in St. Louis.

Mr. Dong is currently the general counsel and Chief Compliance Officer of China United SME Guarantee Corporation ("Sinoguarantee"). Before joining Sinoguarantee, he was the Head of Legal Affairs Department of New China Trust Co. Ltd from 2012 to 2013. From 2010 to 2012, he worked as an Attorney in JingWei Law Firm. Mr. Dong also served as the Vice President of China Region of AIA from 2007 to 2010.

Mr. Dong does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Madam Huang Mei, aged 51, joined the Group in September 2015 and is a member of the Audit Committee of the Company. She has rich experience in financial management and investment business. She is the chief financial officer of China United SME Guarantee Corporation. From 2000 to 2012, Madam Huang was the financial controller of Shell China Exploration Co., Ltd.*（殼牌中國勘探有限公司）, economic analyst of Shell International Co., Ltd.*（殼牌國際有限公司）, financial controller of Jiangsu Sinopec and Shell Petroleum Marketing Co., Ltd.*（江蘇中石化殼牌石油銷售有限公司）and internal audit director of Shell (China) Ltd..

From 1998 to 2000, Madam Huang was the accounting manager of Beijing Rhone-Poulenc Pharmaceutical Co., Ltd.*（北京羅納普朗克製藥有限公司）. She was the treasurer of Novartis China Headquarters*（諾華中國總部）from 1997 to 1998 and manager of the Investment Department of Brilliance (China) Holding Limited*（華晨（中國）控股有限公司）from 1992 to 1997.

Madam Huang is a fellow member of The Association of Chartered Certified Accountants in England, obtained an EMBA degree from Guanghua School of Management of Peking University, and a graduate student of a master's degree from the Graduate School of the People's Bank of China.

Madam Huang does not have any relationship with any directors or senior management or substantial shareholders or controlling shareholders of the Company.

Independent Non-Executive Directors

Mr. Chan Chun Keung, aged 69, joined the Group in November 2000. Mr. Chan has extensive experience in trading and investment in the PRC and is currently the vice-chairman of the Fukien Chamber of Commerce in Hong Kong and a committee member of the Foreign Investment Enterprises Association in the PRC. Mr. Chan is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. Chan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Chan Wing Fai, aged 42, has over 15 years' rich experience in auditing and accounting. Since 2014, he has been director of Chan Wing Fai CPA. He is currently a senior accountant of China Environmental Technology Holdings Limited (Stock code: 646) and an independent non-executive director of Golden Faith Group Holdings Limited (Stock code: 2863), both Companies are listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). From September 2014 to June 2015, Mr. Chan was the company secretary of Jin Bao Bao Holdings Limited (Stock code: 1239), a company listed in the Stock Exchange. Joined the Group in May 2016, Mr. Chan is the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

* *For identification only*

Mr. Chan holds a Bachelor Degree of Business Administration (Hons) in Accounting from Lingnan University. Currently, he is a practising member of The Hong Kong Institute of Certified Public Accountants, the Certified Tax Adviser and member of The Taxation Institute of Hong Kong and fellow member of The Association of Chartered Certified Accountants.

Mr. Chan does not have any relationship with any directors or senior management or substantial shareholders or controlling shareholders of the Company.

Dr. Zhang Xiao Jun, aged 51, joined the Group in January 2017. Dr. Zhang holds a Bachelor Degree in Finance from Renmin University, a Master Degree in Economics from University of Maryland and Doctorate Degree in Accounting from Columbia University. He is currently the chaired professor in accounting at the Hass School of Business, University of California Berkeley. He has over 18 years' experience in accounting education. His research have been published in top Finance and Accounting journals. His coauthored text book on financial accounting statement analysis is used by top business schools worldwide. Joined the Group in January 2017, Dr. Zhang is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Dr. Zhang is the cousin of Mr. Cheung Siu Lam, a non-executive director and controlling shareholder of the Company, and uncle of Dr. Cheung Chai Hong, an executive director of the Company. Thus, Dr. Zhang cannot meet the independence guideline as set out in Rule 3.13(6) of Listing Rules. The Company has assessed the independence of Dr. Zhang as an independent non-executive director and has demonstrated to the satisfaction of The Stock Exchange of Hong Kong Limited that Dr. Zhang is independent on the following grounds:

- Dr. Zhang does not hold any share of the Company. He had not received an interest in securities of the Company as a gift, or by means of other financial assistance from the Company or their core connected persons of the Company. Dr. Zhang was not a director, partner or principal of a professional adviser which currently provides or has provided services within one year immediately prior to the date of his proposed appointment, or is an employee of such professional adviser who is or has been involved in providing such services during the same period, to:

  (a) the Company, or any of their respective subsidiaries or core connected persons; or

  (b) the controlling shareholder Mr. Cheung Siu Lam, or chief executive officer or a director of the Company within one year immediately prior to the date of the proposed appointment.

- Dr. Zhang does not have a material interest in any principal business activities of or is involved in any material business dealings with the Company, or their respective subsidiaries or with any core connected persons of the Company.

- Dr. Zhang is not financially dependent on the Company, its holding companies or any of their respective subsidiaries or core connected persons of the Company. He is not on the board specifically to protect the interests of an entity whose interests are not the same as those of shareholders as a whole. In addition, for the past two years immediately prior to the date of his appointment and currently, he is not an executive or director of the Company, of its holding companies or of any of their respective subsidiaries or of any core connected persons of the Company. Dr. Zhang does not have any business and/or financial relationship/ connections with Mr. Cheung Siu Lam. Save for Dr. Zhang being a cousin of Mr. Cheung Siu Lam and uncle of Dr. Cheung Chai Hong, the Board is not aware of any circumstance that would raise question on Dr. Zhang's independence.

Save as disclosed in this above, Dr. Zhang does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company.

Madam Zhan Lili, aged 47, joined the Group in May 2018. She is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Madam Zhan completed her studies in business administration at the Faculty of Business Administration of Capital University of Economics and Business in 2003. Madam Zhan was an assistant to the General Manager of Tomson (Shanghai) Company Limited from 2000 to 2001. She worked in the human resource department of the Beijing branch of Industrial Bank Co., Ltd. from 2003 to 2007 and was a president assistant of Beijing Hai Dian Science & Technology Development Co., Ltd., a company engaged in electronics and information technology, environmental protection materials, property development and e-business, from 2007 to 2015. From 2008 to 2017, she worked as an independent non-executive director of Bloomage BioTechnology Cooperation Limited (a company was withdrawn from listing in the Stock Exchange in 2017) and Hiersun Industrial Co., Ltd.

Madam Zhan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Senior Management

Mr. Lu Wei Jun, aged 47, is the Vice President of the Group. Mr. Lu has approximately 21 years of working experience in banks and non-bank financial institutions and has over 10 years of practical experience in loan guarantee industry. Mr. Lu is responsible for the Group's loan guarantee business in Beijing. Mr. Lu graduated with a Bachelor Degree in Law of Minzu University of China. Mr. Lu joined the Group in 2012.

Mr. Chung Chin Keung, aged 52, is the company secretary and financial controller of the Group. He joined the Group in October, 2004. Mr. Chung holds a Bachelor Degree of Business Administration from the Hong Kong Baptist University and a Master Degree in Business Administration from Manchester Business School. He has more than 25 years of experience in finance, accounting and management. Before joining the Group, Mr. Chung worked for various listed companies in Hong Kong and overseas and was a company secretary for a listed company in Hong Kong. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Chartered Accountants in England and Wales and a member of The Taxation Institute of Hong Kong. Mr. Chung is responsible for daily operations and financial operations in Hong Kong.

Ms. Tsui Yan Tung, aged 34, is the investment director of the Company. Ms. Tsui joined the Group in August 2016 and she is responsible for the Company's capital market activities and investor relations. Prior to joining the company, Ms. Tsui was a Vice President at LST Partners, a Hong Kong-based hedge fund. She was responsible for investment analysis and risk management. Previously, she worked at China Construction Bank International (CCBI) Securities for over 5 years as Institutional Sales and Research Analyst.

Ms. Tsui is a Chartered Financial Analyst (CFA). She holds a BBA in Global Business and Finance from the Hong Kong University of Science and Technology.

Mr. Yuk Kai Yao, aged 40, joined the Group in January 2016. He is currently the Sales Director of Hong Kong money lender business, overseeing the Group's Hong Kong sales teams and working closely with the Board of Directors with regards sales strategies and business development activities. Prior to that, Mr. Yuk was the Vice President of Hao Tian Development Group Ltd (Stock code: 474). During his tenor with Hao Tian Development Group Ltd from January 2013 to December 2015, he was responsible for driving the sales activities of money lender business as well as fund raising and treasury matters. During September 2007 to March 2012, Mr. Yuk worked in the Global Banking team of HSBC and was last promoted to Senior Vice President. During July 2004 to March 2007, he worked in Shanghai Commercial Bank and was last promoted to Assistant Relationship Manager.

He is an independent non-executive director of Grand Talents Group Holdings Limited (Stock Code: 08516), this company is listed in the Stock Exchange.

Mr. Yuk graduated from The University of Hong Kong with a Bachelor Degree of Economics and Finance.

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2019 (the "Reporting Period") .

Principal Activities and Business Review

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries, are set out in note 13 to the financial statements respectively.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap 622 of the laws of Hong Kong), including a description of the principal risks and uncertainties faced by the Group and an indication of likely future development in the Group's business, can be found in the Chairman's Statement set out on page 4 and Management Discussion and Analysis set out on page 41 to 44 of this annual report. This discussion forms part of this director's report.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

The Group adopts a comprehensive risk management framework. Risk management policies and procedures are regularly reviewed and updated to react to changes in market conditions and the Group's business strategy.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Credit risk is the risk of losses arising from clients or counterparties failing to make payments as contracted. Further discussion on financial risk management is outlined in Note 47 to the consolidated financial statements.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Operational risk is mitigated and controlled through establishing robust internal controls, setting out clear lines of responsibility, proper segregation of duties and effective internal reporting and contingency planning. It is our corporate culture that the business and operating line management are fully aware of, and responsible for, managing the operational risks of their business units on a day-to-day basis.

Compliance with the Relevant Laws and Regulations

During the year under review, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

Segment Information

An analysis of the Group's segment revenue, results, assets and liabilities for the year ended 31 December 2019 is set out in note 3 to the financial statements.

Results and Dividends

The Group's profit for the Reporting Period and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 72 to 231. The directors do not recommend payment of a final dividend for the financial year ended 31 December 2019 (2018: HK0.3 cents per ordinary share), to shareholders of the Company.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 37 to the financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

Share Capital and Share Options

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 36 and 39 to the financial statements, respectively.

Distributable Reserves

Loss for the year attributable to equity shareholders of the Company of HK$93,622,000 (2018: profit of HK$12,067,000) has been transferred to reserves. As at 31 December 2019, the Company's reserve available for distribution to shareholders amounted to approximately HK$181,877,000 (2018: HK$303,681,000) in accordance with the provisions of Part 6 of the Hong Kong Companies Ordinance.

Bank Borrowings and Other Borrowings

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2019 are set out in note 26 and 27 to the financial statements.

Remuneration Policy

The remuneration of employees (including Directors and senior management of the Group) is determined with reference to their qualification, expertise and experience in the industry, competence, duties and responsibilities within the Group, the performance and profitability of the Group as well as the market benchmark and the prevailing market conditions. Employees shall also be eligible to receive a discretionary year-end incentive bonus, which shall be determined by the Group at its absolute discretion taking into account, inter alia, the Group's operating performance, market conditions in which the Group operates and the individual's performance, payable at such time as the Group may consider appropriate, and discretionary share options.

Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five years, as extracted from the audited financial statements in this report, is set out on page 232. This summary does not form part of the consolidated financial statements in this annual report.

Major Customers

The Group is principally engaged in provision of short term financing services. The five largest customers of the Group accounted for less than 30% of the Group's revenue during the Reporting Period.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers.

Directors

The directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Luo Rui *(Chief Executive Officer)*
Guan Xue Ling
Cheung Chai Hong

Non-executive Directors

Chan Yuk Ming *(Chairman)*
Cheung Siu Lam
Huang Mei
Dong Yibing

Independent Non-executive Directors

Chan Chun Keung
Chan Wing Fai
Zhang Xiao Jun
Zhan Lili

According to Article 105(A) of the Company's Articles of Association, Dr. Cheung Chai Hong, Dr. Zhang Xiao Jun, Mr. Dong Yibing and Madam Guan Xue Ling shall retire by rotation at the annual general meeting and are eligible to offer themselves for re-election at the annual general meeting. Dr. Cheung Chai Hong, Dr. Zhang Xiao Jun, Mr. Dong Yibing and Madam Guan Xue Ling shall offer themselves for re-election at the annual general meeting. The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The persons who were directors of the subsidiaries of the Company during the Reporting Period and up to the date of this report:–

Cheung Siu Lam
Lo Wan
Cheung Chai Hong
Chan Yuk Ming
Peng Kai
Luo Rui
Guan Xue Ling
Chung Chin Keung
Tsui Yan Tung
Qian Dong Mei
Yang Wu
Qian Yue
Lu Wei Jun
Zhao Jing Rui
Liu Zhong
Tang Ya Kun
Tao Ye (resigned as director of K.P. I. Convenience Retail Company Limited on 3 December 2019)
Pauline Heng
Liao Jianwei

Directors' Service Contracts

Independent non-executive directors, namely Mr. Chan Chun Keung entered into service contracts with the Company for a term of one year commencing on 9 September 2004. Mr. Chan Wing Fai has entered into a service contract with the Company for one year commencing on 27 May 2016. Dr. Zhang Xiao Jun has entered into a service contract with the Company for one year commencing on 5 January 2017. Madam Zhan Lili has entered into a service contract with the Company for one year commencing on 21 May 2018. All of them are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests in Contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Indemnity of Directors

A permitted indemnity provision (as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2019.

Directors' Interests in Share Capital

As at 31 December 2019, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code"), were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of Director	**Capacity**	**Number of Ordinary Shares held**	**Underlying Shares Interested** (Note 1)	**Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital** (Note 4)
Cheung Siu Lam	Beneficial owner of 1,720,044,240 ordinary shares and 1,000,000 underlying shares, family interest of 506,842,000 ordinary shares and 1,000,000 underlying shares (Note 2) and interest in controlled corporation of 86,400,000 ordinary shares (Note 3)	2,313,286,240	2,000,000	54.40%
Luo Rui	Beneficial owner	3,390,000	20,000,000	0.55%
Guan Xue Ling	Beneficial owner	–	2,000,000	0.047%
Cheung Chai Hong	Beneficial owner	200,000	–	0.0047%
Chan Yuk Ming	Beneficial owner	20,000,000	2,000,000	0.52%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 506,842,000 ordinary shares and 1,000,000 underlying shares held by his spouse, Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam and 40% by his spouse, Lo Wan. By virtue of the SFO, Cheung Siu Lam and Lo Wan are deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. The percentage is calculated based on the total number of issued shares as at 31 December 2019.

Directors' Rights to Acquire Shares

Save as disclosed under the headings "Directors' Interests in Share Capital" above and "Share Option Scheme" and "Share Award Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Interests in Substantial Shareholders

As at 31 December 2019, the following company and person (other than a director of the Company) were interested in 5% or more of the issued share capital of the Company according to the register kept by the Company under Section 336 of Part XV of the SFO:

Long Positions in Shares and Underlying Shares of the Company

Name	Capacity	Number of Ordinary Shares held	Underlying Shares Interested (Note 1)	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital (Note 4)
Lo Wan	Beneficial owner of 506,842,000 ordinary shares and 1,000,000 underlying shares, family interest of 1,720,044,240 ordinary shares and 1,000,000 underlying shares (Note 2) and interest in controlled corporation of 86,400,000 ordinary shares (Note 3)	2,313,286,240	2,000,000	54.40%
China United SME Guarantee Corporation	Beneficial owner of 636,696,000 ordinary shares	636,696,000	–	14.96%

Notes:

1. The number of shares represents the shares in which the substantial shareholder is deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Lo Wan, being spouse of Cheung Siu Lam, is deemed to be interested in 1,720,044,240 ordinary shares and 1,000,000 underlying shares held by Cheung Siu Lam.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam and 40% by his spouse, Lo Wan. By virtue of the SFO, Cheung Siu Lam and Lo Wan are deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. The percentage is calculated based on the total number of issued shares as at 31 December 2019.

Save as disclosed above, no persons, other than a director whose interests are set out above, had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of Part XV of the SFO.

Share Option Scheme

The Company adopted a share option scheme on 7 June 2004 (the "2004 Scheme") which was terminated on 6 June 2014. The Company adopted a new share option scheme (the "2014 Scheme") at the Company's annual general meeting held on 20 May 2014. Unless otherwise cancelled or amended, the 2014 Scheme will remain in force for 10 years from that date.

A summary of the 2014 Scheme of the Company is as follows:

1.	Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity").
2.	Participants	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity, any customer of the Group or any Invested Entity; any person or entity that provides technical, financial and legal support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
3.	Total number of securities available for issue under the 2014 Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	342,908,633 ordinary shares and 8.07% of the existing issued share capital.
4.	Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting. Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

		(a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such grant or further grant of options must be approved by the shareholders in a general meeting.
5.	Period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the 2014 Scheme.
6.	Minimum period, if any, for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
7.	Amount, if any, payable on application or acceptance of the option and the period within which such payments or calls must or may be made or loans for such purposes must be repaid	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1.00 being payable by the grantee.
8.	Basis of determining the exercise price	Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options.
9.	The remaining life of the 2014 Scheme	The 2014 Scheme remains in force until 19 May 2024.

During the year under review, no share options were granted under the 2014 Scheme.

Subsequent to the termination of the 2004 Scheme, no further option can be granted thereunder but in all other respects, the provisions of the 2004 Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The following share options were outstanding under the 2004 Scheme and the 2014 Scheme for the Reporting Period:

Director	Date of offer	Exercise price HK$	Outstanding at 1.1.2019	Granted during the Reporting Period	Exercised during the Reporting Period	Lapsed during the Reporting Period	Outstanding at 31.12.2019	Exercise period	Closing price of the securities immediately before the date on which the options were offered HK$	Fair value of each option at the date of grant HK$
Cheung Siu Lam	22.10.10	0.359	1,000,000	–	–	–	1,000,000	22.10.10 – 21.10.20	0.360	0.216
Chan Yuk Ming	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360	0.216
Luo Rui	11.04.14	0.660	20,000,000	–	–	–	20,000,000	11.04.14 – 10.04.24	0.630	0.4624
Guan Xue Ling	22.10.10	0.359	2,000,000	–	–	–	2,000,000	22.10.10 – 21.10.20	0.360	0.216
Employees in aggregate	22.10.10	0.359	1,000,000	–	–	–	1,000,000	22.10.10 – 21.10.20	0.360	0.216
Other eligible grantees	11.04.14	0.660	30,000,000	–	–	–	30,000,000	11.04.14 – 10.04.24	0.630	0.4623
	26.08.15	0.546	55,000,000	–	–	–	55,000,000	26.08.15 – 25.08.25	0.490	0.289

Share Award Scheme

On 14 January 2019 (the "Adoption Date"), the Company adopted the share award scheme (the "Share Award Scheme") in which any employees, directors, consultants or advisors of any member of the Group (the "Grantee") will be entitled to participate.

The purposes of the Share Award Scheme are to recognize the contributions by certain Grantees and to give incentives thereto in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules.

The Share Award Scheme will remain in force for a period of 10 years commencing on its Adoption Date.

The maximum number of awarded shares throughout the duration of the Share Award Scheme is 429,280,734 shares, being 10% of the issued shares of the Company as at the Adoption Date. The maximum number of shares which may be awarded to a selected Grantee under the Share Award Scheme during any 12-month period is 42,928,073 shares, being 1% of the issued shares of the Company as at the Adoption Date. Details of the Share Award Scheme are set out in the announcement of the Company dated 14 January 2019.

During the Reporting Period, there were 89,754,000 shares held in trust by the trustee under the Share Award Scheme and no awards have been granted or agreed to be granted under Share Award Scheme.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Reporting Period, the Company had bought back on the Stock Exchange a total of 7,722,000 shares. All the shares repurchased have been cancelled.

Details of the buy-back of the shares of the Company are as follows:

Month of Buy-back	Number of Shares Bought Back	Highest Price Per Share (HK$)	Lowest Price Per Share (HK$)	Aggregate Purchase Price (HK$)
January	50,000	0.5200	0.5200	26,000
December	7,672,000	0.4550	0.3950	3,452,050

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the Reporting Period.

Retirement Schemes

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

Corporate Governance

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the directors, the directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the Reporting Period.

Auditor

The financial statements have been audited by Crowe (HK) CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the board

Chan Yuk Ming
Chairman

Hong Kong, 26 March 2020

國富浩華(香港)會計師事務所有限公司
Crowe (HK) CPA Limited
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA FINANCIAL SERVICES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Financial Services Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 72 to 231, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, 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 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.

Impairment of loans receivable

Refer to notes 20, 46(b)(ii) and 47(a)(i) to the consolidated financial statements and the accounting policy note 2(j) on pages 101 to 104, respectively.

The key audit matter	How the matter was addressed in our audit
The Group has significant loans receivable balances as at year end. Given the size of the balances and the risk that some of the loans receivable may not be recoverable, judgement is required to evaluate whether any allowance should be made to reflect the risk. The measurement of expected credit loss ("ECL") requires the application of significant judgement and increased complexity which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models, such as the expected future cash flows and forward-looking macroeconomic factors. Due to the significance of loans receivable (representing 74% of total assets) and the corresponding uncertainty inherent in such estimates, we considered this as a key audit matter.	Our audit procedures to assess the impairment allowance of loans receivable included the following: – Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key financial reporting internal controls relating to credit control, debt collection and the assessment of impairment of loans receivable; – Assessing whether terms in the loans receivable ageing report were classified within the appropriate ageing bracket by comparing a sample of individual items with underlying loan agreements; – Obtaining an understanding of the basis of management's judgements about the impairment allowance of all overdue balances and evaluating, on a sample basis, whether management had performed credit assessments of the related debtors by examining underlying documentation, which included evidence of the debtors' financial condition, correspondence with the debtors, the debtors' adherence to agreed repayment schedules, the ageing of overdue balances, historical repayments schedules and repayments after the end of the reporting period;

Impairment of loans receivable *(Continued)*

The key audit matter *(Continued)*	How the matter was addressed in our audit *(Continued)*
	– Assessing the reasonableness of the Group's ECL models, including the model input, model design, model performance for significant portfolios; – Assessing the reasonableness of the Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment; – Challenging whether historical experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessing the forward-looking adjustments; and – Reviewing the Group's assumptions on the expected future cash flows, including the value of realisable collateral based on available market information, for a sample of exposures that was subject to an individual impairment assessment.

Impairment assessment of goodwill

Refer to notes 14 and 46(b)(i) to the consolidated financial statements and the accounting policy note 2(m) on pages 109 to 110.

The key audit matter	How the matter was addressed in our audit
Management performs impairment testing annually for the cash generating units (the "CGU") to which the goodwill was allocated. The calculation of the CGU's recoverable amount is complex and involves significant management's judgement and estimation, such as the forecasted cash flows, budgeted margin, revenue growth rate and discount rate, which are sensitive to expected future market conditions and the CGU's actual performance. We focused on this area due to the size of goodwill balance and because management's assessment of the 'value in use' of the Group's CGUs involves significant judgement about future results of the business and the discount rate applied to future cash flow forecast.	Our audit procedures were designed to challenge the management's impairment assessment included: – Comparing the Group's financial forecast for the current year made as of 31 December 2018 to actual results of the current year to assess the quality of management's forecasting process; – Reconciling the cash flow forecasts to management's approved budgets and assessing the reasonableness of these budgets by comparing historical information and business plan; – Benchmarking the revenue growth rate adopted by the Group to the revenue growth rates adopted by other market players; – Evaluating and discussing discount rate and budgeted margins used in the calculations by comparing with the industry or market data; – Testing the mathematical accuracy of the underlying value-in-use calculations; and – Evaluating the sensitivity analysis performed by management around the key assumptions applied to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired.

Information other than the consolidated financial statements and auditor's report thereon

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

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

The directors are 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

As part of an audit in accordance with HKSAs, we exercise professional 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.

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

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the 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 Poon Cheuk Ngai.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2020

Poon Cheuk Ngai
Practising Certificate Number P06711

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Interest, guarantee and financing consultancy services income	3	**765,330**	823,013
Interest and handling expenses	3	**(162,117)**	(164,391)
Net interest income and service income	3	**603,213**	658,622
Education consultancy service income	3	**11,166**	6,369
Other income, net	4	**20,539**	16,180
General and administrative expenses		**(259,048)**	(225,397)
Impairment losses on financial instruments	5	**(49,102)**	(17,158)
Share of losses of associates		**(126)**	(4,306)
Share of losses of joint ventures		**(1,216)**	–
Profit before taxation	6	**325,426**	434,310
Income tax	7(a)	**(111,476)**	(135,754)
Profit for the year		**213,950**	298,556
Attributable to:			
Equity shareholders of the Company		**182,448**	270,427
Non-controlling interests		**31,502**	28,129
Profit for the year		**213,950**	298,556
Earnings per share	11	**HK cents**	HK cents
– Basic		**4.37**	6.29
– Diluted		**4.37**	6.28

The notes on pages 80 to 231 form an integral part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 37(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Profit for the year		**213,950**	298,556
Other comprehensive income/(loss) for the year, net of nil income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation into presentation currency		**(103,792)**	(164,507)
Financial assets measured at FVOCI			
Net gain/(loss) on debt securities at fair value through other comprehensive income (recycling)		**5,547**	(9,173)
Reclassification adjustments for amounts transferred to profit or loss:			
– loss on disposal		**3,459**	–
		9,006	(9,173)
Other comprehensive loss for the year, net of nil income tax	10	**(94,786)**	(173,680)
Total comprehensive income for the year		**119,164**	124,876
Attributable to:			
Equity shareholders of the Company		**89,883**	105,707
Non-controlling interests		**29,281**	19,169
Total comprehensive income for the year		**119,164**	124,876

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	12	**19,526**	11,564
Goodwill	14	**597,551**	603,707
Intangible assets	15	**19,371**	19,371
Interests in associates	16	**17,721**	17,925
Interests in joint ventures	17	**784**	–
Other financial assets	18	**53,756**	90,844
Loans receivable	20	**565,763**	620,488
Deposits	23	**–**	165,908
Deferred tax assets	33	**32,743**	10,304
		1,307,215	1,540,111
Current assets			
Contingent consideration receivables	19	**10,682**	15,238
Loans receivable	20	**3,839,295**	3,984,541
Accounts receivable	21	**9,580**	3,471
Interests receivable	22	**22,551**	24,535
Other receivables, deposits and prepayments	23	**41,939**	30,154
Amount due from an associate	32	**13,866**	15,810
Amounts due from joint ventures	32	**50**	–
Tax recoverable	7(c)	**157**	157
Pledged bank and security deposits paid	24	**34,053**	29,211
Cash and cash equivalents	25	**703,563**	540,184
		4,675,736	4,643,301
Current liabilities			
Borrowings and other payables	26	**1,073,786**	1,251,183
Bank loans	27	**237,598**	132,478
Security deposits received	28	**50,822**	107,433
Consideration payables	29	**94,520**	–
Accruals and other deposit received	30	**54,957**	75,929
Liabilities arising from loan guarantee contracts	31	**–**	429
Amount due to an associate	32	**2,885**	2,970
Unsecured bonds	34	**14,914**	56,443
Income received in advance		**17,171**	18,038
Lease liabilities	35	**6,397**	–
Tax payable	7(c)	**96,582**	101,288
		1,649,632	1,746,191

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Net current assets		**3,026,104**	2,897,110
Total assets less current liabilities		**4,333,319**	4,437,221
Non-current liabilities			
Borrowings and other payables	26	**–**	271,231
Consideration payables	29	**186,190**	–
Unsecured bonds	34	**279,449**	245,579
Lease liabilities	35	**1,147**	–
Deferred tax liabilities	33	**35,137**	26,342
		501,923	543,152
NET ASSETS		**3,831,396**	3,894,069
EQUITY			
Share capital	36	**2,080,113**	2,080,113
Reserves	37	**1,644,368**	1,629,890
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**3,724,481**	3,710,003
Non-controlling interests		**106,915**	184,066
TOTAL EQUITY		**3,831,396**	3,894,069

The consolidated financial statements on pages 72 to 231 were approved and authorised for issue by the board of directors on 26 March 2020 and were signed on its behalf by:

Chan Yuk Ming
Director

Cheung Chai Hong
Director

The notes on pages 80 to 231 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$'000	Share-based compensation reserve HK$'000	Shares held under the share award scheme HK$'000	Exchange fluctuation reserve HK$'000	Fair value reserve (recycling) HK$'000	Statutory surplus reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2018		2,080,113	41,038	–	(113,008)	(2,328)	129,991	1,571,471	3,707,277	185,547	3,892,824
Changes in equity in 2018:											
Profit for the year		–	–	–	–	–	–	270,427	270,427	28,129	298,556
Other comprehensive loss	10	–	–	–	(155,547)	(9,173)	–	–	(164,720)	(8,960)	(173,680)
Total comprehensive income		–	–	–	(155,547)	(9,173)	–	270,427	105,707	19,169	124,876
Equity settled share-based transactions		–	1,174	–	–	–	–	–	1,174	–	1,174
Lapse of share options	39	–	(1,996)	–	–	–	–	1,996	–	–	–
Dividends paid		–	–	–	–	–	–	(73,099)	(73,099)	–	(73,099)
Dividends paid to non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	(20,650)	(20,650)
Repurchase of own shares	36(b)	–	–	–	–	–	–	(31,056)	(31,056)	–	(31,056)
Transfer to reserve		–	–	–	–	–	28,569	(28,569)	–	–	–
Balance at 31 December 2018		2,080,113	40,216	–	(268,555)	(11,501)	158,560	1,711,170	3,710,003	184,066	3,894,069
Balance at 1 January 2019		2,080,113	40,216	–	(268,555)	(11,501)	158,560	1,711,170	3,710,003	184,066	3,894,069
Changes in equity in 2019:											
Profit for the year		–	–	–	–	–	–	182,448	182,448	31,502	213,950
Other comprehensive income/(loss)	10	–	–	–	(101,571)	9,006	–	–	(92,565)	(2,221)	(94,786)
Total comprehensive income		–	–	–	(101,571)	9,006	–	182,448	89,883	29,281	119,164
Purchase of shares under share award scheme		–	–	(49,365)	–	–	–	–	(49,365)	–	(49,365)
Step acquisition from non-controlling interest	43	–	–	–	(14,465)	–	–	4,671	(9,794)	(106,114)	(115,908)
Dividends paid		–	–	–	–	–	–	(12,768)	(12,768)	–	(12,768)
Dividends paid to non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	(318)	(318)
Repurchase of own shares	36(b)	–	–	–	–	–	–	(3,478)	(3,478)	–	(3,478)
Transfer to reserve		–	–	–	–	–	31,986	(31,986)	–	–	–
Balance at 31 December 2019		2,080,113	40,216	(49,365)	(384,591)	(2,495)	190,546	1,850,057	3,724,481	106,915	3,831,396

The notes on pages 80 to 231 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Operating activities			
Profit before taxation		**325,426**	434,310
Adjustments for			
Depreciation of property, plant and equipment	6(b)	**5,142**	3,636
Depreciation of right-of-use assets	6(b)	**10,433**	–
Loss on disposal of debt securities	4	**3,459**	–
Gain on disposal of other financial assets	4	**(493)**	(549)
Loss on disposal of property, plant and equipment	6(b)	**349**	135
Impairment losses on financial instruments	5	**49,102**	17,158
Bank interest income	4	**(4,507)**	(2,516)
Interest and handling expenses	3	**162,117**	164,391
Dividend income from other financial assets	4	**(248)**	(301)
Share of losses of associates	16	**126**	4,306
Share of losses of joint ventures	17	**1,216**	–
Equity-settled share-based payment expenses	6(b)	**–**	1,174
Fair value change of contingent consideration receivables	6(b)	**4,556**	(10,444)
Fair value change of other financial assets	4	**3,522**	(3,804)
Gain on disposal of financial derivatives	4	**–**	(304)
Other interest income from debt securities	4	**(2,685)**	(3,104)
		557,515	604,088
Changes in working capital			
Decrease/(increase) in loans receivable		**240,455**	(137,373)
(Increase)/decrease in accounts receivable		**(6,283)**	1,894
Decrease/(increase) in interests receivable		**7,915**	(6,969)
(Increase)/decrease in other receivables, deposits and prepayments		**(5,141)**	46,097
Increase in other payables		**212,929**	231,831
Increase in consideration payables		**280,710**	–
(Decrease)/increase in security deposits received		**(55,233)**	7,856
(Decrease)/increase in accruals and other deposit received		**(325,546)**	45,669
(Decrease)/increase in income received in advance		**(710)**	5,124
(Decrease)/increase in liabilities arising from loan guarantee contracts		**(427)**	312
Cash generated from operations		**906,184**	798,529
Taxation paid			
– PRC Enterprise Income Tax	7(c)	**(111,186)**	(166,835)
– Hong Kong Profits Tax	7(c)	**–**	–
Taxation refunded			
– PRC Enterprise Income Tax	7(c)	**4**	138
– Hong Kong Profits Tax	7(c)	**–**	–
Net cash generated from operating activities		**795,002**	631,832

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(1,899)**	(9,011)
Purchase of other financial assets		**–**	(15,667)
Proceeds from sale of other financial assets		**38,995**	23,154
Capital injection to joint ventures		**(2,000)**	–
Acquisition of associates		**–**	(22,220)
Acquisition of subsidiaries		**143,370**	–
Advance to an associate		**–**	(15,810)
Advance to joint ventures		**(50)**	–
Withdrawal of pledged bank and security deposits		**29,003**	17,977
Placement of pledged bank and security deposits		**(33,850)**	(28,250)
Withdrawal of time deposits		**–**	71,472
Bank interest received	4	**4,507**	2,516
Dividend received from other financial assets	4	**248**	301
Deposit paid for acquisition of additional interest in a subsidiary		**–**	(115,908)
Net cash generated from/(used in) investing activities		**178,324**	(91,446)
Financing activities			
Payment for repurchase of own shares		**(3,452)**	(31,056)
Proceeds from new bank loans		**346,360**	195,776
Repayment of bank loans		**(238,658)**	(272,663)
Repayment of senior bonds		**–**	(378,682)
Proceeds from new borrowings		**378,823**	1,542,377
Repayment of borrowings		**(1,025,234)**	(1,409,397)
Proceeds from the issue of unsecured bonds		**36,614**	15,420
Redemption of unsecured bonds		**(56,560)**	(58,000)
Advance from/(repayment to) an associate		**1,924**	(12)
Capital element of lease rentals paid	2(c)(b)	**(9,881)**	–
Interest element of lease rentals paid	2(c)(b)	**(560)**	–
Other interest paid		**(143,592)**	(165,117)
Other finance costs paid		**(7,151)**	(3,442)
Dividends paid to equity shareholders of the Company		**(12,768)**	(73,099)
Dividends paid to non-controlling shareholders		**(318)**	(20,650)
Purchase of shares under share award scheme		**(49,365)**	–
Net cash used in financing activities		**(783,818)**	(658,545)

	Note	2019 HK$'000	2018 HK$'000
Increase/(decrease) in cash and cash equivalents		**189,508**	(118,159)
Effect of foreign exchange rate changes		**(26,129)**	(4,397)
Cash and cash equivalents at beginning of the year		**540,184**	662,740
Cash and cash equivalents at end of the year	25	**703,563**	540,184

Note: The group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK$16,253,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 25(a)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c)

The notes on pages 80 to 231 form an integral part of these financial statements.

1. Corporate Information

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office and the principal place of business are Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements.

2. Significant Accounting Policies

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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 requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Company, its subsidiaries and consolidated structured entities (together referred to as the "Group") are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company, its subsidiaries and consolidated structured entities and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Other investments in debt and equity instruments (including contingent consideration receivable);

2. Significant Accounting Policies *(Continued)*

b) *Basis of preparation of the financial statements (Continued)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 46.

c) *Changes in accounting policies*

The HKICPA has issued a new HKFRS, HKFRS 16 *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16 *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17 *Leases*, and the related interpretations, HK(IFRIC) 4 *Determining whether an arrangement contains a lease*, HK(SIC) 15 *Operating leases – incentives*, and HK(SIC) 27 *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the Group.

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies (Continued)*

HKFRS 16, Leases (Continued)

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies (Continued)*

HKFRS 16, Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are except. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 12. For an explanation of how the Group applied leasses accounting, see note 2(i)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4%-7%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies (Continued)*

HKFRS 16, Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting and transitional impact *(Continued)*

The following table reconciles the operating lease commitments as disclosed in note 41(a), as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018	18,396
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(895)
	17,501
Less: total future interest expenses	(719)
Total lease liabilities recognised at 1 January 2019	16,782

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies (Continued)*

HKFRS 16, Leases (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting and transitional impact *(Continued)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK$'000	Capitalisation of operating lease contracts HK$'000	Carrying amount at 1 January 2019 HK$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	11,564	16,782	28,346
Total non-current assets	**1,540,111**	**16,782**	**1,556,893**
Lease liabilities (current)	–	9,887	9,887
Current liabilities	**1,746,191**	**9,887**	**1,756,078**
Net current assets	**2,897,110**	**(9,887)**	**2,887,223**
Total assets less current liabilities	**4,437,221**	**6,895**	**4,444,116**
Lease liabilities (non-current)	–	6,895	6,895
Total non-current liabilities	**543,152**	**6,895**	**550,047**
Net assets	**3,894,069**	**–**	**3,894,069**

2. Significant Accounting Policies *(Continued)*

c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

(b) Impact on the financial result, segment result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a change on the reported profit before taxation in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (see note 25).

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies (Continued)*

HKFRS 16, Leases (Continued)

(b) *Impact on the financial result, segment result and cash flows of the Group (Continued)*

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16	Add back: HKFRS 16 depreciation and interest expense	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1)	Hypothetical amounts for 2019 as if under HKAS 17	Compared to amounts reported for 2018 under HKAS 17
	(A)	(B)	(C)	(D = A + B – C)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Interest and handling expenses	(162,117)	560	–	(161,557)	(164,391)
General and administrative expenses	(308,150)	10,433	10,441	(308,158)	(242,555)
Profit before taxation	325,426	10,993	10,441	325,978	434,310
Profit for the year	213,950	10,993	10,441	214,502	298,556

2. Significant Accounting Policies *(Continued)*

c) *Changes in accounting policies (Continued)*

HKFRS 16, Leases (Continued)

(b) *Impact on the financial result, segment result and cash flows of the Group (Continued)*

	2019 Amounts reported under HKFRS 16 (A) HK$'000	2019 Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) HK$'000	2019 Hypothetical amounts for 2019 as if under HKAS 17 (C = A + B) HK$'000	2018 Compared to amounts reported under HKAS 17 HK$'000
Line items in the condensed consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	906,184	(10,441)	895,743	798,529
Net cash generated from operating activities	795,002	(10,441)	784,561	631,832
Capital element of lease rentals paid	–	9,881	9,881	–
Interest element of lease rentals paid	–	560	560	–
Net cash used in financing activities	(783,818)	10,441	(773,377)	(658,545)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

2. Significant Accounting Policies *(Continued)*

d) *Subsidiaries and non-controlling interests*

Subsidiaries are entities (including consolidated structured entities) controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 2(j) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

2. Significant Accounting Policies *(Continued)*

d) *Subsidiaries and non-controlling interests (Continued)*

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(j)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

e) *Associates and joint ventures*

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A join venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(m). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

2. Significant Accounting Policies *(Continued)*

e) Associates and joint ventures (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(j)).

In the Company's statement of financial position, investment in an associate and joint venture are stated at cost less impairment losses (see note 2(m), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

f) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for the 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 the 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.

2. Significant Accounting Policies *(Continued)*

f) *Business combinations and goodwill (Continued)*

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.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interest 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.

2. Significant Accounting Policies *(Continued)*

g) *Intangible assets*

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2. Significant Accounting Policies *(Continued)*

h) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(m)).

– right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(i)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Leasehold improvements	3 years or over the remaining term of the lease, if shorter
–	Furniture and equipment	3 to 5 years
–	Motor vehicles	3 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. Significant Accounting Policies *(Continued)*

i) *Leased assets*

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) *As a lessee*

(A) *Policy applicable from 1 January 2019*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2. Significant Accounting Policies *(Continued)*

i) *Leased assets (Continued)*

(i) *As a lessee (Continued)*

(A) *Policy applicable from 1 January 2019 (Continued)*

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(h) and 2(m).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(B) *Policy applicable prior to 1 January 2019*

Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities*

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions except for trade receivables arising from contracts with customers under education consultancy services which are initially measured in accordance with HKFRS 15. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(i) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(ii) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets

(i) Classification and subsequent measurement

The Group's financial assets include accounts receivable, loans receivables, interests receivables, deposits and other receivables, amount due from an associate, amounts due from joint ventures, other financial assets and cash and cash equivalent.

The Group classifies its financial assets in the following measurement categories:

(i) Fair value through profit or loss ("FVTPL");

(ii) FVOCI; or

(iii) Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flows characteristics of the asset.

Business model assessment:

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(i) Classification and subsequent measurement *(Continued)*

Debt instruments *(Continued)*

SPPI test:

The Group assesses the contractual terms of instruments to identify whether the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' ("SPPI"). Financial assets that are consistent with a basic lending arrangement are considered to meet the SPPI criterion. In a 'basic lending arrangement', consideration for the time value of money and credit risk are typically the most significant elements of interest. It may also include consideration for other basic lending risks such as liquidity risks, costs associated with holding the financial assets for a period of time (e.g., servicing or administrative costs) and a profit margin.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured as described in note 2(j)(a)(ii). Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'other income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(i) Classification and subsequent measurement *(Continued)*

Debt instruments *(Continued)*

SPPI test: *(Continued)*

FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income within 'other income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'other income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when represent a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(i) Classification and subsequent measurement *(Continued)*

Equity instruments *(Continued)*

Gains and losses on equity investments at FVTPL are included in the 'other income' line in the statement of profit or loss and other comprehensive income.

(ii) Impairment

The Group applies a simplified approach to measure ECL on trade receivable for customers under education consultancy services and a general approach to measure ECL on loans and advances to customers, account receivable for margin client, time deposits and other financial assets accounted for at amortised cost as well as loan commitment.

Under the simplified approach, the Group measures the loss based on lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(ii) Impairment *(Continued)*

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

The following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(ii) Impairment *(Continued)*

Stage 3: Lifetime ECL – credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. A loan that is overdue for 90 days or more is considered as default.

2. Significant Accounting Policies *(Continued)*

j) Financial assets and liabilities (Continued)

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(ii) Impairment *(Continued)*

Stage 3: Lifetime ECL – credit-impaired *(Continued)*

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Company and all the cash flows that the Company expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(iii) Modification of loans *(Continued)*

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) is prohibited from selling or pledging the assets; and

(iii) has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(b) Financial liabilities

Classification and subsequent measurement In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

In the case of the guarantee issued by the company in respect of a loan to its wholly owned subsidiary, the asset identified could be a form of capital contribution i.e. an addition to the cost of the investment in the subsidiary. This is on the basis that, all other things being equal, the subsidiary will earn enhanced profits as a result of the financial guarantee from having secured borrowings at a lower rate than it would have done without the guarantee, and these profits will eventually flow to the company by way of dividends or enhanced disposal proceeds. The increased aggregate cost of investment would then be subject to the normal rules applied to investments in subsidiaries, in particular concerning the calculation of impairment losses Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

2. Significant Accounting Policies *(Continued)*

j) *Financial assets and liabilities (Continued)*

Initial recognition and measurement (Continued)

(b) Financial liabilities (Continued)

Credit losses from financial guarantees issued *(Continued)*

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

k) *Derivative financial instruments*

The Group's derivative financial instruments are initially recognised at their fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to statement of profit or loss and other comprehensive income. Whilst the Group enters into a derivative contract for trading purposes or to provide economic hedges under the Group's risk management framework, it does not apply hedge accounting.

l) *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.

2. Significant Accounting Policies *(Continued)*

m) *Impairment of non-financial assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets;
- interests in associates and joint ventures;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. Significant Accounting Policies *(Continued)*

m) Impairment of non-financial assets (Continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

n) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(j)(i).

2. Significant Accounting Policies *(Continued)*

p) *Employee benefits and share-based payment arrangements*

i) *Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) *Termination benefits*

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

iii) *Share-based payments to employees*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share-based compensation reserve within equity. The fair value is measured at grant date taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained earnings).

2. Significant Accounting Policies *(Continued)*

p) *Employee benefits and share-based payment arrangements (Continued)*

iv) *Share-based payments to consultants*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be estimated reliably, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share-based compensation reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

v) *Shares held under the share award scheme*

Own equity instruments which are reacquired (shares held under the share award scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

vi) *Share-based payments to employees under share award scheme*

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 cost of equity-settled transactions is recognised, together with a corresponding increase in the "share award reserve" under equity, over the period in which the performance and/or service conditions are fulfilled in share-based compensation expense. 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.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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. 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.

2. Significant Accounting Policies *(Continued)*

q) *Provisions and contingent liabilities*

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

r) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. Significant Accounting Policies *(Continued)*

r) *Income tax (Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. Significant Accounting Policies *(Continued)*

r) *Income tax (Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

s) *Revenue recognition*

Income is classified by the Group as revenue when it arises from the provision of services.

Revenue is recognised when service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2. Significant Accounting Policies *(Continued)*

s) *Revenue recognition (Continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

i) *Revenue from short-term financing services*

Interest income is recognised in the consolidated income statement for all financial assets using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield.

Fee and commission income that are not an integral part of the effective yield are recognised on an accrual basis ratably over the period when the related service is provided. Loan guarantee service income consists of guarantee fee and related service income and is recognised in profit or loss on a straight-line basis over the guarantee period.

ii) *Dividends*

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

iii) *Education consultancy service income*

Revenue from such services are recognised when related services are rendered.

2. Significant Accounting Policies *(Continued)*

s) *Revenue recognition (Continued)*

iv) *Other interest income*

Other interest income is recognised as it accrues using the effective interest method.

v) *Service income*

Revenue arising from the provision of the services is recognised when the relevant services are rendered.

vi) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

vii) *Income from financial guarantee issued*

Income from financial guarantee issued is recognised over the term of the guarantees (see note 2(j).

t) *Translation of foreign currencies*

i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. Significant Accounting Policies *(Continued)*

t) *Translation of foreign currencies (Continued)*

ii) *Transactions and balances*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange fluctuation reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of foreign operation.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), the cumulative amount of the exchange differences in respect of that operation attributable to the equity shareholders of the Company are reclassified to profit or loss.

2. Significant Accounting Policies *(Continued)*

u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

v) Related parties

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

   i) has control or joint control over the Group;

   ii) has significant influence over the Group; or

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

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

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

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

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

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

2. Significant Accounting Policies *(Continued)*

v) *Related parties (Continued)*

b) *(Continued)*

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).

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

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

w) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's board of directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. Revenue and Segment Reporting

a) *Revenue*

The amount of each significant category of revenue during the year is as follows:

	2019 HK$'000	2018 HK$'000
Interest, guarantee and financing consultancy services income		
Pawn loans, loans receivable from micro-lending and money-lending	369,919	363,844
Other loans receivable	394,482	458,995
Financial guarantees	929	174
	765,330	823,013
Interest and handling expenses arising from:		
Bank loans	(11,773)	(11,910)
Borrowings and other payables	(114,157)	(114,426)
Senior bonds	–	(5,535)
Unsecured bonds	(28,476)	(29,078)
Lease liabilities	(560)	–
Other finance costs	(7,151)	(3,442)
	(162,117)	(164,391)
Net interest income and service income	603,213	658,622
Income recognised point in time under HKFRS 15:		
Education consultancy service	11,166	6,369

For the year ended 31 December 2019, the total amount of interest income on financial assets not at fair value through profit or loss, including bank and other interest income from debt securities (note 4), was HK$771,593,000 (2018: HK$828,459,000).

3. Revenue and Segment Reporting *(Continued)*

b) *Segmental Information*

(i) *Operating segment information*

For the years ended 31 December 2019 and 2018, the directors of the Company have determined that the Group has only one reportable segment as the Group is principally engaged in providing financing service which is the basis to allocate resources and assess performance of the Group.

(ii) *Geographical information*

Revenue from external customers

	2019 HK$'000	2018 HK$'000
Hong Kong	88,214	79,498
The PRC	677,116	743,515
United Kingdom	11,166	6,369
	776,496	829,382

The geographic location of revenue from external customers is based on the location at which the services were rendered.

Non-current assets

	2019 HK$'000	2018 HK$'000
Hong Kong	29,034	82,699
The PRC	593,864	710,941
United Kingdom	32,055	24,835
	654,953	818,475

The above table sets out the information about the geographical location of the Group's property, plant and equipment, goodwill, intangible assets, interests in associates and joint ventures and deposits ("Specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, goodwill and deposits and the location of operation, in the case of interests in associates and joint ventures.

3. Revenue and Segment Reporting *(Continued)*

b) *Segmental Information (Continued)*

(iii) Information about major customers

For the year ended 31 December 2019, there was no customer (2018: nil) who individually contributed over 10% of the Group's revenue.

4. Other Income, Net

	2019 **HK$'000**	2018 HK$'000
Bank interest income	**4,507**	2,516
Other interest income from debt securities	**2,685**	3,104
Dividend income from other financial assets	**248**	301
Income from government subsidies	**16,904**	1,325
Other financial assets: reclassified from equity		
– Loss on disposal (note 10)	**(3,459)**	–
(Loss)/gain on fair value change of financial assets at FVTPL		
– Gain on disposal	**493**	549
– Change on fair value of financial assets at FVTPL	**(3,522)**	3,804
	(3,029)	4,353
Gain on fair value change of financial derivatives in respect of decumulator contracts		
– Gain on disposal	**–**	304
(Loss)/gain on fair value change of contingent consideration receivables	**(4,556)**	10,444
Exchange loss, net	**(2,057)**	(14,881)
Others	**9,296**	8,714
	20,539	16,180

5. Impairment losses on financial instruments

	2019 **HK$'000**	2018 HK$'000
Loans and advances to customers	**49,102**	17,158

6. Profit Before Taxation

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

	2019 HK$'000	2018 HK$'000
(a) Staff costs (including directors' emoluments):		
Salaries, allowances and other benefits	**80,040**	80,884
Equity-settled share-based payment expenses	**–**	–
Contributions to defined contribution retirement plans	**9,307**	6,920
	89,347	87,804
(b) Other items:		
Auditor's remuneration		
– audit service	**1,700**	1,600
– non-audit service	**620**	750
	2,320	2,350
Depreciation of property, plant and equipment		
– self-owned assets	**5,142**	3,636
– right-of-use assets	**10,433**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	16,253
Equity-settled share-based payment expenses (see note (i) below)	**–**	1,174
Fair value change of contingent consideration receivables (note 19)	**4,556**	(10,444)
Loss on disposal of property, plant and equipment	**349**	135

Notes:

(i) For the year ended 31 December 2019, equity-settled share-based payment expenses included HK$Nil (2018: Nil) relating to staff costs which amount was also included in the total amount disclosed in note 6(a) for staff costs.

7. Income Tax

a) *Taxation in the consolidated statement of profit or loss represents:*

	2019 HK$'000	2018 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	–	–
Under-provision in respect of prior years	–	1,183
Current tax – PRC Enterprise Income Tax		
Provision for the year	96,584	123,315
Over-provision in respect of prior years	(36)	(25)
Withholding tax on dividends		
Provision for the year	12,034	4,130
Deferred tax		
Origination and reversal of temporary differences (note 33(a))	2,894	7,151
	111,476	135,754

(i) The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operates.

(ii) For the year ended 31 December 2019 and 2018, no provision for Hong Kong Profits Tax had been made in the financial statements as the Group did not have assessable profits arising in Hong Kong.

(iii) Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), Cayman Islands and United Kingdom, the Group is not subject to any income tax in the respective jurisdictions.

(iv) The provision for the PRC Enterprise Income Tax of the subsidiaries established in the PRC is calculated at 25% (2018: 25%) of the estimated taxable profits for the year.

(v) Pursuant the Enterprise Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC enterprise.

Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of profits generated since 1 January 2008.

7. Income Tax *(Continued)*

b) Reconciliation between tax expense charged to profit or loss and accounting profit at the applicable tax rates:

	2019 **HK$'000**	2018 HK$'000
Profit before taxation	**325,426**	434,310
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**86,609**	97,729
Tax effect of non-taxable income	**(7,630)**	(8,473)
Tax effect of non-deductible expenses	**33,006**	33,353
Tax effect of temporary differences not recognised	**(6,536)**	(1,981)
Tax effect of tax losses not recognised	**1,403**	2,700
Tax effect of utilisation of unused tax losses previously not recognised	**(4,879)**	(12)
Over-provision of PRC Enterprise Income Tax in prior years	**(36)**	(25)
Under-provision of HK Profits Tax in prior years	**–**	1,183
Tax effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**9,539**	11,281
Others	**–**	(1)
Actual tax expense	**111,476**	135,754

7. Income Tax *(Continued)*

c) Current taxation in the consolidated statement of financial position represents:

	2019 **HK$'000**	2018 HK$'000
At 1 January	**(101,131)**	(144,510)
Provision for the year:		
– PRC Enterprise Income Tax	**(96,584)**	(123,315)
– Hong Kong Profits Tax	**–**	–
– Withholding tax on dividends	**(12,034)**	(4,130)
Over/(under)-provision in respect of prior years:		
– PRC Enterprise Income Tax	**36**	25
– Hong Kong Profits Tax	**–**	(1,183)
Taxation paid:		
– PRC Enterprise Income Tax	**111,186**	166,835
– Hong Kong Profits Tax	**–**	–
Taxation refunded:		
– PRC Enterprise Income Tax	**(4)**	(138)
– Hong Kong Profits Tax	**–**	–
Exchange adjustment	**2,106**	5,285
At 31 December	**(96,425)**	(101,131)
Analysed for reporting purpose as:		
Tax recoverable	**157**	157
Tax payable	**(96,582)**	(101,288)
	(96,425)	(101,131)

8. Directors' and Chief Executive's Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

	Year ended 31 December 2019					
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-Total HK$'000	Share-base payment (note v) HK$'000	Total HK$'000
Executive directors						
Luo Rui *(Chief executive officer)*	240	1,216	140	1,596	–	1,596
Guan Xue Ling	240	1,016	140	1,396	–	1,396
Cheung Chai Hong	–	980	18	998	–	998
Non-executive directors						
Cheung Siu Lam	–	2,900	18	2,918	–	2,918
Chan Yuk Ming *(Chairman)*	–	1,084	18	1,102	–	1,102
Huang Mei	120	–	–	120	–	120
Dong Yibing	120	–	–	120	–	120
Independent non-executive directors						
Chan Wing Fai	120	–	–	120	–	120
Chan Chun Keung	120	–	–	120	–	120
Zhang Xiao Jun	120	–	–	120	–	120
Zhan Lili	120	–	–	120	–	120
	1,200	7,196	334	8,730	–	8,730

8. Directors' and Chief Executive's Emoluments *(Continued)*

	Year ended 31 December 2018					
	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-Total	Share-base payment (Note v)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors						
Luo Rui *(Chief executive officer)*	240	1,205	148	1,593	–	1,593
Guan Xue Ling	240	879	148	1,267	–	1,267
Cheung Chai Hong	–	950	18	968	–	968
Non-executive directors						
Cheung Siu Lam	–	2,835	18	2,853	–	2,853
Chan Yuk Ming *(Chairman)*	–	1,016	18	1,034	–	1,034
Zhou Jian (note ii)	34	–	–	34	–	34
Huang Mei	120	–	–	120	–	120
Dong Yibing (note i)	88	–	–	88	–	88
Independent non-executive directors						
Chan Wing Fai	120	–	–	120	–	120
Wang Jian Sheng (note iii)	47	–	–	47	–	47
Chan Chun Keung	120	–	–	120	–	120
Zhang Xiao Jun	120	–	–	120	–	120
Zhan Lili (note iv)	74	–	–	74	–	74
	1,203	6,885	350	8,438	–	8,438

Notes:

(i) Mr Dong Yibing was appointed as non-executive director on 6 April 2018. The amount for the relevant year represent his emoluments from the date of appointment.

(ii) Mr Zhou Jian resigned as non-executive director on 6 April 2018. For the year ended 31 December 2018, the amount represented his emoluments from 1 January 2018 to the date of resignation.

(iii) Mr Wang Jian Sheng retired as independent non-executive directors on 21 May 2018. The amount for the relevant year represent his emoluments from 1 January 2018 to the date of retirement.

(iv) Madam Zhan Lili was appointed as non-executive director on 21 May 2018. The amount for the relevant year represent her emoluments from the date of appointment.

(v) These represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policy for share-based payments transactions as set out in note 2(p)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 39.

8. Directors' and Chief Executive's Emoluments *(Continued)*

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any emoluments during the years ended 31 December 2019 and 2018.

9. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2018: three) are directors of the Company whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2018: two) individual is as follows:

	2019	2018
	HK$'000	HK$'000
Salaries, allowances and other benefits	**5,180**	3,042
Retirement scheme contributions	**36**	36
	5,216	3,078

The emoluments of the two (2018: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2019	2018
HK$Nil up to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–

During the years ended 31 December 2019 and 2018, no emoluments were paid to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. Other Comprehensive Loss

Components of other comprehensive loss, including re-classification adjustments, are as follows:

	Note	2019 HK$'000	2018 HK$'000
Exchange differences on translation into presentation currency		**(103,792)**	(164,507)
Financial assets measured at FVOCI:			
Net gain/(loss) on debt securities at fair value through other comprehensive income (recycling)		**5,547**	(9,173)
Reclassification adjustments for amounts transferred to profit or loss:			
– loss on disposal	4	**3,459**	–
Net movement in fair value reserve during the year recognised in other comprehensive income		**9,006**	(9,173)
		(94,786)	(173,680)

11. Earnings Per Share

a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$182,448,000 (2018: HK$270,427,000) and the weighted average number of ordinary shares in issue less shares held under the Company's share award scheme during the year of 4,170,790,596 (2018: 4,299,502,207).

b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$182,448,000 (2018: HK$270,427,000) and the weighted average number of ordinary shares calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019 Number of shares	2018 Number of shares
Weighted average number of ordinary shares in issue less shares held for the share award scheme used in the basic earnings per share calculation	**4,170,790,596**	4,299,502,207
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**1,651,545**	8,723,100
Weighted average number of ordinary shares (diluted) at 31 December	**4,172,442,141**	4,308,225,307

For the year ended 31 December 2019, the effects of potential ordinary shares arising from certain share options are not included in calculating the diluted earnings per share as they had an anti-dilutive effect on the earnings per share for the year.

12. Property, Plant and Equipment

(a) Reconciliation of carrying amount

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Properties leased for own use HK$'000	Total HK$'000
Cost					
At 1/1/2018	11,195	8,687	7,957	–	27,839
Additions	4,489	1,504	3,018	–	9,011
Disposals	(134)	(1,108)	(226)	–	(1,468)
Exchange adjustment	(532)	(190)	(320)	–	(1,042)
At 31/12/2018	15,018	8,893	10,429	–	34,340
At 31/12/2018	15,018	8,893	10,429	–	34,340
Impact on initial application of HKFRS 16 (note)	–	–	–	16,782	16,782
At 1 January 2019	15,018	8,893	10,429	16,782	51,122
Additions	208	–	1,691	727	2,626
Additions through acquisition of subsidiaries (note 44(a) & (b))	81	40	4,654	–	4,775
Disposals	(53)	–	(591)	–	(644)
Exchange adjustment	(242)	(86)	(273)	(158)	(759)
At 31/12/2019	**15,012**	**8,847**	**15,910**	**17,351**	**57,120**
Accumulated depreciation and impairment					
At 1/1/2018	8,506	8,270	4,494	–	21,270
Charge for the year	1,651	459	1,526	–	3,636
Written back on disposals	–	(1,108)	(225)	–	(1,333)
Exchange adjustment	(430)	(189)	(178)	–	(797)
At 31/12/2018	9,727	7,432	5,617	–	22,776
At 1 January 2019	9,727	7,432	5,617	–	22,776
Charge for the year	2,058	377	2,707	10,433	15,575
Written back on disposals	–	–	(295)	–	(295)
Exchange adjustment	(215)	(85)	(87)	(75)	(462)
At 31/12/2019	**11,570**	**7,724**	**7,942**	**10,358**	**37,594**
Carrying amounts					
At 31/12/2019	**3,442**	**1,123**	**7,968**	**6,993**	**19,526**
At 31/12/2018	5,291	1,461	4,812	–	11,564

12. Property, Plant and Equipment *(Continued)*

(a) *Reconciliation of carrying amount (Continued)*

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances as at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 2(c).

(b) *Right-of-use assets*

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	**31 December 2019 $'000**	1 January 2019 $'000
Plant, machinery and equipment, carried at depreciated cost	(i)	**6,993**	16,782

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK$'000	2018 (Note (i)) HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use	**10,433**	–
Interest on lease liabilities (note 3(a))	**560**	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**9,425**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	16,249

12. Property, Plant and Equipment *(Continued)*

(b) Right-of-use assets (Continued)

Notes:

(i) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated.

(ii) Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 25 and 35, respectively.

(iii) Properties leased for own use

The Group has obtained the right to use other properties as its office premises and director's quarter through tenancy agreements. The leases typically run for an initial period of 1 to 5 years. None of the leases includes variable lease payments.

13. Investments in Subsidiaries and Structured Entities

(a) Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Place of incorporation/ registration and operations	Particulars of issued and paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
K.P.B. Group Holdings Limited	BVI/Hong Kong	Ordinary US$12	100%	–	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100%	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100%	Investment holding
K.P.B. Marketing Limited	BVI/Hong Kong	Ordinary US$2	–	100%	Investment holding
K.P.I. Convenience Retail Company Limited	BVI/Hong Kong	Ordinary US$76,563	–	100%	Investment holding
K.P. Financial Group Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
Charter Merit Limited	Hong Kong	2 ordinary shares	–	100%	Holding of a club membership
Charter Paradise Limited	Hong Kong	2 ordinary shares	–	100%	Holding of a club membership
K.P.A. Company Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100%	Dormant
K.P.I. Development Limited	Hong Kong	2 ordinary shares and 10,000 non-voting deferred shares	–	100%	Securities trading
K.P.I. Industries Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100%	Holding of club memberships
K.P.I. International Trading Company Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100%	Securities trading
KP Property Agents Company Limited	Hong Kong	2 ordinary shares	–	100%	Property Agent
KP Financial Holdings Limited	Hong Kong	1 ordinary share	–	100%	Investment holding
QL Credit Gain Finance Company Limited	Hong Kong	1 ordinary share	–	100%	Money lending
KP Credit Gain Finance Company Limited	Hong Kong	1 ordinary share	–	100%	Money lending

13. Investments in Subsidiaries and Structured Entities *(Continued)*

(a) *Subsidiaries (Continued)*

Name	Place of incorporation/ registration and operations	Particulars of issued and paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Qian Long Assets Management Company Limited	Hong Kong	5,000,000 ordinary shares	–	100%	Assets management services
Golden Bauhinia Investment Holdings Co., Ltd	Hong Kong	1,000,000 ordinary shares	–	100%	Investment holding
北京華夏興業融資擔保有限公司 (note a)	The PRC	Registered capital RMB300,000,000	100%	–	Provision of loan guarantee services and financing consultancy services
北京中嘉利通商貿有限公司 (note b)	The PRC	Registered capital RMB30,000,000	–	100%	Investment holding
北京中港佳鄰商業有限公司 (note c)	The PRC	Registered capital US$13,000,000	–	100%	Provision of financing consultancy services
北京中金投財務諮詢有限公司 (note d)	The PRC	Registered capital US$300,000	–	100%	Provision of financing consultancy services
北京中金港資產管理有限公司 (note e)	The PRC	Registered capital RMB200,000,000	–	100%	Provision of financing consultancy services
北京中金投典當行有限公司 (note f)	The PRC	Registered capital RMB200,000,000	–	100%	Money lending
北京惠豐融金小額貸款有限公司 (note g)	The PRC	Registered capital RMB50,000,000	–	70%	Micro-lending
北京中金城開小額貸款有限公司 (note h)	The PRC	Registered capital RMB400,000,000	100%	–	Micro-lending
上海安金金融信息服務有限公司 (note i)	The PRC	Registered capital RMB500,000	–	100%	Provision of financing consultancy services
北京融信嘉資產管理有限公司 (note j)	The PRC	Registered capital RMB100,000,000	–	100%	Provision of financing consultancy services
北京中金投商業經紀有限公司 (note k)	The PRC	Registered capital RMB500,000	–	100%	Provision of rental services
北京朗明格諮詢有限公司 (note l)	The PRC	Registered capital RMB27,500,000	–	100%	Provision of financing consultancy services
Qian Long Capital	Cayman Islands/ Hong Kong	Ordinary US$1	–	100%	Investment manager
中金恒豐(北京)科技服務有限公司 (note m)	The PRC	Registered capital RMB10,000,000	–	70%	Micro-lending

13. Investments in Subsidiaries and Structured Entities *(Continued)*

(a) *Subsidiaries (Continued)*

Name	Place of incorporation/ registration and operations	Particulars of issued and paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
成都市武侯惠信小額貸款有限責任公司 (note n)	The PRC	Registered capital RMB300,000,000	–	90%	Micro-lending
Noble Lion Education Company Limited	Hong Kong	1 ordinary share	100%	–	Provision of education services
Brick Lane Education Company Limited	Hong Kong	10 ordinary shares	–	60%	Provision of education services
Access Global Education Enterprise Limited	Hong Kong	1,000 ordinary shares	–	60%	Provision of education services
Access (UK) Education Limited	United Kingdom	100 ordinary shares	–	60%	Provision of education services
Brilliant Star Capital (Cayman) Limited	Cayman Islands/ Hong Kong	Ordinary HK$0.1	–	100%	Investment holding
Brilliant Star Capital (BVI) Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
Brilliant Star Capital Limited	Hong Kong	350,000,000 ordinary shares	–	100%	Investment holding
北京啟航惠智供應鏈管理有限公司 (note o)	The PRC	Registered capital RMB10,000,000	–	70%	Not yet commenced business
北京啟航暢聯科技有限公司 (note p)	The PRC	Registered capital RMB1,000,000	–	100%	Not yet commenced business
天津金悦海資產管理投資有限公司 (note q)	The PRC	Registered capital RMB5,000,000	–	100%	Not yet commenced business
北京誠通萬鈞諮詢有限公司 (note r)	The PRC	Registered capital RMB20,000,000	–	100%	Not yet commenced business
北京領路達航咨詢有限公司 (note s)	The PRC	Registered capital RMB5,000,000	–	100%	Not yet commenced business
嘉禧投資基金管理(北京)有限公司 (note t)	The PRC	Registered capital RMB10,000,000	–	100%	Not yet commenced business
北京中金融華商業保理有限公司 (note u)	The PRC	Registered capital RMB50,000,000	–	100%	Provision of factoring service
深圳市領達小額貸款有限公司 (note v)	The PRC	Registered capital RMB300,000,000	–	100%	Micro-lending
重慶市東榮商務諮詢有限公司 (note w)	The PRC	Registered capital HK$6,300,000	–	100%	Provision of financing consultancy service
重慶兩江新區領達小額貸款有限公司 (note x)	The PRC	Registered capital US$50,000,000	–	100%	Micro-lending
Wise Ascent Corporation Limited	Hong Kong	1 Ordinary shares	100%	–	Not yet commenced business
Honest Education Management Limited	Hong Kong	10 Ordinary shares	–	60%	Not yet commenced business

13. Investments in Subsidiaries and Structured Entities *(Continued)*

(a) Subsidiaries (Continued)

Notes:

a) 北京華夏興業融資擔保有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to June 2031.

b) 北京中嘉利通商貿有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 15 years up to March 2023.

c) 北京中港佳鄴商業有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to March 2028.

d) 北京中金投財務諮詢有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to December 2030.

e) 北京中金港資產管理有限公司(“中金港” or “Zhongjingang”) is a limited liability company established in the PRC.

f) 北京中金投典當行有限公司(“典當行”) is a limited liability company established in the PRC.

g) 北京惠豐融金小額貸款有限公司(“惠豐小貸”) is a limited liability company established in the PRC.

h) 北京中金城開小額貸款有限公司 is a sino-foreign enterprise established in the PRC.

i) 上海安金金融信息服務有限公司 is a limited liability company established in the PRC.

j) 北京融信嘉資產管理有限公司(“融信嘉” or “Rongxinjia”) is a limited liability company established in the PRC.

k) 北京中金投商業經紀有限公司 is a limited liability company established in the PRC.

l) 北京朗明格諮詢有限公司 is a limited liability company established in the PRC.

m) 中金恒豐(北京)科技服務有限公司 is a limited liability company established in the PRC.

n) 成都市武候惠信小額貸款有限責任公司 is a limited liability company established in the PRC.

o) 北京啟航惠智供應鏈管理有限公司 is a limited liability company established in the PRC.

p) 北京啟航暢聯科技有限公司 is a limited liability company established in the PRC.

q) 天津金悦海資產管理投資有限公司 is a limited liability company established in the PRC.

r) 北京誠通萬鈞諮詢有限公司 is a limited liability company established in the PRC.

s) 北京領路達航咨詢有限公司 is a limited liability company established in the PRC.

t) 嘉禧投資基金管理(北京)有限公司 is a limited liability company established in the PRC.

u) 北京中金融華商業保理有限公司 is a limited liability company established in the PRC.

v) 深圳市領達小額貸款有限公司(“Shenzhen Credit Gain”) is a limited liability company established in the PRC.

w) 重慶市東榮商務諮詢有限公司(“Chongqing Dongrong”) is a limited liability company established in the PRC.

x) 重慶兩江新區領達小額貸款有限公司(“Chongqing Credit Gain”) is a limited liability company established in the PRC.

13. Investments in Subsidiaries and Structured Entities *(Continued)*

(a) Subsidiaries (Continued)

The following table lists out the information relating to the subsidiaries of the Group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	北京惠豐融金小額貸款有限公司		中金恒豐(北京)科技服務有限公司 (note i)		成都市武侯惠信小額貸款有限責任公司		北京中金城開小額貸款有限公司 (note ii)
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	2018 HK$'000
NCI percentage	**30%**	30%	**30%**	30%	**10%**	10%	20%
Current assets	**94,128**	103,137	**222,433**	831,183	**282,227**	256,642	750,179
Non-current assets	**29,566**	9,061	**413**	11	**155,142**	139,702	25,390
Current liabilities	**(3,902)**	(3,123)	**(126,833)**	(788,905)	**(35,363)**	(29,909)	(266,301)
Non-current liabilities	**–**	–	**–**	–	**(150)**	–	–
Net assets	**119,792**	109,075	**96,013**	42,289	**401,856**	366,435	509,268
Carrying amount of NCI	**35,938**	32,723	**28,804**	12,687	**40,186**	36,644	101,854
Revenue	**19,079**	16,742	**105,594**	85,645	**65,953**	56,130	138,132
Profit for the year	**12,825**	11,104	**59,690**	31,520	**36,373**	21,823	61,734
Total comprehensive income	**10,204**	5,987	**57,805**	29,877	**27,538**	4,570	38,227
Profit allocated to NCI	**3,848**	3,331	**17,907**	9,456	**3,637**	2,182	12,347
Dividend paid to NCI	**–**	–	**–**	–	**318**	–	20,651
Cash flows from operating activities	**4,693**	(21,979)	**260,718**	(41,882)	**11,080**	(66,900)	204,332
Cash flows from investing activities	**(323)**	(1,449)	**295**	(523)	**98**	2,113	450
Cash flows from financing activities	**–**	–	**(258,783)**	40,216	**1,035**	–	(174,142)

Notes:

i) Ms. Guan Xue Ling, an executive director of the Company, is the managing partner and a shareholder of the NCI of 中金恒豐(北京)科技服務有限公司.

ii) During the year ended 31 December 2019, the Group acquired an additional 20% equity interest of 北京中金城開小額貸款有限公司 from the non-controlling shareholder and it became the wholly-owned subsidiary accordingly.

13. Investments in Subsidiaries and Structured Entities *(Continued)*

(b) Structured entities

The Group had consolidated certain structured entities including the investment fund (the "Fund") and the trust (the "Trust"). To determine whether control exists, the Group uses the following judgements:

(1) For the Trust, to which the Group provides financial guarantees, the Group has an obligation to fund the losses beyond its investments, if any, in accordance with the guarantee agreements. The Group concludes that its exposure to variability of returns is of such significance that these structured entities shall be consolidated.

(2) For the Fund, the directors of the Company consider that the Group has a control over the Fund since

(1) the Group involves as investment manager;

(2) the Group is acting as a principal in the Fund;

(3) no substantial removal rights held by other parties may remove the Group as an investment manager; and

(4) the investment interests held together with its remuneration from servicing and managing the Fund creates significant exposure to the variability of returns in the Fund.

Details of the Group's significant consolidated structured entities are as follows:

Name of structured entity	Size of trust plan/ fund as at 31 December 2019 HK$'000	Proportion of interests held by the Group as at 31 December 2019	2018	Principal activities
中誠信託滙融集合資金信託計劃 (the "Trust")	580,946	**25%**	25%	Provision of financing consultancy services
Kronos Fund SPC (the "Fund")	27,389	**43.93%**	66.3%	Fund investment

13. Investments in Subsidiaries and Structured Entities *(Continued)*

(b) Structured entities (Continued)

The following table lists out the information relating to the Trust. The summarised financial information presented below represents the amounts before any inter-company elimination.

	The Trust 2019 HK$'000	The Trust 2018 HK$'000
Current assets	**595,293**	292,104
Non-current assets	**1,002**	–
Current liabilities	**(589,774)**	(292,411)
Net assets/(liabilities)	**6,521**	(307)
Revenue	**67,079**	4,438
Profit/(loss) for the year	**29,971**	(318)
Total comprehensive income/(loss)	**29,851**	(307)
Cash flows from operating activities	**141,439**	79,071
Cash flows from investing activities	**376**	123
Cash flows from financing activities	**(79,274)**	(70,967)

The financial impact of the Fund on the Group's financial position as at 31 December 2019 and 2018, and results and cash flows for the years ended 31 December 2019 and 2018, though consolidated, are not significant and therefore not disclosed separately.

Interests held by other interest holders are presented as changes in net assets attributable to other holders of consolidated structured entities in the consolidated statement of profit or loss and included in other payables in the consolidated statement of financial position as set out in notes 26(g) and 26(h).

14. Goodwill

	HK$'000
Cost and carrying amount	
At 1 January 2018	635,477
Exchange adjustment	(31,770)
At 31 December 2018 and 1 January 2019	603,707
Arising on acquisition of subsidiaries (note 44)	3,358
Exchange adjustment	(9,514)
At 31 December 2019	597,551

Goodwill has been allocated for impairment testing purposes to the following CGUs.

– Financing business in Beijing, PRC ("Division A")

– Education business in United Kingdom ("Division B")

– Financing business in Shenzhen ("Division C")

– Financing business in Chongqing ("Division D")

The carrying amounts of goodwill as at 31 December 2019 and 2018 allocated to these units are as below:

	2019 **HK$'000**	2018 HK$'000
Division A	**576,412**	585,926
Division B	**17,781**	17,781
Division C	**254**	–
Division D	**3,104**	–
	597,551	603,707

14. Goodwill *(Continued)*

Division A

The recoverable amount of the CGU is determined based on the value in use calculations, which are based on a business valuation report on the CGU prepared by an independent qualified professional valuer, Peak Vision Appraisals Limited (2018: Peak Vision Appraisals Limited). These calculations use cash flow projections based on financial budgets approved by management covering a three-year period (2018: three-year period). Cash flows beyond the three-year period (2018: three-year period) are extrapolated using an estimated growth rate stated below which is by reference to the forecasts based on the funds available for the Group's loan financing business and does not exceed the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using the discount rate stated below. The discount rates used are pre-tax and reflect specific risks relating to the relevant cash-generating unit.

Key assumptions used for the value-in-use calculations are as follows:

	2019	2018
Growth rate	**3%**	3%
Gross margin	**79%**	81%
Discount rate	**12.87%**	14.58%

Management determined the budgeted gross margin based on past performance and its expectation for market development.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.

For the year ended 31 December 2019, no impairment loss on goodwill (2018: nil) relating to Division A was recognised.

14. Goodwill *(Continued)*

Division B

The recoverable amount of the CGU is determined based on the value in use calculations, which are based on a business valuation report on the CGU prepared by an independent qualified professional valuer, Peak Vision Appraisals Limited (2018: Peak Vision Appraisals Limited). These calculations use cash flow projections based on financial budgets approved by management covering a five-year period (2018: five-year period). Cash flows beyond the five-year period are extrapolated using an estimated growth rate stated below which is by reference to the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using the discount rate stated below. The discount rates used are pre-tax and reflect specific risks relating to the relevant cash-generating unit.

Key assumptions used for the value-in-use calculations are as follows:

	2019	2018
Growth rate	**2%**	2%
Earnings before interest and tax (“EBIT”) margin	**28%**	51%
Discount rate	**16.22%**	16.67%

Management determined the budgeted EBIT margin based on past performance and its expectation for market development.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.

For the year ended 31 December 2019, no impairment loss on goodwill (2018: nil) relating to Division B was recognised.

Division C and Division D

For the year ended 31 December 2019, since the recoverable amount of CGUs were larger than the carrying amounts, the directors of the Company considered that no impairments of goodwill were to be made.

15. Intangible Assets

	Tradenames HK$'000
Cost	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	19,371
Carrying amount	
At 31 December 2019 and 2018	19,371

The tradenames have been considered to have indefinite lives because they are expected to contribute to the net cash flows of the Group indefinitely, and are not amortised.

16. Interests in Associates

	2019 HK$'000	2018 HK$'000
Carrying amount in the consolidated statement of financial position	**17,721**	17,925

The following list contains the particulars of associates, which are unlisted corporate entities whose quoted market price are not available.

Name of associate	Place of incorporation/ registration and operations	Particulars of issued and paid-up capital/ registered share capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Principal activity
北京中匯豐源融資租賃有限公司（「中匯豐源」）(note (i))	The PRC	Registered capital USD10,000,000	25%	25%	Not yet commenced operation
KGH Holdings Limited ("KGH") (note (ii))	Republic of Seychelles	100 ordinary shares	40%	–	Investment holding
Thetford Grammar School Limited ("Thetford Grammar School") (note (ii))	United Kingdom	5,760,480 ordinary shares	40%	–	Provision of education services

16. Interests in Associates *(Continued)*

Notes:

(i) 中匯豐源 is established in the PRC in the form of sino-foreign equity enterprise.

The Company shall contribute an amount of US$2,500,000 as its capital contribution, representing 25% equity interest in the associate. As at 31 December 2019 and 2018, the Company had contributed US$500,000 (equivalent to approximately HK$3,900,000). The Company has an obligation to settle the remaining amount of US$2,000,000 (equivalent to approximately HK$15,600,000).

(ii) During the year ended 31 December 2018, the Group acquired 40% equity interest in KGH from the independent third parties for a consideration of British Pound ("GBP") 2,200,000 (approximately HK$22,220,000). KGH held 100% equity interest in Thetford Grammar School. KGH and Thetford Grammar School are collectively referred as the "KGH Group".

All of the above associates are accounted for using the equity method in the consolidated financial statements.

a) *Summarised financial information of 中匯豐源*

Financial information about the Group's interest in 中匯豐源, that is not material, is disclosed below:

	中匯豐源	
	2019	2018
	HK$'000	HK$'000
Amounts of the Group's share of this associate's loss for the year	**(3)**	(3)
Other comprehensive loss for the year	**(77)**	(170)
Total comprehensive loss for the year	**(80)**	(173)
Carrying amount of the associate in the consolidated financial statements	**3,453**	3,533

16. Interests in Associates *(Continued)*

b) *Summarised financial information of KGH Group*

Summarised financial information of KGH Group, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	KGH Group 2019 HK$'000	KGH Group 2018 HK$'000
Non-current assets	**37,072**	35,023
Current assets	**8,267**	6,785
Non-current liabilities	**1,354**	–
Current liabilities	**25,950**	23,463
Equity	**18,035**	18,345
Revenue	**30,257**	26,822
Loss for the year	**(309)**	(10,759)
Other comprehensive income for the year	**–**	–
Total comprehensive loss for the year	**(309)**	(10,759)

c) *Reconciliation of the above summarised financial information of KGH Group to the carrying amount of the interest in the associate recognised in the consolidated financial statements:*

	KGH Group 2019 HK$'000	KGH Group 2018 HK$'000
Net assets of the associate	**18,035**	18,345
Group's effective interest	**40%**	40%
Group's share of net assets of the associate	**7,214**	7,338
Goodwill (note)	**7,054**	7,054
Carrying amount in the consolidated financial statements	**14,268**	14,392

Note: The recoverable amount of the CGU is determined based on the value in use calculations, which are based on a business valuation report on the CGU prepared by an independent qualified professional valuer, Peak Vision Appraisals Limited.

Based on the valuation, no impairment loss on goodwill relating to KGH Group was recognised during the year ended 31 December 2019 (2018: Nil).

17. Interests in Joint Ventures

	2019 HK$'000	2018 HK$'000
Carrying amount in the consolidated statement of financial position	**784**	–

The following list contains the particulars of joint ventures, which are an unlisted corporate entities whose quoted market price are not available.

Name of joint venture	Place of incorporation/ registration and operation	Particulars of issued capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Principal activity
Oyster Pie Group Limited	Hong Kong	400 ordinary shares	50%	–	Investment holding
Oyster Pie Solutions Limited (note (i))	Hong Kong	100 ordinary shares	50%	–	Not yet commenced operation

Note:

(i) Oyster Pie Group Limited held 100% equity interest in Oyster Pie Solutions Limited. They are collectively referred as the "Oyster Pie Group".

All of the above joint ventures are accounted for using the equity method in the consolidated financial statements.

17. Interests in Joint Ventures *(Continued)*

a) *Summarised financial information of Oyster Pie Group*

Summarised financial information of Oyster Pie Group, adjusted for any difference in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	Oyster Pie Group 2019 HK$'000
Non-current assets	–
Current assets	1,630
Non-current liabilities	–
Current liabilities	(62)
Equity	1,568
Revenue	–
Loss for the year	(2,432)
Other comprehensive loss for the year	–
Total comprehensive loss for the year	(2,432)

b) *Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:*

	Oyster Pie Group 2019 HK$'000
Net assets of the joint venture	1,568
Group's effective interest	50%
Group's share of net assets of the joint venture	784
Carrying amount in the consolidated financial statements	784

18. Other financial assets

	2019 HK$'000	2018 HK$'000
Financial assets measured at FVOCI		
– Debt securities listed in Hong Kong	**13,104**	43,098
Financial assets carried at FVPL		
– Equity securities listed in Hong Kong	**3,985**	4,742
– Unlisted investment funds in the PRC	**24,461**	31,567
– Unlisted investments:		
– Golf club membership	**8,506**	7,646
– Marina club membership	**3,700**	3,791
	40,652	47,746
Total	**53,756**	90,844

19. Contingent Consideration Receivables

Contingent consideration receivables represented the profit guarantee arising from (i) the acquisition of Access Global Education Enterprise Limited and its subsidiary (collectively referred as the "Access Global Group") during the year ended 31 December 2017; and (ii) the acquisition of KGH Group during the year ended 31 December 2018. The contingent consideration receivables are measured at fair value at the end of the reporting period. The movement of the fair value of contingent consideration receivables is as follows:

	HK$'000
At fair value	
At 1 January 2018	1,270
Arising from acquisition of associates	3,524
Fair value change	10,444
At 31 December 2018 and 1 January 2019	15,238
Fair value change	(4,556)
At 31 December 2019	10,682

(i) Acquisition of Access Global Group

Pursuant to the sale and purchase agreement, the profit guarantee amount of each anniversary date for the period from 1 July 2017 to 30 June 2020 is not less than British Pound ("GBP") 350,000, GBP450,000 and GBP500,000, respectively.

(ii) Acquisition of KGH Group

Pursuant to the sale and purchase agreement, the profit guarantee amount of each anniversary date for the period from 1 September 2018 to 31 August 2020 is at least breakeven for each reporting period.

The fair value of the contingent consideration receivables as at 31 December 2019 and 2018 is based on the valuation performed by Peak Vision Appraisals Limited, an independent professional valuer not connected with the Group.

20. Loans Receivable

	2019 HK$'000	2018 HK$'000
Pawn loans receivable	**329,436**	321,525
Loans receivable arising from:		
– Micro-lending	**1,472,838**	1,124,664
– Money-lending	**651,369**	589,054
Other loans receivable	**2,039,480**	2,642,681
	4,493,123	4,677,924
Less: Allowances for doubtful debts	**(88,065)**	(72,895)
	4,405,058	4,605,029
Amounts due within one year included under current assets	**3,839,295**	3,984,541
Amounts due after one year included under non-current assets	**565,763**	620,488
	4,405,058	4,605,029

Notes:

i) Approximately HK$3,773,544,000 (net of allowances for doubtful debts) (2018: HK$4,050,283,000 (net of allowance for doubtful debts)) of the Group's loans receivable were arising from the PRC and are denominated in Renminbi ("RMB"). The loans receivable in the PRC carry interest plus service charge at a monthly effective rate of 0.32% to 4.29% (2018: 0.24% to 4.29%), and the loans receivable in Hong Kong carry interest at a monthly effective rate of 0.35% to 4.98% (2018: 0.31% to 4.98%).

ii) A typical loan generally has a term of 31 days to 30 years (2018: 25 days to 30 years).

iii) The loan receivables of approximately HK$158,163,000 and HK$216,630,000 were pledged to the vendor to secure the consideration payable for acquisitions of Shenzhen Credit Gain and Chongqing Credit Gain and Chongqing Dongrong respectively. Such loan receivables will be released upon the Group pays the consideration to the vendor in full.

20. Loans Receivable *(Continued)*

a) *Maturity profile*

As at the end of the reporting period, the maturity profile of loans receivable, based on maturity date, is as follows:

	2019					2018				
	Pawn loans receivable HK$'000	Loans receivable arising from micro-lending HK$'000	Loans receivable arising from money-lending HK$'000	Other loans receivable HK$'000	Total HK$'000	Pawn loans receivable HK$'000	Loans receivable arising from micro-lending HK$'000	Loans receivable arising from money-lending HK$'000	Other loans receivable HK$'000	Total HK$'000
Due within 1 month or on demand	156,347	123,730	19,119	655,618	954,814	51,359	66,211	21,014	423,849	562,433
Due after 1 month but within 3 months	2,456	111,415	20,331	229,252	363,454	40,744	219,851	11,684	221,250	493,529
Due after 3 months but within 6 months	27,909	183,746	78,412	282,844	572,911	60,306	273,862	25,532	535,710	895,410
Due after 6 months but within 12 months	115,374	867,039	186,471	858,927	2,027,811	169,116	415,960	50,118	1,461,872	2,097,066
Due after 12 months	27,350	186,907	347,037	12,839	574,133	–	148,780	480,706	–	629,486
Allowances for doubtful debts	(2,547)	(22,214)	(30,699)	(32,605)	(88,065)	(2,107)	(8,096)	(45,212)	(17,480)	(72,895)
	326,889	1,450,623	620,671	2,006,875	4,405,058	319,418	1,116,568	543,842	2,625,201	4,605,029

Details on the Group's credit policy are set out in note 47(a).

b) *Analysed by credit quality*

	2019				
	Pawn loans receivable HK$'000	Loans receivable arising from micro-lending HK$'000	Loans receivable arising from money-lending HK$'000	Other loans receivable HK$'000	Total HK$'000
Not past due	329,436	1,418,341	531,281	2,022,735	4,301,793
Less than 1 month past due	–	5,732	80,956	–	86,688
1 to 3 months past due	–	4,692	16,060	–	20,752
Over 3 months past due	–	44,072	23,073	16,745	83,890
Allowance for doubtful debts	(2,547)	(22,214)	(30,699)	(32,605)	(88,065)
	326,889	1,450,623	620,671	2,006,875	4,405,058

20. Loans Receivable *(Continued)*

b) *Analysed by credit quality (Continued)*

	2018				
	Pawn loans receivable HK$'000	Loans receivable arising from micro-lending HK$'000	Loans receivable arising from money-lending HK$'000	Other loans receivable HK$'000	Total HK$'000
Not past due	321,525	1,114,636	452,199	2,642,681	4,531,041
Less than 1 month past due	–	4,110	59,262	–	63,372
1 to 3 months past due	–	243	3,823	–	4,066
Over 3 months past due	–	5,675	73,770	–	79,445
Allowance for doubtful debts	(2,107)	(8,096)	(45,212)	(17,480)	(72,895)
	319,418	1,116,568	543,842	2,625,201	4,605,029

20. Loans Receivable *(Continued)*

c) *Expected credit loss of loans receivable*

(i) Expected credit loss in respect of loans receivable are recorded using an allowance account unless the Group is satisfied that there is no realistic prospect of recovery, in which case the expected credit loss is written off against loans receivable directly (see note 2(j).

Reconciliation of changes in gross carrying amount and allowances for loans receivable

The table below provides a reconciliation of the Group's gross carrying amount and allowances for loans receivable.

The transfers of financial instruments represents the impact of stage transfers upon the gross carrying amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the increase in ECL due to these transfers.

Reconciliation of gross exposure and allowances for loans receivable for the year ended 31 December 2019

	Non credit – impaired				Credit – impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross exposure HK$'000	Allowance for ECL HK$'000	Gross exposure HK$'000	Allowance for ECL HK$'000	Gross exposure HK$'000	Allowance for ECL HK$'000	Gross exposure HK$'000	Allowance for ECL HK$'000
At 1 January 2019	4,531,041	(34,103)	67,438	(2,466)	79,445	(36,326)	4,677,924	(72,895)
Transfers of financial instruments:								
– transfers to Stage 2	(12,869)	210	12,869	(210)	–	–	–	–
– transfers to Stage 3	(27,780)	276	(3,229)	90	31,009	(366)	–	–
Net remeasurement of ECL arising from transfer of stage	–	–	–	(258)	–	(24,831)	–	(25,089)
Net new and further lending/(repayment)	(103,615)	(1,036)	30,567	(1,085)	7,166	(1,515)	(65,882)	(3,636)
Assets written off	–	–	–	–	(32,616)	32,616	(32,616)	32,616
Changes to risk parameters (model inputs)	–	(6,132)	–	151	–	(13,738)	–	(19,719)
Foreign exchange and others	(84,984)	640	(205)	6	(1,114)	12	(86,303)	658
At 31 December 2019	4,301,793	(40,145)	107,440	(3,772)	83,890	(44,148)	4,493,123	(88,065)

20. Loans Receivable *(Continued)*

c) *Expected credit loss of loans receivable (Continued)*

(i) *(Continued)*

Reconciliation of changes in gross carrying amount and allowances for loans receivable (Continued)

Reconciliation of gross exposure and allowances for loans receivable for the year ended 31 December 2018

	Non credit – impaired				Credit – impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross exposure HK$'000	Allowance for ECL HK$'000	Gross exposure HK$'000	Allowance for ECL HK$'000	Gross exposure HK$'000	Allowance for ECL HK$'000	Gross exposure HK$'000	Allowance for ECL HK$'000
At 1 January 2018	4,654,697	(30,459)	6,743	(233)	52,154	(26,223)	4,713,594	(56,915)
Transfers of financial instruments:								
– transfers to Stage 2	(21,515)	227	21,515	(227)	–	–	–	–
– transfers to Stage 3	(30,507)	295	(270)	2	30,777	(297)	–	–
Net remeasurement of ECL arising from transfer of stage	–	–	–	(489)	–	(9,619)	–	(10,108)
Net new and further lending/(repayment)	99,550	(1,726)	39,761	(1,515)	(1,938)	167	137,373	(3,074)
Changes to risk parameters (model inputs)	–	(3,340)	–	(145)	–	(491)	–	(3,976)
Foreign exchange and others	(171,184)	900	(311)	141	(1,548)	137	(173,043)	1,178
At 31 December 2018	4,531,041	(34,103)	67,438	(2,466)	79,445	(36,326)	4,677,924	(72,895)

	Total 2019 HK$'000	Total 2018 HK$'000
Change in ECL in statement of profit or loss:		
Charge for the year	**(48,444)**	(15,980)
Foreign exchange and others	**(658)**	(1,178)
Total ECL charge for the year	**(49,102)**	(17,158)

Definitions of Stage 1, Stage 2 and Stage 3 are detailed in note 47(a)(i).

21. Accounts Receivable

	2019	2018
	HK$'000	HK$'000
Accounts receivable	**9,580**	3,471

All of the Group's accounts receivable were arising from the PRC and are denominated in RMB and are expected to be recovered within one year.

i) Ageing analysis

As at the end of the reporting period, the ageing analysis of accounts receivable, based on the revenue recognition date, is as follows:

	2019	2018
	HK$'000	HK$'000
Within 1 month	**6,930**	2,177
1 to 3 months	**2,648**	1,000
3 to 6 months	**2**	294
	9,580	3,471

Accounts receivable are due within 30 days from the date of billing. Further details on the Group's credit policy are set out in the note 47(a)(iii).

21. Accounts Receivable *(Continued)*

ii) *Accounts receivable that are not credit impaired*

	2019 HK$'000	2018 HK$'000
Neither past due nor credit impaired	**6,930**	2,177
Less than 1 month past due	**1,784**	636
1 to 3 months past due	**866**	637
4 to 6 months past due	**–**	21
	9,580	3,471

At 31 December 2019 and 2018, no material impairment allowance on accounts receivable is provided in accordance with HKFRS 9.

22. Interests Receivable

	2019 HK$'000	2018 HK$'000
Interests receivable	**22,551**	24,535

Approximately HK$12,371,000 (2018: HK$10,107,000) of the Group's interests receivable were arising from the PRC and are denominated in RMB. All of the interests receivable are expected to be recovered within one year.

22. Interests Receivable *(Continued)*

i) *Ageing analysis*

As at the end of the reporting period, the ageing analysis of interests receivable, based on the revenue recognition date, is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	**12,520**	12,464
1 to 3 months	**3,897**	2,936
3 to 6 months	**1,711**	292
Over 6 months	**4,423**	8,843
	22,551	24,535

Interests receivable are due within 30 days from the date of billing (or on maturity date of loans receivable according to the relevant loan agreements).

ii) *Interests receivable that are not credit impaired*

	2019 HK$'000	2018 HK$'000
Neither past due nor credit impaired	**11,317**	10,422
Less than 1 month past due	**3,473**	4,209
1 to 3 months past due	**2,353**	907
4 to 6 months past due	**2,139**	154
Over 6 months past due	**3,269**	8,843
	22,551	24,535

At 31 December 2019 and 2018, no material impairment allowance on interests receivable is provided in accordance with HKFRS 9.

23. Other Receivables, Deposits and Prepayments

	2019 HK$'000	2018 HK$'000
Non-current		
Deposits (note a)	–	165,908
Current		
Other receivables	27,230	17,472
Prepayments	8,211	8,270
Utility and sundry deposits (note b)	6,498	4,412
	41,939	30,154

Notes:

a) As at 31 December 2018, the amounts of HK$50,000,000 and HK$115,908,000 represent the deposit for the acquisitions of certain companies which are engaged in money lending business in the PRC, and the deposit paid to a non-controlling interest of a subsidiary for acquiring 20% equity interest of that subsidiary, respectively. The transactions are completed during the year ended 31 December 2019.

b) The amount of utility and sundry deposits expected to be recovered or recognised as expense after more than one year is HK$1,517,000 (2018: HK$1,551,000). Except for the non-current deposits, all of the other receivables, deposits and prepayments are expected to be recovered or recognised as expense within one year.

24. Pleged Bank and Security Deposits Paid

a) As at 31 December 2019, deposits of approximately HK$33,983,000 (2018: HK$28,460,000) were pledged to banks to secure bank loans and banking facilities granted to the Company and the Group. The interest rates on the deposits are ranging from 0.001% to 2.4% (2018: 0.001% to 0.3%) per annum.

b) Security deposits of RMB63,000 (equivalent to approximately HK$70,000) (2018: RMB658,000 (equivalent to approximately HK$751,000)) are placed by the Group with the financial institutions according to the requirements of the financial institutions for credit guarantees that the Group provides to third parties for their borrowings from the financial institutions.

c) All of the security deposits paid as at 31 December 2019 and 2018 are expected to be recovered within one year.

25. Cash and Cash Equivalents and Time Deposits

	2019 **HK$'000**	2018 HK$'000
Cash and cash equivalents in the consolidated statements of financial position and cash flows:		
Cash at financial institutions and on hand	**703,563**	509,966
Time deposits with original maturity		
– Within one month	**–**	30,218
	703,563	540,184

Notes:

a) Deposits with financial institutions carry interest at market rates approximately 0.01% (2018: 0.01% to 2.3%) per annum.

b) Cash at financial institutions as at 31 December 2019 include HK$611,067,000 (2018: HK$363,523,000) placed with financial institutions in the PRC, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

25. Cash and Cash Equivalents and Time Deposits *(Continued)*

a) *Reconciliation of liabilities arising from financing activities*

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

	Borrowings	Bank loans	Unsecured bonds	Amount due to an associate	Lease liabilities (Note 35)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018	1,284,304	132,478	302,022	2,970	–	1,721,774
Impact of initial application of HKFRS 16 (Note 2)	–	–	–	–	16,782	16,782
At 1 January 2019	1,284,304	132,478	302,022	2,970	16,782	1,738,556
Changes from financing cash flows:						
Proceeds from new borrowings	378,823	–	–	–	–	378,823
Repayment of short-term borrowings	(1,025,234)	–	–	–	–	(1,025,234)
Proceeds from new bank loans	–	346,360	–	–	–	346,360
Repayment of bank loans	–	(238,658)	–	–	–	(238,658)
Proceeds from the issue of unsecured bonds	–	–	36,614	–	–	36,614
Capital element of lease rentals paid	–	–	–	–	(9,881)	(9,881)
Interest element of lease rentals paid	–	–	–	–	(560)	(560)
Repayment to an associate	–	–	–	(20)	–	(20)
Bank loans interest and other interests paid	(89,641)	(11,773)	(16,189)	–	–	(117,603)
Redemption of unsecured bonds	–	–	(56,560)	–	–	(56,560)
Total changes from financing cash flows	(736,052)	95,929	(36,135)	(20)	(10,441)	(686,719)
Exchange adjustments	(4,933)	(2,582)	–	(65)	(84)	(7,664)
Other changes:						
Increase in lease liabilities from entering into new leases during the period	–	–	–	–	727	727
Interest expenses	87,545	11,773	28,476	–	560	128,354
At 31 December 2019	630,864	237,598	294,363	2,885	7,544	1,173,254

Note: The group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2(c).

25. Cash and Cash Equivalents and Time Deposits *(Continued)*

a) *Reconciliation of liabilities arising from financing activities (Continued)*

	Borrowings HK$'000	Bank loans HK$'000	Senior bonds HK$'000	Unsecured bonds HK$'000	Amount due to an associate HK$'000	Financial derivatives HK$'000	Total HK$'000
At 1 January 2018	1,237,157	213,556	365,099	330,654	3,125	304	2,149,895
Changes from financing cash flows:							
Proceeds from new borrowings	1,542,377	–	–	–	–	–	1,542,377
Repayment of short-term borrowings	(1,409,397)	–	–	–	–	–	(1,409,397)
Proceeds from new bank loans	–	195,776	–	–	–	–	195,776
Repayment of bank loans	–	(272,663)	–	–	–	–	(272,663)
Repayment of senior bonds	–	–	(378,682)	–	–	–	(378,682)
Proceeds from the issue of unsecured bonds	–	–	–	15,420	–	–	15,420
Repayment to an associate	–	–	–	–	(12)	–	(12)
Bank loans interest and other interests paid	(132,542)	(11,910)	(5,535)	(15,130)	–	–	(165,117)
Redemption of unsecured bonds	–	–	–	(58,000)	–	–	(58,000)
Total changes from financing cash flows	438	(88,797)	(384,217)	(57,710)	(12)	–	(530,298)
Exchange adjustments	(41,518)	(4,191)	13,583	–	(143)	–	(32,269)
Other changes:							
Interest expenses	108,227	11,910	5,535	29,078	–	–	154,750
Gain on disposal of financial derivatives	–	–	–	–	–	(304)	(304)
Non-cash transaction (note 50)	(20,000)	–	–	–	–	–	(20,000)
At 31 December 2018	1,284,304	132,478	–	302,022	2,970	–	1,721,774

25. Cash and Cash Equivalents and Time Deposits *(Continued)*

b) *Total cash outflows for leases*

Amounts included in the cash flow statement for leases comprise the following:

	2019 HK$'000	2018 (note) HK$'000
Within operating cash flows	**9,425**	16,253
Within investing cash flows	**–**	–
Within financing cash flows	**10,441**	–
	19,866	16,253

Note: As explained in the note to note 25(a) above, the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 HK$'000	2018 HK$'000
Lease rentals paid	**19,866**	16,253

26. Borrowings and Other Payables

	Note	2019 HK$'000	2018 HK$'000
Current:			
Borrowings under contractual agreements with:			
– Platform A	26(a)	–	1,601
– Platform B	26(b)	73,679	829,522
Borrowings from employees and certain independent third parties	26(c)	69,134	30,645
Borrowings from shareholders	45(b)	4,286	60,797
Borrowings from a related companies	26(d)	163,048	90,508
Borrowings from a money lending license corporation	26(e)	47,500	–
Note Payable	26(f)	273,217	–
		630,864	1,013,073
Payable to interest holders of consolidated structured entity – investment fund	26(g)	7,315	20,967
Payable to interest holders of consolidated structured entity – trust	26(h)	435,607	217,143
		442,922	238,110
		1,073,786	1,251,183
Non-current:			
Note payable	26(f)	–	271,231

Notes:

a) In 2014, Zhongjingang and Rongxinjia, both of which are subsidiaries of the Company, separately entered into a strategic cooperation agreement with an independent third party, which would establish and operate online lending platform ("Platform A"), in the launch of internet finance so as to invite investors to invest in the loans receivable of the Group. In this regard, the Group shall assign all its rights and benefits in the invested receivables to the investors and shall guarantee the due recoverability of such receivables. At the expiry of the investment period, the Group shall repay all the proceeds received to the investors. As at 31 December 2019, the borrowings under this platform amounted to approximately HK$Nil (2018: HK$1,601,000), which bore a finance cost measured at an annualised rate of 9% (2018: 9%) and were secured by certain of loans receivable of approximately HK$Nil (2018: HK$1,598,000).

The amount of finance costs incurred during the year amounting to HK$33,000 (2018: HK$66,000) is included in interest and handling expenses (note 3(a)).

26. Borrowings and Other Payables *(Continued)*

Notes: *(Continued)*

b) During the year ended 31 December 2017, the Group entered into a strategic cooperation agreement with another independent third party, which would establish and operate an integrated finance information service platform ("Platform B"), in the launch of internet finance so as to provide investors to invest in the loans receivable of the Group. In this regard, the Group shall assign all its rights and benefits in the invested receivables to the investors and shall guarantee the due recoverability of such receivables. At the expiry of the investment period, the Group shall repay all the proceeds received to the investors. As at 31 December 2019, the borrowings under this platform amounted to approximately HK$73,679,000 (2018: HK$829,522,000), which bore a finance cost measured at an annualised rate of 9.1% (2018: 9.1%) and were secured by certain of loans receivable of approximately HK$73,679,000 (2018: HK$826,295,000).

The amount of finance costs incurred during the year amounting to HK$44,898,000. (2018: HK$65,771,000) is included in interest and handling expenses (note 3(a)).

c) During the years ended 31 December 2019 and 2018, the Group borrowed funds from its employees and certain independent third parties for the development of its money lending business. As at 31 December 2019, the borrowings from the employees and certain independent third parties amounted to approximately HK$69,134,000 (2018: HK$30,645,000), which bore a finance cost measured at an annualised rate of 6% to 9% (2018: 5.5% to 7.5%), were repayable within one year and not secured by any assets or guarantees.

The amount of finance costs incurred during the year amounting to HK$2,971,000 (2018: HK$1,641,000) is included in interest and handling expenses (note 3(a)).

d) During the years ended 31 December 2019, the Group borrowed funds from Geston Limited, related party of the Group. Mr. Cheung Siu Lam controls the company. As at 31 December 2019, the borrowings from the related parties amounted to approximately HK$161,000,000. (2018: HK$90,508,000), which bore a finance cost measured at annualised rate of 4.8% to 6% (2018: 4.8%), were repayable within one year and not secured by any assets or guarantees.

During the years ended 31 December 2019, the Group borrowed funds from Taste of Sessyu Limited, related party of the Group. Ms. Lo Wan controls the company. As at 31 December 2019, the borrowings from the related party amount to approximately HK$2,048,000 (2018: HK$ Nil), which bore a finance cost measured at annualised rate of 5% (2018: Nil), was repayable within one year and not secured by any assets or guarantees.

Relationship of Mr. Cheung Siu Lam and Ms. Lo Wan to the Group are detailed in note 45(b).

The amount of finance costs incurred during the year amounted to HK$8,413,000 (2018: HK$5,083,000) is included in interest and handling expenses (note 3(a)).

26. Borrowings and Other Payables *(Continued)*

Notes: *(Continued)*

e) During the years ended 31 December 2019, the Group borrowed funds from a money lending license corporation amounted to approximately HK$47,500,000 (2018: HK$ Nill), which bore a finance cost measured at an annualised rate of HIBOR+3.30%, were repayable within one year and secured by deposits of approximately HK$23,750,000.

f) In February 2018, the Company issued note payable with principal amount of HK$270,000,000. The note bears interest at 8% per annum and was secured by equity interest of Brilliant Star Capital (Cayman) Limited, a wholly-owned subsidiary of the Group, and personal guarantee given by Mr. Cheung Siu Lam and Ms. Lo Wan. Mr. Cheung Siu Lam and Ms. Lo Wan should deposit at least 930,000,000 shares of the Company into a specific account with the safe keeping agent. The note is repayable in March 2020 and May 2020.

Relationship of Mr. Cheung Siu Lam and Ms. Lo Wan to the Group are detailed in note 45(b).

g) The amount represents third party interests in a consolidated structured entity, which consists of third-party unit/shareholders' interests in consolidated structured entity which are reflected as a liability since they can be redeemed for cash. The realisation of net assets attributable to third-party unit/shareholders' interests in consolidated structured entity cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment fund that are subject to the actions of third-party unit holders.

The amount of finance costs incurred during the year amounting to HK$3,019,000 (2018: HK$1,222,000) is included in interest and handling expenses (note 3(a)).

h) The amount represents third party interests in a consolidated structured entity, which consists of third-party unit/shareholders' interests in consolidated structured entity which are reflected as a liability since they can be redeemed for cash. The realisation of net assets attributable to third-party unit/shareholders' interests in consolidated structured entity cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated structured entity that are subject to the actions of third-party unit holders.

The amount of finance costs incurred during the year amounting to HK$26,612,000 (2018: HK$5,138,000) is included in interest and handling expenses (note 3(a)).

i) The borrowings and other payable of approximately HK$509,286,000 (2018: HK$1,048,266,000) were arising from the PRC and are denominated in RMB.

j) All borrowings and other payable are carried at amortised cost.

27. Bank Loans

At the end of the reporting period, the bank loans of the Group were repayable as follows:

	2019 HK$'000	2018 HK$'000
Within 1 year or on demand	**237,598**	132,478

At the end of the reporting period, the bank loans were secured as follows:

	Note	2019 HK$'000	2018 HK$'000
Bank loans			
– secured by the Group's loans receivable	(i)	**–**	30,000
– secured by an independent third party's guarantee	(ii)	**127,598**	68,478
– secured by the Company's corporate guarantee	(iii)	**20,000**	20,000
– secured by the subsidiary's corporate guarantee and pledged deposit	(iv)	**–**	14,000
– secured by Group's bank deposits	(v)	**20,000**	–
– secured by related company's property	(vi)	**35,000**	–
– secured by the share mortgage and guarantee	(vii)	**35,000**	–
		237,598	132,478

The ranges of effective interest rates on the Group's bank loans are as follows:

	2019 %	2018 %
Effective interest rates:		
Bank loans	**2.5%-6.53% per annum**	2.75%-6.53% per annum

Notes:

i) As at 31 December 2019, a bank loan of HK$Nil (2018: HK$30,000,000) were secured by loans receivable of HK$Nil (2018: HK$100,600,000), security deposit of HK$Nil (2018: HK$1,381,000) and corporate guarantee (2018: corporate guarantee) provided by the Company.

ii) As at 31 December 2019, the bank loans of approximately HK$127,598,000 (2018: HK$68,478,000) were secured by a guarantee provided by a guarantor, an independent third party. The Company, Guan Xue Ling, a director of the Company, Lu Wei Jun, a senior management of the Group, and certain subsidiaries provided counter-guarantee to the guarantor. In addition, approximately HK$268,734,000 (2018: HK$137,469,000) loans receivable and 80% (2018: 30%) of equity interest in 北京中金城開小額貸款有限公司, a subsidiary of the Company, were pledged to the guarantor.

27. Bank Loans *(Continued)*

Notes: *(Continued)*

iii) As at 31 December 2019, a bank loan of HK$20,000,000 (2018: HK$20,000,000) was secured by corporate guarantee provided by the Company.

iv) As at 31 December 2019, a bank loan of HK$Nil (2018: HK$14,000,000) was secured by corporate guarantee provided by a subsidiary and the pledged bank deposit of HK$Nil (2018: HK$27,079,000).

v) As at 31 December 2019, a bank loan of HK$20,000,000 (31 December 2018: HK$Nil) was secured by Group's bank deposits of HK$10,099,000 (31 December 2018: HK$Nil).

vi) As at 31 December 2019, a bank loan of HK$35,000,000 (31 December 2018: HK$Nil) was secured by the first mortgage for the property held by Fortuna Grace Limited, a company owned by Mr. Cheung Siu Lam, a director of the Company.

vii) As at 31 December 2019, a bank loan of HK$35,000,000 (31 December 2018: HK$Nil) was secured by (i) a share mortgage from the Group over its 40% equity interest of KGH Holdings Limited; (ii) corporate guarantee provided by the Company and Geston Limited, a related party of the Group; and (iii) personal guarantee provided by Mr. Cheung Siu Lam, a director of the Company and Ms. Lo Wan, a shareholder of the Company and the spouse of Mr. Cheung Siu Lam.

viii) The bank loans of approximately HK$127,598,000 (2018: HK$68,478,000) were obtained in the PRC and denominated in RMB.

ix) All of the bank loans are carried at amortised cost.

x) The bank loans of HK$110,000,000 (2018: HK$64,000,000) are repayable on demand clause according to the banking facilities.

xi) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the bank loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 47(b). As at 31 December 2019, none of the covenants relating to the bank loans had been breached (2018: Nil).

28. Security Deposits Received

Security deposits received refer to deposits received from customers as collateral for loan facilities granted by the Group. These deposits, which are denominated in RMB and HKD, are interest-free, and will be returned to customers after the relevant loan facilities expire.

29. Consideration Payable

	2019 HK$'000	2018 HK$'000
Non-current		
Consideration payable for acquisition of Shenzhen Credit Gain	65,902	–
Consideration payable for acquisition of Chongqing Credit Gain	120,288	–
	186,190	–
Current		
Consideration payable for acquisition of Shenzhen Credit Gain	33,455	–
Consideration payable for acquisition of Chongqing Credit Gain	61,065	–
	94,520	–
	280,710	–

The amounts shall be payable in cash in three equal installments on each anniversary of the completion date of the acquisition since the year ended 31 December 2019 at an interest rate which is prime rate minus 1.75%.

30. Accruals and Other Deposits Received

	2019 HK$'000	2018 HK$'000
Accrued salaries, wages and other benefits	4,561	12,848
Accrued expenses	7,959	19,008
Dividend payable	739	737
VAT and other tax payables	21,739	22,122
Others	19,959	21,214
	54,957	75,929

All of the accruals and other deposit received are expected to be settled or recognised as income within one year or are repayable on demand.

31. Liabilities Arising from Loan Guarantee Contracts

	2019 **HK$'000**	2018 HK$'000
Provision for guarantee losses	**–**	429

Movement analysis of provision for guarantee losses

	Undue liability provision (note i) HK$'000	**Guarantee compensation provision** (note ii) HK$'000	**Total** HK$'000
At 1 January 2018	50	84	134
Charged to profit or loss for the year	43	269	312
Exchange adjustment	(4)	(13)	(17)
At 31 December 2018 and 1 January 2019	89	340	429
Charged to profit or loss for the year	(88)	(339)	(427)
Exchange adjustment	(1)	(1)	(2)
At 31 December 2019	–	–	–

Notes:

i) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide 50% of its guarantee income in the year it derived, as undue liability provision (“未到期責任準備金”).

ii) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide no less than 1% of the year-end balance of the guarantee liability in the year it arose as guarantee compensation provision (“擔保賠償準備金”).

32. Amount Due from/(to) An Associate and Joint Ventures

The maximum outstanding balances of amounts due from an associate and joint ventures during the year were HK$15,810,000 and HK$50,000 (2018: HK$15,810,000 and HK$Nil).

The amounts are unsecured, interest free and repayable on demand.

33. Deferred Taxation

a) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follow:

Deferred tax arising from:	**Expected credit losses on loans receivable** HK$'000	**Accrued expenses** HK$'000	**Tax losses** HK$'000	**Withholding tax** HK$'000	**Total** HK$'000
At 1 January 2018	(7,481)	(1,964)	–	20,665	11,220
(Credited)/charged to profit or loss (note 7(a))	(3,131)	1,939	–	8,343	7,151
Exchange adjustment	308	25	–	(2,666)	(2,333)
At 31 December 2018 and 1 January 2019	(10,304)	–	–	26,342	16,038
Acquisition of subsidiaries (note 44(a) & (b))	–	–	(16,611)	–	(16,611)
(Credited)/charged to profit or loss (note 7(a))	(9,365)	–	2,720	9,539	2,894
Exchange adjustment	285	–	532	(744)	73
At 31 December 2019	(19,384)	–	(13,359)	35,137	2,394

The analysis of deferred tax assets is as follows:

	2019 **HK$'000**	2018 HK$'000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**19,384**	10,304

b) *Deferred tax assets not recognised*

Deferred tax assets in respect of the unused tax losses carried forward are to be recognised to the extent that it is probable that future taxable profits against which the unused tax losses can be utilised will be available in the relevant tax jurisdiction and entity.

The Group has not recognised deferred tax assets in respect of the cumulative tax losses of HK$275,115,000 (2018: HK$266,994,000) for its Hong Kong incorporated subsidiaries due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

33. Deferred Taxation *(Continued)*

c) *Deferred tax liabilities not recognised*

At 31 December 2019, the aggregate amount of temporary differences associated with undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised was HK$782,485,000 (2018: HK$957,240,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

34. Unsecured Bonds

The Company issued unlisted and unsecured bonds. The details of the due date and coupon rate per annum are shown as below table. All of unsecured bonds are carried at amortised cost. The unsecured bonds are subject to the fulfillment of covenants relating to certain financial ratios, as are commonly found in leading arrangements. If the Group were to breach the covenants, unsecured bonds would become payable on demand. The Group regularly monitors it compliance with these covenants. At 31 December 2019 and 2018, none of the covenants relating to the unsecured bonds had been breached.

	Coupon rate per annum	2019 HK$'000	2018 HK$'000
Current liabilities			
Unsecured bonds of HK$55,000,000 due 2019 (issued in 2017)	6.00%	–	54,883
Unsecured bonds of HK$1,560,000 due 2019 (issued in 2018)	4.50%	–	1,560
Unsecured bonds of HK$7,190,000 due 2020 (issued in 2019)	1.50%	7,244	–
Unsecured bonds of HK$1,170,000 due 2020 (issued in 2019)	5.00%	1,170	–
Unsecured bonds of HK$6,500,000 due 2020 (issued in 2019)	13.20%	6,500	–
		14,914	56,443

34. Unsecured Bonds *(Continued)*

	Coupon rate per annum	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Unsecured bonds of HK$220,000,000 due 2022 (issued in 2015)	7.00%	**198,373**	194,489
Unsecured bonds of HK$10,000,000 due 2022 (issued in 2016)	5.00%	**9,368**	9,189
Unsecured bonds of HK$10,000,000 due 2024 (issued in 2016)	6.00%	**9,175**	9,024
Unsecured bonds of HK$11,413,000 due 2021 (issued in 2017)	4.00%	**10,829**	10,482
Unsecured bonds of HK$14,145,800 due 2024 (issued in 2018)	5.00%	**12,709**	12,395
Unsecured bonds of HK$10,000,000 due 2025 (issued in 2018)	4.50%	**10,000**	10,000
Unsecured bonds of HK$27,390,000 due 2021 (issued in 2019)	2.00%	**24,942**	–
Unsecured bonds of HK$4,000,000 due 2021 (issued in 2019)	8.00%	**4,053**	–
		279,449	245,579
		294,363	302,022

35. Lease Liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**6,397**	**6,561**	9,887	10,448
After 1 year but within 2 years	**1,147**	**1,167**	6,108	6,253
After 2 years but within 5 years	**–**	**–**	787	800
	1,147	**1,167**	6,895	7,053
	7,544	**7,728**	16,782	17,501
Less: total future interest expenses		**(184)**		(719)
Present value of lease liabilities		**7,544**		16,782

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lese liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated, Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

36. Share Capital

a) *Issued share capital*

	Note	No. of shares	HK$'000
Ordinary shares, issued and fully paid:			
At 1 January 2018		4,311,583,347	2,080,113
Shares repurchased and cancelled	36(b)(i)	(18,776,000)	–
Shares repurchased but not yet cancelled	36(b)(i)	–	–
At 31 December 2018 and 1 January 2019		4,292,807,347	2,080,113
Shares cancelled	36(b)(ii)	(36,668,000)	–
Shares repurchased and cancelled	36(b)(ii)	(50,000)	–
Shares repurchased but not yet cancelled	36(b)(ii)	–	–
At 31 December 2019		4,256,089,347	2,080,113

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary Shares rank equally with regard to the Company's residual assets.

36. Share Capital *(Continued)*

b) *Purchase of own shares*

(i) During the year ended 31 December 2018, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate price paid**
		HK$	HK$	HK$'000
Shares repurchased and cancelled				
April 2018	10,254,000	0.6600	0.6400	6,609
May 2018	1,326,000	0.6700	0.6700	888
August 2018	140,000	0.5600	0.5600	78
September 2018	2,214,000	0.5700	0.5400	1,237
October 2018	3,810,000	0.5500	0.4800	1,957
November 2018	1,032,000	0.4850	0.4800	531
Shares repurchased but not yet cancelled				
November 2018	10,206,000	0.5000	0.4850	5,059
December 2018	26,462,000	0.6300	0.4850	14,666

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of approximately HK$31,056,000 including transaction costs of approximately HK$31,000 were paid wholly out of retained earnings.

The Company cancelled the repurchased shares during the year ended 31 December 2018, except for 36,668,000 of the repurchased shares which were subsequently cancelled in January 2019.

36. Share Capital *(Continued)*

b) *Purchase of own shares (Continued)*

(ii) During the year ended 31 December 2019, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited a total of 7,722,000 shares. A total of 36,718,000 shares (including the shares buy-back for both current and last year) have been cancelled during the year ended 31 December 2019 and 7,672,000 shares were cancelled in February 2020:

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		HK$	HK$	HK$'000
Shares repurchased and cancelled				
January 2019	50,000	0.5200	0.5200	26
Shares repurchased but not yet cancelled				
December 2019	7,672,000	0.4550	0.3950	3,452

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance, The total amount paid on the repurchased shares of approximately HK$3,478,000 was paid wholly out of retained earnings.

37. Reserves

a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share-based compensation reserve HK$'000	Shares held under the share award scheme HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	41,038	–	378,385	419,423
Profit and total comprehensive income for the year	–	–	12,067	12,067
Equity settled share-based transactions	1,174	–	–	1,174
Lapse of share options	(1,996)	–	1,996	–
Repurchase of own shares and cancelled	–	–	(11,300)	(11,300)
Repurchase of own shares but not yet cancelled	–	–	(4,368)	(4,368)
Dividends paid	–	–	(73,099)	(73,099)
At 31 December 2018 and 1 January 2019	40,216	–	303,681	343,897
Loss and total comprehensive loss for the year	–	–	(93,622)	(93,622)
Purchase of shares under share award scheme	–	(49,365)	–	(49,365)
Shares cancelled	–	–	(15,388)	(15,388)
Repurchase of own shares and cancelled	–	–	(26)	(26)
Dividends paid	–	–	(12,768)	(12,768)
At 31 December 2019	40,216	(49,365)	181,877	172,728

37. Reserves *(Continued)*

b) *Dividends*

(i) *Dividends payable to equity shareholders of the Company attributable to the year*

	2019	2018
	HK$'000	HK$'000
Interim dividend declared and paid of HK Nil cents per ordinary share (2018: HK1 cent per ordinary share)	**–**	42,990
Final dividend proposed after the end of the reporting period of HK Nil cents per ordinary share (2018: HK0.30 cents per ordinary share)	**–**	12,878
	–	55,868

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2019	2018
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.30 cents per share (2018: HK0.70 cents per share)	**12,768**	30,109

37. Reserves *(Continued)*

c) *Nature and purpose of reserves*

(i) *Share-based compensation reserve*

The share-based compensation reserve represents the portion of the grant date fair value of unexercised share options granted to eligible participants that has been recognised in accordance with the accounting policy adopted for share-based payments in notes 2(p)(iii) and (iv).

(ii) *Share held under the share award scheme*

The reserve is dealt with in accordance with the accounting policy set out in note 2(p)(v).

(iii) *Exchange fluctuation reserve*

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 2(t).

(iv) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of financial assets measured at FVOCI (recycling) held at the end of the reporting period and is dealt with in accordance with the accounting policies set out in notes 2(j).

(v) *Statutory surplus reserve*

According to the Company's PRC subsidiaries' articles of association, each PRC company is required to transfer 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the PRC company's registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

38. Employee Retirement Benefits

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries of the Group are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

39. Share Options

Equity-settled share option schemes

The share option scheme adopted by the Company on 7 June 2004 (the "2004 Share Option Scheme") was terminated on 6 June 2014, and the Company adopted a new share option scheme on 20 May 2014 (the "2014 Share Option Scheme", together with the 2004 Share Option Scheme are referred to as the "Schemes") at the Company's annual general meeting held on 20 May 2014. No further options shall be offered under the 2004 Share Option Scheme, but in all other respects the provisions of the 2004 Share Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid. The 2014 Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and expiring on the tenth anniversary thereof.

According to the terms of the Scheme, the directors of the Company are authorised, at their discretion, to invite employees or any person who has contributions to the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The options are exercisable within a period of ten years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

39. Share Options *(Continued)*

Equity-settled share option schemes (Continued)

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

Category of grantee	Number of instruments '000	Exercise price per share HK$	Date of grant	Exercisable period	Contractual life of option
Directors and ex-directors	10,000	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years
	6,660	0.660	11 April 2014	11 April 2015 to 10 April 2024	10 years
	6,660	0.660	11 April 2014	11 April 2016 to 10 April 2024	10 years
	6,680	0.660	11 April 2014	11 April 2017 to 10 April 2024	10 years
Employees	26,000	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years
Consultants	9,990	0.660	11 April 2014	11 April 2015 to 10 April 2024	10 years
	9,990	0.660	11 April 2014	11 April 2016 to 10 April 2024	10 years
	10,020	0.660	11 April 2014	11 April 2017 to 10 April 2024	10 years
	18,315	0.546	26 August 2015	26 August 2016 to 25 August 2025	10 years
	18,315	0.546	26 August 2015	26 August 2017 to 25 August 2025	10 years
	18,370	0.546	26 August 2015	26 August 2018 to 25 August 2025	10 years
Total share options granted	141,000				

39. Share Options *(Continued)*

Equity-settled share option schemes (Continued)

b) *The number and weighted average exercise prices of share options are as follows:*

Option type	Outstanding at 1/1/2018 '000	Granted during the year '000	Exercised during the year '000	Forfeited during the year '000	Expired during the year '000	Outstanding at 31/12/2018 '000	Exercisable at 31/12/2018 '000
2010	6,000	–	–	–	–	6,000	
2014	60,000	–	–	–	(10,000)	50,000	
2015	55,000	–	–	–	–	55,000	
	121,000	–	–	–	(10,000)	111,000	111,000
Weighted average exercise price	HK$0.593	–	–	–	HK$0.66	HK$0.587	HK$0.587

Option type	Outstanding at 1/1/2019 '000	Granted during the year '000	Exercised during the year '000	Forfeited during the year '000	Expired during the year '000	Outstanding at 31/12/2019 '000	Exercisable at 31/12/2019 '000
2010	6,000	–	–	–	–	6,000	
2014	50,000	–	–	–	–	50,000	
2015	55,000	–	–	–	–	55,000	
	111,000	–	–	–	–	111,000	111,000
Weighted average exercise price	HK$0.587	–	–	–	–	HK$0.587	HK$0.587

The options outstanding at 31 December 2019 had an exercise price of HK$0.359 or HK$0.660 or HK$0.546 (2018: HK$0.359 or HK$0.660 or HK$0.546) and a weighted average remaining contractual life of 4.77 years (2018: 5.77 years).

40. Share Award Scheme

On 14 January 2019, the directors of the Company adopted a share award scheme (the "Scheme") to recognise the contribution by any employee(s), director(s) or advisor(s) of any member of the Group (the "Grantees") and to give incentives thereto in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

	2019	
	No. of shares	HK$'000
At 1 January	**–**	–
Purchased during the year	**89,754,000**	49,365
At 31 December	**89,754,000**	49,365

During the year ended 31 December 2019, the trustee acquired 89,754,000 ordinary shares (2018: Nil) of the Company for the Scheme through purchases in the open market, at a total cost, including related transaction costs at approximately HK$49,365,000 (2018: HK$ Nil)

Up to the date of approving the Group's consolidated financial statements for the year ended 31 December 2019, no award shares are granted to selected Grantees.

41. Commitments

a) *Operating lease arrangements*

As lessee

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

	Properties
	HK$'000
Within one year	12,573
In the second to fifth years, inclusive	5,823
	18,396

The Group is the lessee in respect of office premises and director's quarter held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(i), and the details regarding the Group's future lease payments are disclosed in note 35.

b) *Capital Commitments*

As disclosed in note 16 to the consolidated financial statements, the Group has an obligation to settle an amount of US$2,000,000 (equivalent to approximately HK$15,600,000) as its capital contribution to 中匯豐源, an associate of the Group, as at 31 December 2019 and 2018.

42. Financial Guarantee Contracts

The Group provides loan guarantee services to small-to-medium-sized enterprises in the PRC. As at 31 December 2019, the Group had no contract in relation to the loan guarantee business, thus no undue liability provision and guarantee compensation provision were recognised in the consolidated statement of financial position. As at 31 December 2018, the Group had contracts in relation to the loan guarantee business of approximately HK$34,011,000 in which approximately HK$89,000 and HK$340,000 were recognised as undue liability provision and guarantee compensation provision respectively in the consolidated statement of financial position. The Group may become involved in certain legal proceedings relating to claims arising out of its operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have a material adverse effect on the Group's financial position or operational results.

43. Equity Transaction with Non-Controlling Interest

During the year ended 31 December 2019, the Group has the following equity transaction with non-controlling interest of a subsidiary that do not result in a loss of control.

Acquisition of additional interest in a subsidiary

During the year ended 31 December 2019, the Group acquired an additional 20% equity interest of 北京中金城開小額貸款有限公司 ("中金城開") from the non-controlling shareholder at cash consideration of HK$115,908,000. Such amount was paid to the non-controlling shareholder of 中金城開 as deposit as at 31 December 2018. This resulted in an increase in the Group's equity interest in 中金城開 from 80% to 100%. Approximately HK$4,671,000 representing the difference between the carrying amounts of the interest acquired of approximately HK$106,114,000, the exchange fluctuation reserve attributable to non-controlling shareholder of approximately HK$14,465,000 and the consideration paid for the acquisition of additional interest of approximately HK$115,908,000, which was recognised in retained earnings.

44. Acquisition of Subsidiaries/Business

(a) Acquisition of Shenzhen Credit Gain

During the year ended 31 December 2019, the Group acquired the entire equity interest in Shenzhen Credit Gain Finance Company Limited at a consideration of approximately RMB266,656,000. Shenzhen Credit Gain is established in the PRC with limited liability and is principally engaged in micro-finance business in Shenzhen, the PRC. The Group acquired Shenzhen Credit Gain to extend its micro-lending business in the PRC. The acquisition was completed on 12 April 2019.

44. Acquisition of Subsidiaries/Business *(Continued)*

(a) *Acquisition of Shenzhen Credit Gain (Continued)*

Assets acquired and liabilities assumed at the date of acquisition:

	HK$'000
Consideration:	
Cash paid	142,299
Deposit paid	25,000
Consideration payable (note i)	99,357
	266,656
The fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition were as follows:	
Property, plant and equipment	3,165
Deferred tax assets	13,772
Loans receivable	100,232
Interest receivable	5,807
Prepayments, deposits and other receivables	4,718
Cash and bank balances	151,778
Other payable, accruals and other deposit received	(13,070)
	266,402
Goodwill arising on acquisition	254
Total consideration	266,656
Net cash inflow arising on acquisition:	
Cash consideration paid	(142,299)
Cash and cash equivalents acquired	151,778
	9,479

44. Acquisition of Subsidiaries/Business *(Continued)*

(a) *Acquisition of Shenzhen Credit Gain (Continued)*

Notes:

(i) Consideration of approximately HK$99,357,000 was to be settled in three equal instalments on each anniversary of the completion date of the acquisition and was presented under "Consideration payables" in the consolidated statement of financial position.

During the period from the date of acquisition to the end of the reporting period, Shenzhen Credit Gain contributed HK$14,881,000 to the revenue of the Group and a loss of HK$11,402,000 to the profit of the Group for the year ended 31 December 2019. Had the acquisition occurred on 1 January 2019, the revenue and profit of the Group for the year ended 31 December 2019 would have been HK$782,628,000 and HK$204,476,000, respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

Acquisition related costs amounting to HK$683,000 have been excluded from the consideration and have been recognised as general and administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2019.

The fair value of loans receivables, interest receivable and other receivables at the date of acquisition approximated their gross contractual amounts and were expected to be fully recovered in the future.

(b) *Acquisition of Micro-lending and financial consultancy business in Chongqing*

During the year ended 31 December 2019, the Group acquired micro-lending and financial consultancy business in Chongqing by acquiring the entire equity interest in Chongqing Liangjiang New Area Credit Gain Finance Company Limited and Chongqing Dongrong Business Consultancy Company Limited at a consideration of approximately HK$340,730,000. Chongqing Credit Gain and Chongqing Dongrong are established in the PRC with limited liability and are principally engaged in micro-lending business and financial consultancy business in Chongqing, the PRC. The Group acquired Chongqing Credit Gain and Chongqing Dongrong to extend its financial services business in the PRC. The acquisition was completed on 18 October 2019.

44. Acquisition of Subsidiaries/Business *(Continued)*

(b) *Acquisition of Micro-lending and financial consultancy business in Chongqing (Continued)*

Assets acquired and liabilities assumed at the date of acquisition

	HK$'000
Consideration:	
Cash paid	134,377
Deposit paid	25,000
Consideration payable (note i)	181,353
	340,730
The fair values of the identifiable assets acquired and liabilities assumed at the date of acquisition were as follows:	
Property, plant and equipment	1,610
Deferred tax assets	2,839
Loans receivable	75,700
Interest receivable	542
Prepayments, deposits and other receivables	778
Cash and bank balances	268,559
Other payable, accruals and other deposit received	(12,402)
	337,626
Goodwill arising on acquisition	3,104
Total consideration	340,730
Net cash inflow arising on acquisition:	
Cash consideration paid	(134,377)
Cash and cash equivalents acquired	268,559
	134,182

44. Acquisition of Subsidiaries/Business *(Continued)*

(b) Acquisition of Micro-lending and financial consultancy business in Chongqing (Continued)

Notes:

(i) Consideration of approximately HK$181,353,000 was to be settled in three equal instalments on each anniversary of the completion date of the acquisition and was presented under "Consideration payables" in the consolidated statement of financial position.

During the period from the date of acquisition to the end of the reporting period, Chongqing Credit Gain and Chongqing Dongrang contributed HK$2,094,000 to the revenue of the Group and a profit of HK$1,705,000 to the profit of the Group for the year ended 31 December 2019. Had the acquisition occurred on 1 January 2019, the revenue and profit of the Group for the year ended 31 December 2019 would have been HK$794,398,000 and HK$225,100,000, respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

Acquisition related costs amounting to HK$683,000 have been excluded from the consideration and have been recognised as general and administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2019.

The fair value of loans receivables, interest receivable and other receivables at the date of acquisition approximated their gross contractual amounts and were expected to be fully recovered in the future.

45. Material Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions with its related parties during the year:

a) Remuneration of key management personnel of the Group

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8, is as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**8,067**	8,088
Post-employment benefits	**334**	350
Equity compensation benefits	**–**	–
	8,401	8,438

Total remuneration is included in "staff costs" (see note 6(a)).

45. Material Related Party Transactions *(Continued)*

b) *Financing arrangements*

The details of the borrowings from shareholders included in borrowings and other payables are as follows:

Name	Note	2019 HK$'000	2018 HK$'000
Short-term borrowings			
– Lo Wan	(1), (2)	**235**	56,543
– Cheung Siu Hung	(3), (4)	**4,052**	4,254
		4,287	60,797

Notes:

(1) The loan from Ms. Lo Wan is unsecured, bears interest at 4.8% (2018: 4.8%) per annum and was settled during the year (2018: 8 May 2019 and 26 June 2019). Related interest expense incurred on this loan during the year ended 31 December 2019 was approximately HK$3,493,000 (2018: HK$7,066,000), which is included in interest and handling expenses (note 3(a)).

(2) Ms. Lo Wan is a shareholder of the Company and the spouse of Mr. Cheung Siu Lam, a non-executive director of the Company.

(3) The loan from Ms. Cheung Siu Hung is unsecured, bears interest at 7% (2018: 7%) per annum and is repayable on 26 October 2020 (2018: 26 October 2019). Related interest expense incurred on this loan during the year ended 31 December 2019 was approximately HK$300,000 (2018: HK$340,000), which is included in interest and handling expenses (note 3(a)).

(4) Ms. Cheung Siu Hung is a shareholder of the Company and the sister of Mr. Cheung Siu Lam, a non-executive director of the Company.

The directors of the Company are of the opinion that such transactions were conducted on mutually agreed terms in the ordinary course of business.

45. Material Related Party Transactions *(Continued)*

c) *Transactions with related parties*

(i) The details of constancy fee paid by the Group are as follows:

Name	2019 HK$'000	2018 HK$'000
北京嘉潤智德國際投資諮詢有限公司 (note (1))	**2,898**	5,942
北京嘉澤潤豐公司 (note (1))	**2,466**	2,467
北京萬方有限公司 (note (1))	**1,394**	–
北京萬方慈雲投資諮詢有限公司 (note (1))	**6,021**	–
北京萬方達隆物業管理有限公司 (note (1))	**1,806**	–
Tiger One Holdings Limited (note (2))	**3,628**	2,067
	18,213	10,476

Notes:

(1) A director, Mr. Cheung Siu Lam, of the Company is the legal representative of the above companies.

(2) A director, Dr. Cheung Chai Hong, of the Company is the sole shareholder of the company.

(ii) The details of rental paid by the Group are as follows:

(1) For the year ended 31 December 2019, the Group paid operating lease charges (in respect of properties) of approximately HK$1,339,000 (2018: HK$1,519,000), HK$Nil (2018: HK$322,000) and HK$2,342,000 (2018: HK$2,042,000) to 北京元長厚茶葉有限公司, 北京東皇物業管理有限公司 and 北京萬方後海前企業經營管理有限公司, respectively, of which Mr. Cheung Siu Lam, a director of the Company is their legal representatives.

(2) During the year ended 31 December 2019, the Group paid operating lease charges (in respect of director's quarter) of approximately HK$1,800,000 (2018: HK$1,800,000) to Anton (H.K.) Limited, in which Mr. Cheung Siu Lam, a director of the Company and his wife have controlling interests. Such amount was included in the total amount disclosed in note 6(a) for staff costs. In addition, as at 31 December 2019, rental deposit of HK$300,000 (2018: HK$300,000), which was related to this director's quarter, was included in "Other receivables, deposits and prepayments" in the consolidated statement of financial position.

The directors of the Company are of the opinion that such transactions were conducted on mutually agreed terms in the ordinary course of business.

46. Critical Accounting Judgements and Estimates

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns.

At the end of each reporting period, the Group assesses the variable returns arising from other equities and uses plenty of judgements, in combination with historical exposure to variable returns, to determine the consolidation scope.

For structured entities, the Group's management needs to assess whether the Group has the power over structured entities and is exposed to significant variable return of the structured entities. If such power and exposure exist, the Group has to consolidate such structured entities. The judgments the Group used in determining whether or not it has control over the structured entities are detailed in note 13(b).

The Group reassess whether it controls structured entities if facts and circumstances indicate that there are changes to one or more of the three elements of control.

46. Critical Accounting Judgements and Estimates *(Continued)*

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment of goodwill (Carrying amount: HK$597,551,000 (2018: HK$603,707,000))

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(ii) Impairment allowance of loans receivable (Carrying amount: HK$4,405,058,000 (2018: HK$4,605,029,000))

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

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

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures; and

46. Critical Accounting Judgements and Estimates *(Continued)*

(b) Sources of estimation uncertainty (Continued)

(ii) Impairment allowance of loans receivable (Carrying amount: HK$4,405,058,000 (2018: HK$4,605,029,000)) (Continued)

- Determination of associations between macroeconomic scenarios and, economic inputs, such as Gross Domestic Product growth, Property Price Index, Inflation Rate and Unemployment Rate; and the effect on probabilities of default, exposures at default and losses given default.

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

(iii) Tax payable (Carrying amount: HK$96,582,000 (2018: HK$101,288,000)) and deferred tax liabilities (Carrying amount: HK$35,137,000 (2018: HK$26,342,000))

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(iv) Acquisition of subsidiaries

The Group conducted purchase price allocation based on the fair value of the identifiable assets and liabilities in the relevant business of the acquisition date. The fair value of relevant identifiable assets and liabilities are assessed by the independent valuer based on the business forecasts and the key assumptions provided by the management and the adoption of the appropriate valuation methodology. If different judgements or assumptions were used, the amounts assigned to the individual acquired assets or liabilities could be materially different.

47. Financial Risk Management and Fair Values of Financial Instruments

The Group's major financial instruments include other financial assets, loans receivable, accounts receivable, interests receivable, other receivables, amounts due from an associate and joint ventures, pledged bank and security deposits paid, cash and cash equivalents, time deposits, borrowings and other payables, bank loans, security deposits received, consideration payables, amount due to an associate and unsecured bonds. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under loans the Group guaranteed or provided. Credit risk is primarily attributable to unexpired guarantees issued by the Group and the loan business of the Group, loans receivable, accounts, interests and other receivables, pledged bank and security deposits paid, time deposits, cash and cash equivalents and other financial assets.

Except for the guarantee as disclosed below, the Group does not provide any other guarantees which would expose the Group to credit risk.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business*

The Group has taken measures to identify credit risks arising from loan business. The Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. A transaction may be subject to the review and approval of credit approval officer and the executive directors depending on the transaction size.

During the post-transaction monitoring process, the Group performs credit evaluations on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

Most of loans granted are backed by collateral (e.g. property, gold, jewellery, diamonds and watches etc.) as security. The Group also focuses on ascertaining legal ownership and the valuation of the collateral. A loan granted is based on the value of the collateral and generally approximates 1%-100% (2018: 2.5%-100%) of the estimated value of the collateral. The Group closely monitors the ownership and the value of the collateral throughout the loan period. As at 31 December 2019 and 2018, in the opinion of the Company's directors, the Group held collateral with value not less than the carrying amount of the secured loans receivable. The loans receivable are due by the date as specified in the corresponding loan agreements.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 12.75% (2018: 13.17%) and 20.84% (2018: 26.07%) of the total loans receivable was due from the Group's largest debtor and the five largest debtors respectively.

The Group adopts loan grading criteria which divides credit assets into five categories as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

After adopting HKFRS 9, the Group adopts a loan risk classification approach to manage its loans and advances to customers portfolio risk. Loans and advances to customers are categorised into the following stages by the Group:

Stage 1
Loans and advances to customers have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses (12-month ECLs).

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

Stage 2
Loans and advances to customers have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses (Lifetime ECLs non credit-impaired).

Stage 3
Loans and advances to customers that are in default and considered credit impaired (Lifetime ECLs credit-impaired).

The Group applies the new ECL model to measure the impairment loss of the loans and advances to customers.

Parameters of ECL measurement
According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the requirements of HKFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies;

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types.

The Group applied experts' judgement in this process, according to the result of experts' judgement, the Group predicts these economic indicators on a semi-annually basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets.

Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit and loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. At 31 December 2019, the carrying amount of financial assets with such modified contractual cash flows was not significant.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(1) *Concentrations of risk for loans and advances to customers*

(i) Analysis of loans and advances to customers by geographical area and industrial type

	2019 Amount HK$'000	2019 % of total	2018 Amount HK$'000	2018 % of total
The PRC				
Corporate loan and advances				
Agriculture, forest management, animal husbandry and fisheries	22,327	0.50%	1,598	0.03%
Commerce and service	261,091	5.81%	736,862	15.76%
Construction	41,012	0.91%	23,757	0.51%
Financial industry	696,138	15.49%	349,969	7.48%
IT technology	122,695	2.73%	125,085	2.67%
Manufacturing	84,284	1.88%	182,036	3.89%
Production and supply of electricity, heating gas and water	61,399	1.37%	39,945	0.85%
Real estate	449,353	10.00%	504,406	10.79%
Transportation, storage and postal services	45,153	1.00%	46,417	0.99%
Water, environment and public utilities	30,365	0.68%	21,684	0.46%
Wholesale and retail	49,393	1.10%	143,647	3.07%
Other	29,431	0.66%	16,851	0.36%
Subtotal	1,892,641	42.13%	2,192,257	46.86%
Personal loan	1,938,002	43.13%	1,885,503	40.31%
	3,830,643	85.26%	4,077,760	87.17%

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(1) *Concentrations of risk for loans and advances to customers (Continued)*

(i) Analysis of loans and advances to customers by geographical area and industrial type *(Continued)*

	2019		2018	
	Amount HK$'000	**% of total**	Amount HK$'000	% of total
Hong Kong				
Corporate loan and advances				
Commerce and service	**159,357**	**3.55%**	30,837	0.66%
Financial industry	**1,109**	**0.02%**	343	0.01%
IT technology	**–**	**–**	300	0.01%
Leasing	**6,750**	**0.15%**	46,380	0.98%
Wholesale and retail	**12,500**	**0.28%**	6,000	0.13%
Other	**14,400**	**0.32%**	2,791	0.06%
Subtotal	**194,116**	**4.32%**	86,651	1.85%
Personal loan	**468,364**	**10.42%**	513,513	10.98%
	662,480	**14.74%**	600,164	12.83%
Total loans and advances to customers	**4,493,123**	**100%**	4,677,924	100%

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(1) *Concentrations of risk for loans and advances to customers (Continued)*

(ii) Analysis of loans and advances to customers by loans type

	2019		2018	
	Amount HK$'000	**% of total**	Amount HK$'000	% of total
Unsecured loans				
– Corporate loan	**96,230**	**2.14%**	3,834	0.08%
– Personal loan	**25,629**	**0.57%**	64,290	1.37%
Guarantee loans				
– Corporate loan	**112,830**	**2.51%**	121,093	2.60%
– Personal loan	**59,279**	**1.32%**	7,247	0.15%
Collateralised and other secured loans				
• Loans secured by properties and other assets				
– Corporate loan	**1,820,842**	**40.53%**	2,096,916	44.83%
– Personal loan	**2,321,458**	**51.66%**	2,327,479	49.75%
• Other receivables				
– Corporate loan	**56,855**	**1.27%**	57,065	1.22%
– Personal loan	**–**	**–**	–	–
Total loans and advances to customers	**4,493,123**	**100%**	4,677,924	100%

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(1) *Concentrations of risk for loans and advances to customers (Continued)*

(iii) Analysis of loans and advances to customers by collateral type with maturity profile

			2019 Loans secured by		
	Unsecured loans HK$'000	Guaranteed loans HK$'000	Properties and other assets HK$'000	Other receivables HK$'000	Total HK$'000
Due within 1 month or on demand	11,614	3,798	890,283	49,119	954,814
Due after 1 month but within 3 months	1,084	5,738	356,632	–	363,454
Due after 3 months but within 6 months	1,592	8,749	562,570	–	572,911
Due after 6 months but within 12 months	100,222	124,827	1,795,026	7,736	2,027,811
Due after 12 months	7,347	28,997	537,789	–	574,133
Subtotal	121,859	172,109	4,142,300	56,855	4,493,123
Allowances for doubtful debts	(3,208)	(5,419)	(62,383)	(17,055)	(88,065)
	118,651	166,690	4,079,917	39,800	4,405,058

			2018 Loans secured by		
	Unsecured loans HK$'000	Guaranteed loans HK$'000	Properties and other assets HK$'000	Other receivables HK$'000	Total HK$'000
Due within 1 month or on demand	12,999	1,166	548,268	–	562,433
Due after 1 month but within 3 months	7,915	17,691	467,923	–	493,529
Due after 3 months but within 6 months	5,517	9,133	880,760	–	895,410
Due after 6 months but within 12 months	9,658	80,350	1,949,993	57,065	2,097,066
Due after 12 months	32,035	20,000	577,451	–	629,486
Subtotal	68,124	128,340	4,424,395	57,065	4,677,924
Allowances for doubtful debts	(2,275)	(1,355)	(68,891)	(374)	(72,895)
	65,849	126,985	4,355,504	56,691	4,605,029

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) Credit risk (Continued)

(i) Credit risk arising from loan business (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type with credit quality

			2019 Loans secured by		
	Unsecured loans HK$'000	**Guaranteed loans HK$'000**	**Properties and other assets HK$'000**	**Other receivables HK$'000**	**Total HK$'000**
Loans receivable that are credit impaired					
– Not past due	**118,941**	**164,998**	**3,977,744**	**40,110**	**4,301,793**
– Less than 1 month past due	**833**	**3,496**	**82,359**	**–**	**86,688**
– 1 to 3 months past due	**115**	**199**	**20,438**	**–**	**20,752**
– Over 3 months past due	**1,970**	**3,416**	**61,759**	**16,745**	**83,890**
Subtotal	**121,859**	**172,109**	**4,142,300**	**56,855**	**4,493,123**
Allowance for doubtful debts	**(3,208)**	**(5,419)**	**(62,383)**	**(17,055)**	**(88,065)**
	118,651	**166,690**	**4,079,917**	**39,800**	**4,405,058**

			2018 Loans secured by		
	Unsecured loans HK$'000	Guaranteed loans HK$'000	Properties and other assets HK$'000	Other receivables HK$'000	Total HK$'000
Loans receivable that are credit impaired					
– Not past due	50,390	127,175	4,296,411	57,065	4,531,041
– Less than 1 month past due	4,192	–	59,180	–	63,372
– 1 to 3 months past due	1,537	–	2,529	–	4,066
– Over 3 months past due	12,005	1,165	66,275	–	79,445
Subtotal	68,124	128,340	4,424,395	57,065	4,677,924
Allowance for doubtful debts	(2,275)	(1,355)	(68,891)	(374)	(72,895)
	65,849	126,985	4,355,504	56,691	4,605,029

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(2) *Analysis of impaired loans and advances to customers*

(i) Impaired loans and advances by geographical area and customer type

	2019			2018		
	Amount HK$'000	**% of total**	**Impaired loan ratio**	Amount HK$'000	% of total	Impaired loan ratio
The PRC						
Corporate loan						
Agriculture, forest management, animal husbandry and fisheries	**173**	**0.20%**	**0.00%**	11	0.02%	0.00%
Commerce and service	**18,674**	**21.20%**	**0.42%**	4,848	6.64%	0.10%
Construction	**525**	**0.60%**	**0.01%**	214	0.29%	0.00%
Financial industry	**5,410**	**6.14%**	**0.12%**	2,316	3.18%	0.05%
IT technology	**1,046**	**1.19%**	**0.02%**	868	1.19%	0.02%
Manufacturing	**655**	**0.74%**	**0.01%**	1,193	1.64%	0.03%
Production and supply of electricity, heating gas and water	**475**	**0.54%**	**0.01%**	262	0.36%	0.01%
Real estate	**3,474**	**3.94%**	**0.08%**	3,305	4.53%	0.07%
Transportation, storage and postal services	**349**	**0.40%**	**0.01%**	304	0.42%	0.01%
Water, environment and public utilities	**235**	**0.27%**	**0.01%**	142	0.19%	0.00%
Wholesale and retail	**411**	**0.47%**	**0.01%**	981	1.35%	0.02%
Other	**276**	**0.31%**	**0.01%**	129	0.18%	0.00%
Subtotal	**31,703**	**36.00%**	**0.71%**	14,573	19.99%	0.31%
Personal loan	**25,397**	**28.84%**	**0.57%**	12,904	17.70%	0.28%
	57,100	**64.84%**	**1.28%**	27,477	37.69%	0.59%

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(2) *Analysis of impaired loans and advances to customers (Continued)*

(i) Impaired loans and advances by geographical area and customer type *(Continued)*

	2019			2018		
	Amount HK$'000	**% of total**	**Impaired loan ratio**	Amount HK$'000	% of total	Impaired loan ratio
Hong Kong						
Corporate loan						
Commerce and service	**3,876**	**4.40%**	**0.09%**	1,105	1.52%	0.02%
Financial industry	**27**	**0.03%**	**0.00%**	6	0.01%	0.00%
IT technology	**–**	**–**	**–**	6	0.01%	0.00%
Leasing	**220**	**0.25%**	**0.00%**	6,091	8.35%	0.13%
Wholesale and retail	**244**	**0.28%**	**0.01%**	92	0.13%	0.00%
Other	**1,261**	**1.43%**	**0.03%**	43	0.06%	0.00%
Subtotal	**5,628**	**6.39%**	**0.13%**	7,343	10.08%	0.15%
Personal loan	**25,337**	**28.77%**	**0.56%**	38,075	52.23%	0.81%
	30,965	**35.16%**	**0.69%**	45,418	62.31%	0.96%
Total	**88,065**	**100%**	**1.97%**	72,895	100%	1.55%

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(3) *Loans and advances rescheduled*

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are generally subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met.

If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans within the surveillance period were determined to be impaired at 31 December 2019 and 2018.

At 31 December 2019 and 2018, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(4) *Overdue loans and advances to customers*

Analysis of overdue loans and advances by geographical area and customers type

	2019	2018
	HK$'000	HK$'000
The PRC		
– Corporate loan	**17,442**	701
– Personal loan	**53,800**	9,327
Hong Kong		
– Corporate loan	**56,012**	33,237
– Personal loan	**64,076**	103,618
Subtotal	**191,330**	146,883
Percentage	**4.26%**	3.14%
Less: total loans and advances to customers which have been overdue for less than 3 months		
– Corporate loan	**52,023**	26,837
– Personal loan	**55,417**	40,601
Total loans and advances to customers which have been overdue for more than 3 months		
– Corporate loan	**21,431**	7,101
– Personal loan	**62,459**	72,344

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(5) *Loans and advances three-staging exposure*

Loans and advances to customers by five-tier loan classification and three-staging analysed as follows:

	As at 31 December 2019			
	Stage 1 (12-month ECL) HK$'000	Stage 2 (Lifetime ECL) HK$'000	Stage 3 (Lifetime ECL – impaired) HK$'000	Total HK$'000
Pass				
– Corporate loan	2,013,303	–	–	2,013,303
– Personal loan	2,288,490	–	–	2,288,490
Special-mention				
– Corporate loan	–	52,023	–	52,023
– Personal loan	–	55,417	–	55,417
Substandard				
– Corporate loan	–	–	–	–
– Personal loan	–	–	5,051	5,051
Doubtful				
– Corporate loan	–	–	3,488	3,488
– Personal loan	–	–	36,758	36,758
Loss				
– Corporate loan	–	–	17,943	17,943
– Personal loan	–	–	20,650	20,650
Subtotal	4,301,793	107,440	83,890	4,493,123
Allowance for doubtful debts	(40,145)	(3,772)	(44,148)	(88,065)
Total	4,261,648	103,668	39,742	4,405,058

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loans receivable are set out in note 20.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(i) *Credit risk arising from loan business (Continued)*

(5) *Loans and advances three-staging exposure (Continued)*

Loans and advances to customers by five-tier loan classification and three-staging analysed as follows: *(Continued)*

	As at 31 December 2018			
	Stage 1 (12-month ECL) HK$'000	Stage 2 (Lifetime ECL) HK$'000	Stage 3 (Lifetime ECL – impaired) HK$'000	Total HK$'000
Pass				
– Corporate loan	2,244,970	–	–	2,244,970
– Personal loan	2,286,071	–	–	2,286,071
Special-mention				
– Corporate loan	–	26,837	–	26,837
– Personal loan	–	40,601	–	40,601
Substandard				
– Corporate loan	–	–	–	–
– Personal loan	–	–	726	726
Doubtful				
– Corporate loan	–	–	701	701
– Personal loan	–	–	36,449	36,449
Loss				
– Corporate loan	–	–	6,400	6,400
– Personal loan	–	–	35,169	35,169
Subtotal	4,531,041	67,438	79,445	4,677,924
Allowance for doubtful debts	(34,103)	(2,466)	(36,326)	(72,895)
Total	4,496,938	64,972	43,119	4,605,029

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loans receivable are set out in note 20.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(ii) *Credit risk arising from guarantee business*

The Group adopts the same pre-approval, review and credit approval risk management system for credit risk arising from guarantee business. During the post-transaction monitoring process, all guarantees provided are backed by collateral (e.g. property, gold, jewellery, diamonds and watches etc.) as security. The Group focuses on ascertaining legal ownership and the valuation of the collateral. A guarantee provided by the Group is based on the value of the collateral and generally approximates N/A (2018: 75.52%) of the estimated value of the collateral. The Group monitors the value of the collateral throughout the guarantee period.

The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 42.

(iii) *Other credit risks*

In respect of accounts receivable, interests and other receivable, individual credit evaluations are performed on all debtors requiring credit over a certain amount. These evaluations focus on the debtor's past history of making payments when due and current ability to pay, and take into account information specific to the debtors as well as pertaining to the economic environment in which the debtor operates. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivable and interests receivable are set out in notes 21 and 22 respectively.

The majority of the Group's investments are liquid securities listed on the recognised stock exchanges. Given their high credit standing, management does not expect any investment counterparty to fail to meet it obligations.

The credit risk on cash and cash equivalents, time deposits and pledged bank and security deposits paid is limited because the counterparties are banks and other financial institutions with high credit ratings assigned by international credit-rating agencies.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

b) *Liquidity risk*

Individual operating entities within the Group are responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to the Company's board approval when the borrowings exceed certain predetermined level of authority. The Group's policy is to regularly monitor its 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 following liquidity tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay.

	2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount at 31 December HK$'000
Non-derivative financial liabilities:						
Bank loans						
– fixed rates	131,971	–	–	–	131,971	127,598
– variable rates	112,543	–	–	–	112,543	110,000
Borrowings and other payables	1,090,997	–	–	–	1,090,997	1,073,786
Unsecured bonds	34,599	48,127	275,317	10,450	368,493	294,363
Security deposits received	50,822	–	–	–	50,822	50,822
Amount due to an associate	2,885	–	–	–	2,885	2,885
Lease liabilities	6,613	1,170	–	–	7,783	7,544
Accruals and other deposits received	33,218	–	–	–	33,218	33,218
Consideration payables	99,279	99,270	98,086	–	296,635	280,710
	1,562,927	148,567	373,403	10,450	2,095,347	1,980,926
Financial guarantees issued:						
Maximum amount guaranteed arising from:						
– Loan guarantee business*	–	–	–	–	–	–

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

b) Liquidity risk (Continued)

	2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount at 31 December HK$'000
Non-derivative financial liabilities:						
Bank loans						
– fixed rates	70,510	–	–	–	70,510	68,478
– variable rates	66,822	–	–	–	66,822	64,000
Borrowings and other payables	1,593,880	–	–	–	1,593,880	1,522,414
Unsecured bonds	77,344	17,414	268,455	35,903	399,116	302,022
Security deposits received	107,433	–	–	–	107,433	107,433
Amount due to an associate	2,970	–	–	–	2,970	2,970
Accruals and other deposits received	53,807	–	–	–	53,807	53,807
	1,972,766	17,414	268,455	35,903	2,294,538	2,121,124
Financial guarantees issued:						
Maximum amount guaranteed arising from:						
– Loan guarantee business*	34,011	–	–	–	34,011	429

* The maximum amount guaranteed represents the total amount of liability should all customers default. Since a significant portion of guarantees issued is expected to expire without being called upon the maximum liabilities do not represent expected future cash outflows.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

b) Liquidity risk (Continued)

The table that follows summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Maturity - Bank Borrowings subject to a repayment on demand clause based on scheduled repayment dates

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash outflows
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2019	–	210,621	3,708	30,185	244,514
At 31 December 2018	–	137,332	–	–	137,332

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

c) *Interest rate risk*

The Group is principally engaged in the provision of financing services. Its interest rate risk arises primarily from deposits with financial institutions, loans receivable, bank loans, interest-bearing borrowings, senior bonds, listed debt securities and unsecured bonds.

(i) *Interest rate profile*

The following table details the interest rate profile of the Group's assets and liabilities at the end of the reporting period:

	At 31 December 2019 HK$'000	2018 HK$'000
Fixed interest rate		
Financial assets		
Loans receivable (Non-current portion)	**565,763**	620,488
Loans receivable (Current portion)	**3,839,295**	3,984,541
Other financial assets, debt securities	**13,104**	43,098
	4,418,162	4,648,127
Financial liabilities		
Bank loans	**(127,599)**	(68,478)
Borrowings under contractual agreements with:		
– Platform A	**–**	(1,601)
– Platform B	**(73,679)**	(829,522)
Borrowings from employees and certain independent third parties	**(69,134)**	(30,645)
Borrowings from shareholders	**(4,286)**	(60,797)
Borrowings from a money lending license corporation	**(47,500)**	–
Borrowings from related companies	**(163,048)**	(90,508)
Unsecured Bonds	**(294,363)**	(302,022)
Note payable	**(273,217)**	(271,231)
	(1,052,826)	(1,654,804)
Net fixed rate financial instruments	**3,365,336**	2,993,323

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

c) *Interest rate risk (Continued)*

(i) *Interest rate profile (Continued)*

	At 31 December	
	2019	2018
	HK$'000	HK$'000
Variable interest rate		
Financial assets		
– Cash at bank/financial institutions	**703,563**	540,184
– Pledged bank and security deposits paid	**34,053**	29,211
	737,616	569,395
Financial liabilities		
– Bank loans	**(110,000)**	(64,000)
– Consideration payables	**(280,710)**	–
	(390,710)	(64,000)
Net variable rate financial instruments	**346,906**	505,395
Fixed rate borrowings as a percentage of total borrowings	**72.93%**	96.28%

(ii) *Sensitivity analysis*

The Group's interest rate risk arises primarily from bank loans and listed debt securities. Bank loans with variable rates expose the Group to cash flow interest rate risk. The Group has fair value interest rate risk arising from its listed debt securities.

The Group does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The directors consider the Group's exposure to cash flow interest rate risk of bank deposits is not significant.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

c) *Interest rate risk (Continued)*

(ii) *Sensitivity analysis (Continued)*

At 31 December 2019 it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank loans, with all other variables held constant, would decrease/increase the Group's profit after tax (and retained earnings) by approximately HK$919,000 (2018: HK$534,000).

The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2018: 100 basis points) increase or decrease in interest rates is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

d) *Equity price risk*

The Group is exposed to equity price risk arising from listed equity investments and unlisted investment fund classified as other financial assets (see note 18). Other than unquoted investments held for strategic purposes, all of these investments are listed.

The Group's listed equity investments are listed on recognised stock exchanges. Listed equity investments held in the portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared the relevant industry indicators, as well as the Group's liquidity needs.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

d) *Equity price risk (Continued)*

At 31 December 2019 it is estimated that an increase/(decrease) of 10% (2018: 10%) in the relevant stock market index (for listed equity investments) and fair value of unlisted investment, with all other variables held constant, would have increased/ decreased the Group's profit after tax (and retained earnings) and other components of consolidated equity as follows:

		2019 Effect on profit after tax and retained earnings HK$'000	Effect on other components of equity HK$'000		2018 Effect on profit after tax and retained earnings HK$'000	Effect on other components of equity HK$'000
Change in the relevant equity price risk variable:						
Increase	10%	2,845	–	10%	3,631	–
Decrease	10%	(2,845)	–	10%	(3,631)	–

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise assuming that the changes in the stock market index or fair value had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is assumed that the fair values of the Group's listed investments would change in accordance with the historical correlation with the relevant stock market index, that none of the Group's listed investments would be considered impaired as a result of the decrease in the relevant stock market index, and that all other variables remain constant. It is also assumed that the fair values of the Group's unlisted investment would change in accordance with the market value, that none of the Group's unlisted investments would be considered impaired as a result of the decrease in market value, and that all other variables remain constant. The analysis is performed on the same basis for 2018.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

e) *Fair value measurement*

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable input

For financial instruments traded in inactive markets, their fair value measurements are based on net assets values provided by the relevant investment fund manager.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

e) *Fair value measurement (Continued)*

(i) *Financial assets and liabilities measured at fair value (Continued)*

The Group engages independent professional valuers performing valuations for its financial instruments, including the financial assets which are categorised into Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by independent valuers at each interim and annual reporting dates, and are reviewed by the financial controller and approved by the directors of the Company. Discussion of the valuation process and results with the financial controller and the directors of the Company is held twice a year to coincide with the reporting dates.

		Fair value measurements as at 31 December 2019 categorised into		
	Fair value at 31 December 2019 HK$'000	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Recurring fair value measurement				
Assets:				
Other financial assets				
– Equity securities, listed	**3,985**	**3,985**	**–**	**–**
– Debt securities, listed	**13,104**	**–**	**13,104**	**–**
– Investment funds, unlisted	**24,461**	**–**	**–**	**24,461**
– Other unlisted investments	**12,206**	**–**	**12,206**	**–**
Contingent consideration receivables	**10,682**	**–**	**–**	**10,682**

		Fair value measurements as at 31 December 2018 categorised into		
	Fair value at 31 December 2018 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurement				
Assets:				
Other financial assets				
– Equity securities, listed	4,742	4,742	–	–
– Debt securities, listed	43,098	–	43,098	–
– Investment funds, unlisted	31,567	–	–	31,567
– Other unlisted investments	11,437	–	11,437	–
Contingent consideration receivables	15,238	–	–	15,238

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

e) *Fair value measurement (Continued)*

(i) *Financial assets and liabilities measured at fair value (Continued)*

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of debt securities in Level 2 is determined by using quoted prices from financial institutions.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Investment funds, unlisted	Net asset value	N/A
Contingent consideration receivables	Monte Carlo Simulations	Expected volatility: 38.80% to 53.45% (2018: 41.74% to 64.43%)

As at 31 December 2019 and 2018, no sensitivity analysis is performed on contingent consideration receivables as the impact is not significant to the Group's profit.

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

e) *Fair value measurement (Continued)*

(i) *Financial assets and liabilities measured at fair value (Continued)*

The movements during the year in the balances of these Level 3 fair value measurements are as follows:

Contingent consideration receivables:	**2019 HK$'000**	2018 HK$'000
At 1 January	**15,238**	1,270
Addition through acquisition of associates	**–**	3,524
Fair value change recognised in profit or loss	**(4,556)**	10,444
At 31 December	**10,682**	15,238
Total (loss)/gain for the year included in profit or loss for assets held at the end of the reporting period	**(4,556)**	10,444

Investment fund in the PRC, unlisted:	**2019 HK$'000**	2018 HK$'000
At 1 January	**31,567**	29,908
Fair value change recognised in profit and loss	**(5,747)**	3,142
Exchange differences	**(1,359)**	(1,483)
At 31 December	**24,461**	31,567
Total (loss)/gain for the year included in profit or loss for assets held at the end of the reporting period	**(5,747)**	3,142

47. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

e) *Fair value measurement (Continued)*

(i) *Financial assets and liabilities measured at fair value (Continued)*

Financial derivatives:	2018 HK$'000
At 1 January	304
Gain on disposal recognised in profit or loss	(304)
At 31 December	–
Total gain for the year included in profit or loss for financial derivatives held at the end of the reporting period	304

(ii) *Fair value of financial instruments carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2019 and 2018.

48. Capital Management

The Group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes current and non-current interest-bearing borrowings and other payables, consideration payables, security deposits paid, and lease liabilities, less cash and cash equivalents. Adjusted capital comprises all components of equity.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the group recognizes right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a slightly increase in the group's total debt and hence the group's adjusted net debt-to-capital ratio rose from 38.39% to 38.82% on 1 January 2019 when compared to its position as at 31 December 2018.

48. Capital Management *(Continued)*

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follow:

	31 December 2019 HK$'000	1 January 2019 HK$'000	31 December 2018 HK$'000
Current Liabilities:			
Bank loans	**237,598**	132,478	132,478
Unsecured Bonds	**14,914**	56,443	56,443
Borrowings and other payables	**1,073,786**	1,251,183	1,251,183
Security deposit received	**50,822**	107,433	107,433
Consideration payables	**94,520**	–	–
Lease liabilities	**6,397**	9,887	–
	1,478,037	1,557,424	1,547,537
Non-current liabilities:			
Borrowings and other payables	**–**	271,231	271,231
Consideration payables	**186,190**	–	–
Lease liabilities	**1,147**	6,895	–
Unsecured Bonds	**279,449**	245,579	245,579
	466,786	523,705	516,810
Total borrowings	**1,944,823**	2,081,129	2,064,347
Less: Cash and cash equivalents	**(703,563)**	(540,184)	(540,184)
Pledged bank and security deposits paid	**(34,053)**	(29,211)	(29,211)
Time deposits	**–**	–	–
Adjusted net debt	**1,207,207**	1,511,734	1,494,952
Adjusted equity	**3,831,396**	3,894,069	3,894,069
Adjusted gearing ratio	**31.51%**	38.82%	38.39%

Qian Long Assets Management Company Limited, a wholly-owned subsidiary of the Company, provides financial services to its customers and is subject to capital requirements imposed by the Securities and Futures Commission ("SFC"). The Group monitors the financial position of Qian Long Assets Management Company Limited in order to ensure that Qian Long Assets Management Company Limited maintains a liquid capital level adequate to support the level of activities and meet the capital requirements imposed by SFC. Other than the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

49. Company-level Statement of Financial Position

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		4,695	3,316
Investment in subsidiaries		1,101,294	469,400
Investment in an associate		3,900	3,900
Amounts due from subsidiaries		1,584,284	1,979,972
		2,694,173	2,456,588
Current assets			
Amounts due from subsidiaries		190,948	436
Dividends receivable from subsidiaries		800,268	805,382
Other receivables, deposits and prepayments		7,295	5,920
Amount due from an associate		6	–
Pledged bank and security deposit		33,849	–
Amounts due from joint ventures		50	–
Cash and cash equivalents		3,481	34,026
		1,035,897	845,764
Current liabilities			
Borrowings and other payables		432,623	33,671
Consideration payable		94,520	–
Bank loan		20,000	–
Unsecured bonds		8,414	56,443
Amounts due to subsidiaries		438,455	247,573
Accruals and other deposit received		5,415	13,958
Lease liabilities		2,253	–
		1,001,680	351,645
Net current assets		34,217	494,119
Total assets less current liabilities		2,728,390	2,950,707
Non-current liabilities			
Unsecured Bonds		289,359	255,466
Borrowings and other payables		–	271,231
Consideration payable		186,190	–
		475,549	526,697
NET ASSETS		2,252,841	2,424,010
EQUITY			
Share capital	36	2,080,113	2,080,113
Reserves	37	172,728	343,897
TOTAL EQUITY		2,252,841	2,424,010

Approved and authorised for issue by the board of directors on 26 March 2020 and were signed on its behalf by:

Chan Yuk Ming	**Cheung Chai Hong**
Director	*Director*

50. Major Non-cash Transaction

During the year ended 31 December 2018, pursuant to an agreement entered between the Company, a shareholder of the Company and an independent third party, a deposit paid of HK$20,000,000 was used to settle a borrowing from a shareholder.

51. Events After the Reporting Period

Cancellation of shares

In February 2020, 7,672,000 of the Company's shares which were repurchased during the year ended 31 December 2019, were cancelled.

52. Ultimate Controlling Party

The directors regard Mr. Cheung Siu Lam through his direct shareholding in the Company as being the ultimate controlling party. The Company does not have any parent company.

53. Comparative Figures

The Group has initially applied HKFRS 16 at 1 January 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

54. Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020*
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020
Amendments to HKFRS 10 and HKAS 28 Sales or contribution of assets between an investor and its associate and joint venture	To be determined
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest rate benchmark reform	1 January 2020
New Standard, HKFRS 17 Insurance contracts	1 January 2021

* Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL SUMMARY

For the year ended 31 December 2019

Summary Financial Information

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified or restated as appropriate, is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Interest, guarantee and financing consultancy services income	**765,330**	823,013	732,705	680,282	725,490
Profit for the year	**213,950**	298,556	310,541	345,266	353,052
Attributable to:					
Equity shareholders of the Company	**182,448**	270,427	286,675	329,958	345,815
Non-controlling interest	**31,502**	28,129	23,866	15,308	7,237
	213,950	298,556	310,541	345,266	353,052

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**5,982,951**	6,183,412	6,371,560	4,562,348	4,836,197
Total liabilities	**(2,151,555)**	(2,289,343)	(2,472,948)	(1,439,641)	(1,761,787)
Non-controlling interests	**(106,915)**	(184,066)	(186,134)	(128,684)	(126,001)
Balance of total equity attributable to equity shareholders of the Company	**3,724,481**	3,710,003	3,712,478	2,994,023	2,948,409