SFUND INTERNATIONAL HOLDINGS LIMITED
廣州基金國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1367)

2019 Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Qing *(Chairman)* (Appointed on 15 January 2019)
Mr. Lam Kwan Sing *(Chief Executive Officer)*
Mr. Liu Zhijun
Ms. Yi Sha
Ms. Wang Mengsu (Appointed on 15 January 2019)
Mr. Hon Ming Sang

Independent Non-Executive Directors

Mr. Fok Ho Yin, Thomas
Mr. Chan Wai Cheung, Admiral
Mr. Lam Ho Pong

AUDIT COMMITTEE

Mr. Fok Ho Yin, Thomas *(Chairman)*
Mr. Chan Wai Cheung, Admiral
Mr. Lam Ho Pong

REMUNERATION COMMITTEE

Mr. Fok Ho Yin, Thomas *(Chairman)*
Mr. Chan Wai Cheung, Admiral
Mr. Lam Ho Pong

NOMINATION COMMITTEE

Mr. Fok Ho Yin, Thomas *(Chairman)*
Mr. Chan Wai Cheung, Admiral
Mr. Lam Ho Pong

CORPORATE GOVERNANCE COMMITTEE

Mr. Lam Kwan Sing *(Chairman)*
Mr. Hon Ming Sang
Mr. Fok Ho Yin, Thomas
Mr. Chan Wai Cheung, Admiral
Mr. Lam Ho Pong

COMPANY SECRETARY

Mr. Hon Ming Sang

AUTHORISED REPRESENTATIVES

Mr. Lam Kwan Sing
Mr. Hon Ming Sang

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 904-5
9/F., Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITOR

ZHONGHUI ANDA CPA LIMITED
Unit 701, 7/F., Citicorp Centre,
18 Whitfield Road,
Causeway Bay, Hong Kong

WEBSITE

www.1367.com.hk

STOCK CODE

1367

Financial Summary

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**64,330**	137,744	259,106	365,750	355,952
Gross profit	**22,407**	33,543	46,309	60,447	59,449
Loss before tax	**(127,437)**	(97,099)	(43,192)	(3,438)	(4,378)
Income tax credit/(expense)	**2,016**	(1,898)	(806)	(2,089)	(989)
Loss for the year	**(125,421)**	(98,997)	(43,998)	(5,527)	(5,367)

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**204,858**	310,778	248,782	184,824	184,516
Total liabilities	**325,222**	305,280	141,390	54,285	48,087
Net (liabilities)/assets	**(120,364)**	5,498	107,392	130,539	136,429

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of SFund International Holdings Limited (the "Company"), I am pleased to present to you the annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019.

RESULTS OF THE GROUP

Revenue

During the financial year under review, the Group recorded a revenue of approximately HK$64.3 million (2018: HK$137.7 million), representing a decrease by 53.3% as compared to last year. The decrease was mainly due to the net effect of (i) a decrease in revenue derived from apparel supply chain management services business of approximately HK$46,570,000 (2018: HK$107,652,000) due to significant decrease in the Group's sales in the USA because of the loss of significant customers, which the change in sourcing strategies by the USA customers. The Group has been devoted in securing replacements for the lost customers; (ii) an unrealised loss and realised gain on an investment in listed equity investment at fair value through profit and loss of approximately HK$132,000 and HK$15,000, respectively (2018: an unrealised loss of approximately HK$6,016,000 and realised gain: nil), which was arising from the Group's securities investment business segment; (iii) a decrease in revenue derived from money lending business of approximately HK$17,051,000 (2018: HK$20,423,000); and (iv) a decrease in revenue derived from financial services business of approximately HK$826,000 (2018: HK$15,685,000), which were mainly derived from the Group's fund management services and other consultancy services in Mainland China and Hong Kong (China).

Loss for the year

The net loss attributed to the owner of the Company for the year ended 31 December 2019 amounted to approximately HK$111,390,000 (2018: HK$101,279,000), resulted in a basic loss per share for the year ended 31 December 2019 of HK23.21 cents (2018: basic loss per share of HK21.10 cents), representing an increase in loss attributed to the shareholders of the Company (the "Shareholders") by 10.0%. The increase in loss was resulted from the effects of (i) decrease in revenue as described above; (ii) decrease in other income and gains of approximately HK$2,022,000 (2018:HK$18,897,000), which was mainly due to decrease in gain on disposal of a property; (iii) increase in other expenses of approximately HK$44,603,000 (2018:HK$4,695,000), which was mainly due to increase in provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets.

BUSINESS OVERVIEW AND PROSPECT

The apparel supply chain management services include sourcing of raw materials and third-party manufacturers, sample creation, product design and development, production management, merchandising, quality control, logistics management and social compliance monitoring services. The Group acts as a one-stop solution provider to its customers to meet their needs along the apparel supply chain. Revenue is derived primarily from the sale of apparel products it procures for its customers.

Chairman's Statement

During the year, the Group faced decrease in revenue for sales to customers in the United States of America (the "USA") because of the change in sourcing strategies by our USA customers. New customers have been sought in Hong Kong (China), Mainland China and Vietnam but this still takes time to grow. Nevertheless, the better gross margin has increased the Group's gross profit in 2019. The Group is still exploring other alternatives to develop markets in other geographical regions so as to diversify its customer base.

Regarding the Group's financial services business, subsequent to the financial year under review, on 31 January 2020, the Group has entered into an agreement to acquire 30% equity interest in 廣俊粵港澳產業投資基金管理(廣州)有限公司 (Guangjun Guangdong–Hong Kong–Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the "GJ Fund Management Company") at a consideration of approximately HK$3 Million. GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC. The Group is optimistic about the prospect of GJ Fund Management Company and believe such acquisition would strengthen the Group's network in the PRC fund industry, which is in line with the expansion plan of the Group.

The Group will continue to expand its financial services segment by applying for the necessary licenses for, or acquiring licensed corporation to conduct regulated activities, or acquiring interest in, or setting up funds to invest in, companies or projects which have good potentials and prospect.

Regarding the Group's money lending business, during the year, the two existing borrowers of the Group with a total loan principal amount of HK$115,000,000 as at 31 December, 2019, continue to provide revenue stream to the Group.

We are confident with the future development of the Hong Kong stock market and our financial services business, including but not limited to money lending, asset management, fund management, financial advisory and brokerage service, and we plan to further increase in the scale of our financial services business and will actively invest in the capital market with a dynamic portfolio according to the changing market conditions. We will also look into potential investees in the financial service platform to diversify our financial services business and achieve synergy effect.

APPRECIATION

Finally, on behalf of the Board, I would like to express my sincere gratitude to all Shareholders, investors, bankers, business associates and customers for their great support and trust, and to our Directors, management and staff for their invaluable contributions to the Group over the past year. The Group will also actively develop its own businesses to achieve fabulous returns for our Shareholders.

Li Qing
Chairman

Hong Kong (China), 30 March 2020

Management Discussion and Analysis

BUSINESS REVIEW

The Group was principally engaged in (i) apparel supply chain management services business; (ii) financial services business; (iii) money lending business; and (iv) securities investment during the year.

Apparel Supply Chain Management Services Business

The Group provides apparel supply chain management services for woven wear (such as shirts, pants, jeans and jackets) and accessories. This includes sourcing of raw materials and third-party manufacturers, sample creation, product design and development, production management, merchandising, quality control, logistics management and social compliance monitoring services. The Group acts as a one-stop solution provider to its customers to meet their needs along the apparel supply chain. Revenue is derived primarily from the sale of apparel products it procures for its customers.

Sales in 2019 to the USA customers declined because of the change in their sourcing strategies. The impact was mitigated as new customers in Hong Kong (China), Mainland China and Vietnam have been sought. Hence, the Group's revenue from apparel operation decreased by approximately 56.8% from HK$107,652,000 in 2018 to HK$46,570,000 in 2019. The segment loss from the respective segment was HK$27,611,000 as compared to segment loss of HK$50,534,000 for the corresponding period last year.

The manufacturing environment were concentrated in Cambodia, Bangladesh and the PRC. The continual strengthening of United States dollars ("US$") against Renminbi ("RMB") in 2019 has helped to stabilize the material costs which are mainly sourced in Mainland China.

Overheads decreased significantly during the year as most of the IT projects related to improving supply chain management process have been completed.

Financial Services Business

During the year, the Group carried out financial services business through its subsidiaries including Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") in Hong Kong (China) as well as equity interests investment management, investment consultancy services, investment management services, entrusted management of equity interests investment fund and corporate management consultancy services in the People's Republic of China (the "PRC").

During the year, the revenue and operating loss generated in this segment were HK$826,000 (2018: HK$15,685,000) and HK$48,595,000 (2018: HK$563,000), respectively.

The segment loss in this segment were mainly due to increase in provision for impairment of accounts receivable, impairment of goodwill and impairment of intangible assets amounting to HK$44,272,000. As at 31 December 2019, the Group had overdue fund management fee receivables of HK$12,314,000 and HK$7,877,000 due from 湖南匯垠湘天投資合夥企業(Hunan Huiyin Xiangtian Investment Partnership*) and 湖南匯垠眾益投資合夥企業(Hunan Huiyin Zhongyi Investment Partnership*), respectively, investment funds registered in the Mainland China (the "PRC Funds"), of which the Group acts as the fund manager. The Group has carried out a comprehensive assessment on the recoverability of such fund management fee receivables based on currently available information. Taken into account of the initiated litigation on 唐山境界實業有限公司(Tangshan Jingjie Industry Co., Ltd*) (investee company of the PRC Funds) and its related parties and the fact that part of their assets are frozen under judiciary, the Group hereby recognised an impairment amounted to HK$19.5 million on management fee receivables as well as an impairment on the goodwill of approximately HK$8.4 million due to the significant doubt of the recoverability of the fund management fee receivables based on prudent approach even though the PRC lawyer stated that the Company could have approximately to recover the outstanding amount. No related management fee income was recognised during the year.

Management Discussion and Analysis

As at 31 December 2019, the recoverable amounts of the securities dealing CGU and asset management CGU for the goodwill determined based on value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. Due to the absence of transactions in an active market for underlying assets, it is appropriate to use of discounted cash flows to estimate the fair value of such assets. The change in valuation method is due to the Group considers that it provides more reliable information about the recoverable amount as at 31 December 2019.

As a result, an impairment of approximately HK$2,674,000 for the goodwill was recognised in profit or loss for the year ended 31 December 2019 due to the unfavourable income forecast in future.

As at 31 December 2019, the recoverable amounts of the securities dealing CGU and asset management CGU for the intangible assets determined based on value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. Due to the absence of transactions in an active market for underlying assets, it is appropriate to use of discounted cash flows to estimate the fair value of such value. The change in valuation method is due to the Group considers that it provides more reliable information about the recoverable amount as at 31 December 2019.

As a result, an impairment of approximately HK$13,100,000 for the intangible asset was recognised in profit or loss for the year ended 31 December 2019 due to the unfavourable income forecast in future.

Money Lending Business

The Group engaged in the money lending business through Capital Strategic Partners Limited ("Capital Strategic"), an indirect wholly-owned subsidiary of the Company, which holds a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) to carry out money lending business in Hong Kong (China). During the year, the interest income and operating profit generated in this segment were HK$17,051,000 (2018: HK$20,423,000) and HK$13,042,000 (2018: HK$15,115,000), respectively.

As at 31 December 2019, there were two transactions of loan advanced to customers. The loan were still outstanding as at 31 December 2019 with an aggregate outstanding loan principal of HK$115,000,000.

On 24 November 2017, Capital Strategic entered into a loan agreement with Yuan Heng Gas Holdings Limited ("Yuan Heng"), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 332). Pursuant to the loan agreement, Capital Strategic agreed to grant to Yuan Heng a loan of HK$180,000,000 ("Original Facility") for a term of 6 months from the date of the drawdown, which was 25 January 2018, and could be further extended for another 6 months with written consent of Capital Strategic (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). The loan is secured by the charge over the entire issued share capital of an indirect wholly-owned subsidiary of Yuan Heng and the floating charge over all or any part of the property and/or assets of an indirect wholly-owned subsidiary of Yuan Heng in favour of Capital Strategic. Yuan Heng had repaid HK$100,000,000 of the Original Facility to Capital Strategic by 6 August 2018.

On 25 January 2019, Capital Strategic and Yuan Heng entered into the first supplemental agreement (the "1st Supplemental Agreement") pursuant to which Capital Strategic had agreed to extend the maturity date of the remaining HK$80,000,000 of the Original Facility to 25 July 2019 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). Yuan Heng had further repaid HK$5,000,000 of the Original Facility to Capital Strategic by 16 July 2019.

Management Discussion and Analysis

On 26 July 2019, Capital Strategic and Yuan Heng entered into the second supplemental agreement (the "2nd Supplemental Agreement") with retrospective effect from 25 July 2019 pursuant to which Capital Strategic had agreed to extend the maturity date of the remaining HK$75,000,000 of the Original Facility to 25 January 2020 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). The loan continues to be secured by the share charge and the floating charge.

Subsequent to the financial year under review, on 21 January 2020, Yuan Heng had further repaid HK$35,000,000 of the Original Facility to Capital Strategic.

Further details of the transaction is also set out in the Company's announcements dated 24 November 2017, 25 January 2018, 25 January 2019 and 26 July 2019 and circular dated 22 December 2017, respectively. The loan is still outstanding as at 31 December 2019.

On 14 February 2018, Capital Strategic entered into another loan agreement with China-HK Holdings Investment Limited ("China-HK"), a company incorporated in Hong Kong (China) with limited liability, pursuant to which Capital Strategic had agreed to provide a loan facility to the China-HK in the principal amount of HK$40,000,000 for a term of 6 months from the dates of the relevant drawdown, which could be further extended upon the request of China-HK and subject to agreement of Capital Strategic in writing. The loan is secured by the charge over the entire issued share capital of China-HK and 2 wholly-owned subsidiaries of China-HK. On 14 August 2018, Capital Strategic and China-HK entered into a supplemental loan agreement to extend the repayment date to 14 February 2019. Further details of the transaction is set out in the Company's announcements dated 14 February 2018 and 14 August 2018. The loan is still outstanding as at 31 December 2019.

Management had formulated a fundamental policy to establish its internal control systems. The Group would adopt a prudent approach and conduct regular reviews of the composition of the loans portfolio and lending rates charged to each customer to maximise the return of the money lending business as well as diversify the credit risk.

Securities Investment

During the year, the Group carried out the Group's investment business in securities investment.

During the year, the revenue arising from this segment was negative revenue of HK$117,000 (2018: negative revenue of HK$6,016,000). Revenue was attributable to the net unrealised loss on listed securities investment of HK$132,000 (2018: net unrealised loss of HK$6,016,000) and realised gain on listed securities investment of HK$15,000 (2018: nil) for the year ended 31 December 2019.

The overall performance of the securities investment business recorded a loss of HK$131,000 for the year ended 31 December 2019 (2018: HK$6,022,000), which was primarily attributable to the unrealized loss on securities investment stated above. As at 31 December 2019, the market value of the Group's listed securities portfolio was HK$1,091,000 (31 December 2018: HK$1,222,000).

The Group is currently looking into other investment opportunities including private equities, debt securities, derivatives and funds. The management plans to revise its investment strategies and formulate new investment policies in the near future.

Management Discussion and Analysis

FINANCIAL REVIEW

During the year under review, the Group has diversified its operations into four segments, being

(a) Apparel supply chain management services;

(b) Financial services;

(c) Money lending; and

(d) Securities investment.

Financial results from the Group's operations are summarized as follows:

Revenue

Revenue by Business Segments

Ratio analysis by business segments for the Group's revenue for the year ended 31 December 2019 is as follows:

- Apparel supply chain management services business: HK$46,570,000, 72.4% of revenue (2018: HK$107,652,000, 78.2%)
- Financial services business: HK$826,000, 1.3% of revenue (2018: HK$15,685,000, 11.4%)
- Money lending business: HK$17,051,000, 26.5% of revenue (2018: HK$20,423,000, 14.8%)
- Securities investment: negative revenue of HK$117,000, -0.2% of revenue (2018: negative revenue of HK$6,016,000, -4.4%)

Revenue by Geographical Segments

Ratio analysis by geographical segments for the Group's revenue for the year ended 31 December 2019 is as follows:

- USA: HK$37,599,000, 58.4% of revenue (2018: HK$102,131,000, 74.1%)
- Mainland China: HK$1,140,000, 1.8% of revenue (2018: HK$16,503,000, 12.0%)
- Hong Kong (China): HK$16,996,000, 26.4% of revenue (2018: HK$14,679,000, 10.7%)
- Other countries: HK$8,595,000, 13.4% of revenue (2018: HK$4,431,000, 3.2%)

Management Discussion and Analysis

The Group's revenue for the year ended 31 December 2019 was HK$64,330,000, being a decrease of HK$73,414,000 when compared to the corresponding period last year of HK$137,744,000. The decrease was mainly due to the net effect of (i) a decrease in revenue derived from apparel supply chain management services business of HK$46,570,000 (2018: HK$107,652,000) due to the significant decrease in the Group's sales in the USA because of the loss of significant customers, which the change in sourcing strategies by the USA customers. The Group has been devoted in securing replacements for the lost customers; (ii) a decrease in revenue derived from financial services business of HK$826,000 (2018: HK$15,685,000), which were mainly derived from the Group's fund management services and other consultancy services in Mainland China and Hong Kong (China); (iii) a decrease in interest income from loans advanced to independent third parties of HK$17,051,000 (2018: HK$20,423,000); and (iv) an unrealised loss and realised gain on an investment in listed equity investment at fair value through profit or loss of HK$132,000 and HK$15,000, respectively (2018: unrealised loss of HK$6,016,000 and realised gain: nil), which was arising from the Group's business segment on securities investment.

Cost of Sales

Cost of sales of the Group relates to (i) its apparel supply chain management services business and includes raw materials, subcontracting fees, and other costs. Raw materials were fabrics and ancillary raw materials, including buttons, zippers and threads that the Group purchased and supplied to the third-party manufacturers for their production. Subcontracting fees represented fees paid to the third-party manufacturers for production of apparel products. Other costs include miscellaneous costs such as freight charges, inspection charges, declaration fees, depreciation and insurance; and (ii) the direct cost of fund management services mainly consists of fund manager costs.

Subcontracting fees continues to be the major component of the Group's total cost of sales.

Gross Profit and Margin

The Group's gross profit for the year ended 31 December 2019 was HK$22,407,000, representing a decrease of approximately 33.2% from HK$33,543,000 in the corresponding period last year. The decrease in gross profit was because there were decrease in sales and gross profit margin for its apparel supply chain management services business and some fund management income in the PRC have not been recognised.

Other Income and gains

Other income and gains for the year ended 31 December 2019 was HK$2,022,000, representing a decrease of approximately 89.3% from the corresponding period last year of HK$18,897,000. The decrease was mainly due to the decrease in rental income, compensation income, bank interest income, gain on disposal of a property and gain on foreign exchange difference, net.

Selling Expenses

Selling and distribution costs primarily consist of (i) sample cost; (ii) promotion expenses; (iii) staff cost; and (iv) other selling and distribution expenses. Selling and distribution costs decreased by approximately 26.3% from HK$3,704,000 to HK$2,731,000, which was mainly due to decrease in sample cost.

Administrative Expenses

Administrative expenses mainly represented employee benefit expenses for the Group's management, finance and administrative personnel, rental expenses for the Group's office premises and travelling expenses. Administrative expenses decreased by approximately 28.6% from HK$120,171,000 to HK$85,783,000, which was mainly due to the decrease in salaries, consultancy fees for enhancement of IT system for apparel supply chain management services business.

Other Expenses, Net

Other expenses, net mainly represented the expected credit losses on loans receivable, reversal of impairment of accounts receivable, provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets. Other expenses, net for the year as HK$44,603,000, representing an increase of approximately 850.0% from HK$4,695,000 in the corresponding period last year. The significant increase was mainly due to increase in provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets. It consisted of HK$19.5 million impairment of accounts receivable, HK$1 million impairment of loans receivable, HK$11 million impairment of goodwill and HK$13 million impairment of intangible assets.

Finance Costs

Finance costs decreased by approximately 8.8% from HK$21,094,000 to HK$19,235,000. The decrease was mainly due to decrease in interest expenses for bond payables.

Loss for the Year

The net loss attributed to the owners of the Company for the year ended 31 December 2019 amounted to HK$111,390,000 (2018: HK$101,279,000), resulted in a basic loss per share for the year ended 31 December 2019 of HK23.21 cents (2018: HK21.10 cents), representing an increase in loss attributed to the shareholders of the Company (the "Shareholders") by 10%. The increase in loss was resulted from the effects of (i) decrease in sales and gross profits; and (ii) increase in other expenses, mainly due to increase in provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets (as stated above).

PROSPECTS

To improve the financial position of the Group, the Company is considering various options to strengthen the capital of the Company and will, when appropriate, disclose further development on the above matter, if any, by way of further announcement(s) in accordance with regulatory requirements.

Apparel Supply Chain Management Services business

The management of the Group expects the business environment for the apparel supply chain management services business in 2020 not favorable. As goods sold to our new customers are mostly sold to department and specialty stores in the USA, the increasing coronavirus infection in the US is expected to hit their business as people will avoid going out for shopping. Recent stock market volatility will also have negative wealth effect that deter consumer spending on apparels.

Management Discussion and Analysis

The trade war between US and Mainland China are still not yet concluded. The management expects that apparel buyers will continue to diversify their production base away from Mainland China. This should help the apparel business as the Group has production base in Cambodia and Bangladesh.

Money Lending Businesses

The management expects that the money lending business segment will become one of the Group's stable income sources. The management will go on paying close attention to the development of this business segment and promptly react to the demand in the market. It is expected that the Group will not expand its loan portfolio unless the Group managed to raise abundant funds through fund raising exercises.

Financial Services Businesses

The management continues looking into possible acquisitions of asset management companies and other financial service platforms located in both Hong Kong (China) and the PRC, in order to build a strong, growing and diversified financial services sector.

Subsequent to the financial year under review, on 31 January 2020, the Group has entered into an agreement to acquire 30% equity interest in 廣俊粵港澳產業投資基金管理(廣州)有限公司 (Guangjun Guangdong–Hong Kong–Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the "GJ Fund Management Company") at a consideration of approximately HK$3 million. GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC. The Group is optimistic about the prospect of GJ Fund Management Company and believe such acquisition would strengthen the Group's network in the PRC fund industry, which is in line with the expansion plan of the Group.

The Group will continue to expand its financial services segment by applying for the necessary licenses for, or acquiring licensed corporation to conduct regulated activities, or acquiring interest in, or setting up funds to invest in, companies or projects which have good potentials and prospect.

As at the date of this report, the Company has been considering potential targets with an aim to maintaining a sufficient level of business operations and assets of the Group. The management expects that the contribution from financial services business segment will increase significantly in the near future.

Securities Investment

During the year, the Hong Kong stock market was highly volatile due to both domestic and worldwide social and economic issues. To cope with such situations, the Group will continue to closely monitor the market conditions and may consider to change its investment portfolio from time to time. We will also explore other investment opportunities including but not limited to investment in private equities, debt securities, derivatives and funds.

Management Discussion and Analysis

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, including bonds, other borrowings, and equity attributable to owners of the Company, comprising issued capital and reserves. The management of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issuance of debts and redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

As at 31 December 2019, the other borrowings were HK$32,460,000 (31 December 2018: HK$7,816,000) and bond payables were HK$219,229,000 (31 December 2018: HK$218,093,000). As at 31 December 2019, all borrowings are carried at fixed interest rates ranging from 5% to 8% per annum and repayable in 2020 to 2024. As at 31 December 2018, all borrowings are carried at fixed interest rates ranging from 5% to 8% per annum and repayable from 2019 to 2020.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's working capital was financed by both internal resources and other borrowings.

As at 31 December 2019, cash and cash equivalents amounted to HK$23,104,000, which decreased by approximately 42.5% as compared to HK$40,159,000 as at 31 December 2018.

As at 31 December 2019, the Group's total borrowings amounted to HK$251,689,000 (31 December 2018: HK$225,909,000), mainly consist of finance lease liabilities amounting to HK$nil (31 December 2018: HK$82,000), other borrowings amounting to HK$32,460,000 (31 December 2018: HK$7,734,000) and bond payables amounting to HK$219,229,000 (31 December 2018: HK$218,093,000). The other borrowings of the Group as at 31 December 2019 and 31 December 2018 were incurred for operation and business purpose.

The current ratio of the Group as at 31 December 2019 was 0.6 (31 December 2018: 1.6). The gearing ratio is calculated based on (i) the total liabilities divided by the total assets and (ii) the total borrowings divided by the total Shareholders' equity. The gearing ratio of the Group as at 31 December 2019 was approximately 158.8% and not applicable (31 December 2018: approximately 98.2% and 4,108.9%, respectively).

Pursuant to a subscription agreement entered into between the Company as the issuer and GF Investments (Hong Kong) Company Limited as the subscriber (the "GF Investments") in relation to the issuance of notes (the "Notes") in the aggregate principle amount of up to HK$230,000,000 due on 13 January 2020. The remaining principal balance as at 31 December 2019 was HK$135,000,000. The Company received a demand letter dated on 19 March 2020 from solicitors of GF Investments requesting the Company to repay the full amount of principal amount and interest up to date of full payment. After the year date, the Company subsequently repaid HK$110,000,000 and the remaining principal amount as at today is HK$25,000,000. The Company is taking action to request the repayment of the loan receivables to repay the remaining outstanding balance.

Management Discussion and Analysis

As at 31 December 2019, the Group had net current liabilities of HK$124,423,000 (31 December 2018: net current assets of HK$99,248,000) and net liabilities of HK$120,364,000 (31 December 2018:net assets of HK$5,498,000). The net current liabilities and the net liabilities position were attributable to material loss for the period as a result of the poor performance of the Group's businesses and the outstanding bond payables balance of HK$219,229,000 due within twelve months from the end of the reporting period. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company are formulating proposals for fund raising exercises and will, when appropriate, disclose further development on the above matter, if any, by way of further announcement(s) in accordance with regulatory requirements and it has taken the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

(i) Subsequent to the end of the reporting period, Kapok Spirit Investment Limited ("Kapok Spirit"), an entity indirectly wholly owned by a substantial shareholder of the Company, issued a letter of intent to extend the bond maturity date of a bond payables of HK$80,000,000.

(ii) A substantial shareholder of the Company is intended to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due.

The directors of the Company have given careful consideration to the future liquidity of the Group and are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

DISCLAIMER OF OPINION

As disclosed in the Independent Auditor's Report, the auditors of the Company, ZHONGHUI ANDA CPA Limited (the "Auditors") issued a disclaimer of opinion (the "Disclaimer of Opinion") on the consolidated financial statements of the Group for the year ended 31 December 2019. Set out below is the paragraph headed "Basis for Disclaimer of Opinion" as disclosed in the Independent Auditor's Report:–

"We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred loss attributable to owners of the Company of HK$111,390,000 and HK$101,279,000 respectively for two consecutive years of year ended 31 December 2019 and 2018 and as at 31 December 2019 the Group had net current liabilities and net liabilities of HK$124,423,000 and HK$120,364,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the substantial shareholders, at a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the financial support. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the uncertainty relating to the continued support of the Group's substantial shareholders, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis."

Management Discussion and Analysis

THE MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER OF OPINION

During the course of audit of the consolidated financial statement of the Company for the year ended 31 December 2019, the Auditors had raised concern on the Group's ability to operate as a going concern. In order to address this concern, the Company has, among other things, taken the following steps:–

(i) The Group has been urging its customers of the money lending segment to settle all overdue loans. In January 2020, the Company received HK$35 million from a customer and has applied such proceeds to settle part of the bond payables (details of which are to be discussed below). It is expected that the Company will received HK$40 million from a customer on or before 25 July 2020. The Company intends to apply such proceeds to settle the outstanding bond payables of HK$29 million (details of which are to be discussed below), and the remaining will be used as working capital of the Group. For the remaining overdue loan receivables, the Company is negotiating with the customer.

(ii) The Company has received a letter of intent from Kapok Spirit Investment Limited ("Kapok Spirit"), an entity indirectly wholly owned by SFund International Investment Fund Management Limited ("SFund International") which is the substantial shareholder of the Company, to extend the maturity date of the outstanding bond payable of HK$80 million, which was matured in September 2019.

(iii) On 20 January 2020, the Group and an independent third party have entered into a loan agreement, pursuant to which the lender agreed to provide a loan in the principal amount of HK$75 million (the "Loan"). In January 2020, the Group has already drawn down the Loan to settle part of the bond payables (details of which are to be discussed below).

(iv) On 27 March 2020, the Company has obtained a letter of intent from SFund International, to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due.

Based on the above, and in preparing the consolidated financial statements, the Directors have reviewed the Group's financial and liquidity position, and planned to raise funds by issuing of securities in future. As such, the Board considered the Group will have sufficient liquidity to finance its operations for the next twelve months and therefore is of the view that the Group would be able to continue as a going concern.

Despite the effort by the Company to address the concern, the Auditors issued the Disclaimer of Opinion as they cast doubt on the certainty of the continued financial support by SFund International. The management of the Company (the "Management") has considered the Auditors' rationale and understood their consideration in arriving their opinion.

In order to address the Disclaimer of Opinion, the Company will continue to take the following steps to improve the Group's working capital and cash flow position and mitigate its liquidity pressure:–

(i) Possible settlement of bond payables and shareholder's loans by way of capitalisation

As at 31 December 2019, the bond payables amounted to HK$219 million which shall be due within twelve months from 31 December 2019, of which (i) HK$80 million was held by Kapok Spirit, and (ii) HK$139 million was held by another bond holder (the "Bond Holder").

The Group has already drawn down the Loan and repaid HK$110 million to the Bond Holders as mentioned above. It is expected that the remaining balance of HK$29 million due by the Company to the Bond Holder will be repaid on or before July 2020 by the proceeds to be received from the customer as mentioned above. The Group is negotiating with the Bond Holder regarding the payment date.

As regards the bonds held by Kapok Spirit, the Company intends to negotiate with Kapok Spirit and SFund International to capitalise the principal amount of the outstanding bonds and the outstanding shareholder's loans (the "Possible Capitalisation"). Subject to the approval from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), it is expected that the Possible Capitalisation will be carried by the Group in the third quarter of 2020. It is expected that the Company would be able to improve the financial position and reduce the finance costs if the Possible Capitalisation is materialised.

(ii) Possible issue of new securities

The Company also intends to raise funds by issuing new securities. As at the date of this annual report, the Group has not yet entered into any understanding, arrangement or agreement about the aforesaid plan. Subject to the approval form the Stock Exchange and market conditions, it is expected that the Group will conduct such fundraising activity at the end of 2020. The Company intends to use such proceeds for the potential acquisition, expansion of the Group's business and/or as working capital of the Group.

(iii) Financial support

As mentioned above, SFund International intends to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due. As at 22 April 2020, the Company has obtained HK$14.4 million shareholder's loans from SFund International. SFund International is intended to further provide HK$15.6 million shareholder's loans to the Group. As discussed above, the Company intends to negotiate with SFund International to settle all outstanding shareholder's loans by way of capitalisation. It is expected that the Company would be able to improve the financial position and reduce the finance costs if the Possible Capitalisation is materialised.

(iv) Income-generating and cost-saving measures

In order to improve financial performance and operating efficiency, the Group has, among others, been implemented a number of income-generating and cost-saving measures:–

(a) Expansion on financial services business

On 25 March 2020, 廣俊粵港澳產業投資基金管理（廣州）有限公司(Guangjun Guangdong-Hong Kong-Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the "GJ Fund Management Company"), an associate company of the Group, and 廣州南沙經濟技術開發區商務局(Guangzhou Nansha Economic and Technology Development Zone Commercial Bureau*) have entered into an agreement, pursuant to which GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC.

湖南匯垠天星股權投資私募基金管理有限公司(Hunan Huiyin Tianxing Private Equity Investment Fund Management Co., Ltd*) which is a subsidiary of the Company and holds Private Equity Fund Management License in the PRC, is planning to be a general partner to manage the fund.

In order to expand the fund management business, the Company is planning to set up other new funds. The Company is also contemplating to set up a fixed income business to further expand its financial business. The proposals are under discussion, and the Company is discussing with its parent company to execute these plans. The Directors are optimistic about the implementation of these proposals and it is expected that the Group's revenue from financial services will be increased in the forthcoming years.

(b) Cost-saving/reduction

The Company plans to dispose certain subsidiaries with minimal or nil revenue in past years to save staff costs. It is expected that the Group would be able to reduce certain administrative expenses in the current financial year.

SFund International, as the substantial shareholder of the Company, has provided its continuous support to the Company, including the support on the aforementioned measures taken and to be taken by the Company, and is willing to further provide more support to the Company and protect the interests of minority shareholders of the Company. In light of the above, the Board is confident that the Disclaimer of Opinion would be removed for the financial year ending 31 December 2020.

Management Discussion and Analysis

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The members of the audit committee of the Company (the "Audit Committee") had critically reviewed the Disclaimer of Opinion, the Management's position concerning the Disclaimer of Opinion and measures taken by the Company for addressing the Disclaimer of Opinion. The Audit Committee agreed with the Management's position based on the reasons above and due to the historical track record of continuous financial support from SFund International. Moreover, the Audit Committee requested the Management to take all necessary actions to address the effect on the Disclaimer of Opinion that no such Disclaimer of Opinion to be made in the forthcoming audited financial statements. The Audit Committee had also discussed with the Auditors regarding the financial position of the Group, measures taken and to be taken by the Company, and considered the Auditors' rationale and understood their consideration in arriving their opinion.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the year. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

The Group's foreign currency transactions are mainly denominated in RMB and United States dollars ("US$"). The Group has currency exposure as certain income and expenses incurred in the PRC were denominated in RMB. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in RMB. During the year, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL EXPENDITURES

During the year, the Group's capital expenditures consisted of additions to property, plant and equipment amounting to HK$700,000 (2018: HK$1,554,000).

Management Discussion and Analysis

CAPITAL COMMITMENT

As at 31 December 2019, the Group had a capital commitment of HK$4,385,000 (31 December 2018: HK$4,461,000) in relation to the further capital contribution to Hunan Guokai.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 175 (2018: 206) employees, including the Directors. Total staff costs (including Directors' remuneration) was approximately HK$53,967,000 for the year ended 31 December 2019, as compared to approximately HK$67,621,000 for the corresponding period last year.

Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of the basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. Other major staff benefits include contributions to Mandatory Provident Fund retirement benefits scheme in Hong Kong and the provision of social insurances for employees who are employed by the Group pursuant to the applicable PRC rules and regulations.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 20 June 2014 where options to subscribe for shares of the Company may be granted to the Directors and employees of the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any plans for material investments during the year.

SIGNIFICANT INVESTMENT

Save as disclosed in this report, there were no significant investments held during the year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the year.

RISK MANAGEMENT

The Group adopts the following risk management policies and monitoring system to mitigate the risks associated with interest rate, foreign currency, credit, liquidity and equity price in its major operation.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates incurred for trade finance. The Group reviews interest rate risk regularly and monitors closely the fluctuation of interest rates and will make proper adjustment if necessary.

Management Discussion and Analysis

Foreign Currency Risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group has currency exposure as income earned and expenses subcontracting fees incurred in Mainland China were denominated in RMB.

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of RMB against US$ may have impact on the operating results of the Group.

The Group has not entered into any hedging arrangement as the foreign currency risk is considered not material. The management has monitored the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Credit Risk

The accounts receivable and loan receivable balances included in the consolidated statement of financial position of the Group represent the Group's maximum exposure to credit risk in relation to the Group's accounts receivable and loan receivables. Concentrations of credit risk are managed by customer and borrower.

The Group performs ongoing credit evaluations of its debtors' financial conditions and requires collateral from its customers. The allowance for doubtful debts is based on a review of the expected collectability of all accounts receivable and loan receivables.

The Group seeks to maintain strict control over its outstanding receivables and has its credit control policy to minimise the credit risks. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by management.

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

Equity Price Risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investment classified as financial asset at fair value through profit or loss. The Group's listed investment is listed on the Stock Exchange and is valued at quoted market prices at the end of the reporting period. Management manages this exposure by assessing the risk associated with each individual investment and maintaining a portfolio of investments with different risks in the future if necessary.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 December 2019.

CHARGE ON THE GROUP'S ASSETS

No charges on the Group's assets was noted as at 31 December 2019.

DIVIDEND

The Board does not recommend the distribution of any dividends for the year ended 31 December 2019 (2018: nil).

FINANCIAL ASSISTANCE FROM SUBSTANTIAL SHAREHOLDER

On 27 October 2017, the Company, as the issuer (the "Issuer"), entered into a subscription agreement (the "Subscription Agreement A") with a company indirectly wholly-owned by 廣州產業投資基金管理有限公司 (Guangzhou Industrial Investment Fund Management Co., Ltd.*), a substantial Shareholder, as the subscriber (the "Subscriber"), in relation to the subscription of unsecured bonds to be issued by the Company (the "Bonds"). The issue of Bonds constituted an exempt connected transaction of the Company under Rule 14A.90 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange. Pursuant to and subject to the satisfaction (or waiver) of the conditions precedent set out in the Subscription Agreement A, the Company agreed to issue, and the Subscriber agreed to subscribe, for the Bonds in the principal amount of up to HK$80,000,000 with a coupon rate of 8% per annum payable quarterly in arrears for a term of 23 months from the date of issue of the Bonds. The maturity date of the Bonds will be intended to extend upon maturity. The net proceeds from the issuance of the Bonds are used by the Group as general working capital of the Group, in particular towards money lending and financial services business and to finance suitable investment opportunities if and when they arise.

Subsequent to the end of the reporting period, the Subscriber issued a letter of intent to extend the bond maturity date of a bond payable of HK$80,000,000.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

There had not been any other equity or debt fund raising activity conducted by the Group in the past twelve months.

PROVISION OF FINANCIAL ASSISTANCE AND ADVANCE TO AN ENTITY

Provision of Financial Assistance Amounting to HK$20,000,000

On 19 December 2016, Capital Strategic (as lender) entered into a loan agreement (the "DT Loan Agreement") with a third party independent of the Company and its connected person (as defined under the Listing Rules) (the "Borrower"), pursuant to which, Capital Strategic agreed to provide a loan to the Borrower in the principal amount of HK$20,000,000 (the "DT Loan") for a period of 6 months following the date of the first drawdown at an interest rate of 13% per annum payable on the date falling 6 months from the first drawing of the DT Loan (the "Provision of the Loan"). The DT Loan was extended in the prior years and was settled during the year.

Provision of Loan to an Entity Amounting to HK$180,000,000

On 24 November 2017, Capital Strategic, as the lender, entered into a loan agreement (the "MT Loan Agreement") with Yuan Heng, as the borrower, pursuant to which, Capital Strategic would provide a loan of HK$180,000,000 (the "MT Loan") to Yuan Heng for a term of 6 months from the date of drawdown, which was 25 January 2018, and could be further extended for another 6 months with written consent of Capital Strategic (or any other dates as may be agreed by Capital Strategic and Yuan Heng in writing) at the interest rate of 10% per annum which will be paid monthly.

The MT Loan is secured by (i) a share charge (the "Share Charge") executed by Firmwill Investments Limited ("Firmwill"), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Yuan Heng, in favor of Capital Strategic, whereby, Firmwill would execute the charge over 1 share in Fully World Limited ("Fully World"), a company incorporated in Hong Kong (China) with limited liability and a wholly-owned subsidiary of Firmwill, representing the entire issued share capital of Fully World, to Capital Strategic; and (ii) a floating charge ("Floating Charge") over all or any part of the property and/or assets of Fully World created by Fully World in favour of Capital Strategic. Yuan Heng had repaid HK$100,000,000 of the MT Loan to Capital Strategic by 6 August 2018.

On 25 January 2019, Capital Strategic and Yuan Heng entered into the first supplemental agreement (the "1st Supplemental Agreement") pursuant to which Capital Strategic agreed to extend the maturity date of the remaining HK$80,000,000 of the MT Loan to 25 July 2019 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). Yuan Heng had further repaid HK$5,000,000 of the MT Loan to Capital Strategic by 16 July 2019.

On 26 July 2019, Capital Strategic and Yuan Heng entered into the second supplemental agreement (the "2nd Supplemental Agreement") with retrospective effect from 25 July 2019 pursuant to which Capital Strategic had agreed to extend the maturity date of the remaining HK$75,000,000 of the MT Loan to 25 January 2020 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). The MT Loan continues to be secured by the Share charge and the Floating charge.

Subsequent to the financial year under review, on 21 January 2020, Yuan Heng had further repaid HK$35,000,000 of the Original Facility to Capital Strategic.

The grant of the MT Loan under the MT Agreement is a financial assistance provided by the Company within the meaning of the Listing Rules and the MT Loan constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Details of the MT Loan are also set out in the announcements of the Company dated 24 November 2017, 25 January 2018, 25 January 2019 and 26 July 2019 and circular dated 22 December 2017, respectively. The MT Loan was completed on 25 January 2018 and the MT loan is still outstanding as at 31 December 2019.

Provision of Financial Assistance Amounting to HK$40,000,000

On 14 February 2018, Capital Strategic, as the lender, entered into a loan agreement (the "CH Loan Agreement") with China-HK, as the borrower, pursuant to which Capital Strategic would provide a loan facility of HK$40,000,000 (the "CH Loan") to China-HK for a term of 6 months from the date of the relevant drawdown, which could be extended upon the requested of China-HK and subject to agreement of Capital Strategic in writing, at the interest rate of 12% per annum which will be paid on the relevant repayment dates of the CH Loan drawn down.

On 14 August 2018, Capital Strategic entered into a supplemental loan agreement with China-HK to, among other matters, extend the maturity date from 14 August 2018 to 14 February 2019. Other than the maturity date which had been extended to 14 February 2019 pursuant to the supplemental loan agreement, the principal terms of the CH Loan Agreement remains applicable to Capital Strategic and China-HK in connection with the CH Loan.

The CH Loan is secured by (i) charge over 10,000 shares of China-HK, being the entire issued share capital of the China-HK, in favour of Capital Strategic, by Wide Merit Limited, a company incorporated in the British Virgin Islands, being the holding company of China-HK; and (ii) charges over the entire share capital of 長三角徐州石油科技有限公司 (Changsanjiao Xuzhou Petroleum Technology Company Limited*), being a wholly-owned subsidiary of China-HK, and 鹽城賽孚石油化工有限公司 (Yancheng Saifu Petroleum & Chemical Company Limited*), being a wholly-owned subsidiary of Changsanjiao Xuzhou Petroleum Technology Company Limited.

The provision of the CH Loan under the CH Loan Agreement is a financial assistance provided by the Company within the meaning of the Listing Rules and the CH Loan constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Details of the CH Loan are set out in the announcement of the Company dated 14 February 2018 and 14 August 2018. The CH Loan is still outstanding as at 31 December 2019.

Save as disclosed above, the Group did not have any other provision of financial assistance and advance to an entity.

SUBSEQUENT EVENTS

On 17 January 2020, the Company, as the borrower, entered into a loan agreement (the "Loan Agreement") with the lender, a business company incorporated under the laws of the British Virgin Islands (the "Lender") and a third party independent of the Company and its connected person. Pursuant to and subject to the satisfaction of the conditions precedent set out in the Loan Agreement, the Lender agreed to provide a loan in the principal amount of HK$75,000,000 (the "Loan") for a term of one year from the date of the Loan but can be extended to two years subject to the consent of the Lender (at its absolute discretion) upon the request of the Company at the interest rate of 8.5% per annum which will be paid quarterly. The Loan was used for the Company's loan repayment.

Regarding the Group's financial services business, subsequent to the financial year under review, on 31 January 2020, the Group has entered into an agreement to acquire 30% equity interest in 廣俊粵港澳產業投資基金管理（廣州）有限公司 (Guangjun Guangdong–Hong Kong–Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the "GJ Fund Management Company") at a consideration of approximately HK$3 million. GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC. The Group is optimistic about the prospect of GJ Fund Management Company and believe such acquisition would strengthen the Group's network in the PRC fund industry, which is in line with the expansion plan of the Group.

After the outbreak of a respiratory illness caused by the COVID –19 coronavirus in early 2020 which was later characterised as a pandemic (the "Pandemic"), a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the Pandemic and evaluate its impact on the financial position and operating results of the Group in 2020. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent to which could not be estimated as at the date of this report.

Except as disclosed elsewhere in this report, there is no material subsequent event untaken by the Group after 31 December 2019.

Biographies of Directors

DIRECTORS

Executive Directors

Mr. Li Qing, aged 43, was appointed as an Executive Director and the Chairman of the Board with effect from 15 January 2019. He is also a director of certain subsidiaries of the Company. Mr. Li graduated from the faculty of music in Minzu University of China in June 2001. He received a master's degree from the Musikakademie der Stadt Kassel in Germany in September 2004. Mr. Li has over 11 years of experience in senior management roles in real estate investment and fund management. Mr. Li is a director and general manager of SFund International Investment Fund Management Limited（廣州基金國際股權投資基金管理有限公司）which is a substantial shareholder of the Company and an executive director of Magnus Concordia Group Limited (a company listed on the Main Board of the Stock Exchange, stock code:1172). Mr. Li worked as a deputy general manager and general manager of 連雲港市潤邦置業有限公司 (Lianyungang City Runbang Zhiye Company Limited*) from January 2008 to January 2013.

Mr. Lam Kwan Sing, aged 50, was appointed as an Executive Director, the Chief Executive Officer, the chairman of the Corporate Governance Committee of the Company and an authorized representative of the Company under Rule 3.05 of the Listing Rules with effect from 29 November 2016. He is also a director of certain subsidiaries of the Company. Mr. Lam has obtained a Bachelor of Arts in Accountancy degree from the City University of Hong Kong. He has over 21 years of experience in the commercial and corporate finance field. Currently he is an independent non-executive director of each of Hao Tian Development Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 474) and Summit Ascent Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 102). In addition, Mr. Lam is also a director of China Natural Resources Inc. since 2003 (a company listed on NASDAQ). Mr. Lam was an executive director of China Smarter Energy Group Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1004) from 1 August 2010 to 16 August 2017.

Mr. Liu Zhijun, aged 56, was appointed as an Executive Director of the Company with effect from 7 July 2017. Mr. Liu holds an EMBA degree from Sun Yat-Sen University in 2005 and a Doctor degree in Natural Sciences with a major in Environmental Science from Guangzhou Institute of Geochemistry, Chinese Academy of Sciences in 2013. He has extensive experience in risk investment and management of venture capital fund guided by government. Mr. Liu also possesses financial related knowledge and has over 22 years of experience in macroeconomic research and planning. He is the director and general manager of 廣州產業投資基金管理有限公司(Guangzhou Industrial Investment Fund Management Co., Ltd.*) and the chairman of 廣州科技金融創新投資控股有限公司(Guangzhou Technology Financial Innovation Investment Holding Ltd.*), which are indirectly substantial shareholder of the Company.

Ms. Yi Sha, aged 46, was appointed as Executive Director of the Company with effect from 25 May 2017. Ms. Yi has obtained a Bachelor degree in Chemical Engineering and Economic Information Management and a Master of Science degree from South China University of Technology in 1996 and 2003 respectively. Ms. Yi has extensive experience in finance and possess of over 23 years of experience in finance industry. She is the financial controller of 廣州產業投資基金管理有限公司 (Guangzhou Industrial Investment Fund Management Co., Ltd.*), which is indirectly substantial shareholder of the Company.

Biographies of Directors

Ms. Wang Mengsu, aged 32, was appointed as an Executive Director of the Company with effect from 15 January 2019. She is also a director of certain subsidiaries of the Company. Ms. Wang graduated from the Hong Kong Shue Yan University with a degree of Bachelor of Business Administration. Ms. Wang has over 8 years of experience in investment and fund management. Ms. Wang is the assistant general manager and investment director of SFund International Investment Fund Management Limited（廣州基金國際股權投資基金管理有限公司）which a substantial shareholder of the Company.

Mr. Hon Ming Sang, aged 41, was appointed as an Independent Non-executive Director, a member of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee of the Company with effect from 29 November 2016. He subsequently resigned as Independent Non-executive Director, a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee but remains as a member of the Corporate Governance Committee of the Company and re-designated as Executive Director with effect from 7 February 2017. Mr. Hon was appointed as the Company Secretary, Authorised Representative of the Company under Rule 3.05 of the Listing Rules and the Process Agent of the Company on 7 July 2017. He is also a director of certain subsidiaries of the Company. Mr. Hon graduated with an honor degree of Professional Accountancy in the School of Accountancy from The Chinese University of Hong Kong. Mr. Hon is a CFA charterholder. He is also a member of the Hong Kong Society of Financial Analysts, a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators. Mr. Hon has previously worked in an international audit firm and has over 11 years of working experience in listed companies and financial institutions. He has extensive experience in corporate finance, merger and acquisition, investment and financial management and compliance services. Mr. Hon is an independent non-executive director of CEFC Hong Kong Financial Investment Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1520). He was the company secretary of China Smarter Energy Group Holdings Limited ("China Smarter Energy", a company listed on the Main Board of the Stock Exchange, stock code: 1004) from 31 December 2012 to 9 February 2017 and was an executive director of China Smarter Energy from 31 December 2012 to 16 August 2017.

Independent Non-executive Directors

Mr. Fok Ho Yin, Thomas, aged 48, was appointed as an Independent Non-executive Director, the chairman of each of the Audit Committee, Remuneration Committee and the Nomination Committee of the Company and a member of the Corporate Governance Committee of the Company with effect from 29 November 2016. Mr. Fok has extensive experience in the field of corporate finance and, in particular, in equity financing and financial restructuring. Mr. Fok is members of Hong Kong Institute of Certified Public Accountants and CPA Australia. He is also a Chartered Financial Analyst. Mr. Fok is an independent non-executive director of each of China Smarter Energy Group Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1004) and DaFa Properties Group Limited (a company listed on Main Board of the Stock Exchange, stock code: 6111). He was an executive director of Jian ePayment Systems Limited (a company listed on the GEM of the Stock Exchange, stock code: 8165) from 1 September 2007 to 31 July 2016. Mr. Fok was also an independent non-executive director of Landing International Development Limited (a company listed on the Main Board of the Stock Exchange, stock code: 582) from 11 June 2010 to 27 June 2019.

Biographies of Directors

Mr. Chan Wai Cheung, Admiral, aged 46, was appointed as an Independent Non-executive Director, a member of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and Corporate Governance Committee of the Company with effect from 29 November 2016. He holds a Bachelor of Arts (Honours) in Accountancy from the City University of Hong Kong. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in accounting and auditing fields. Mr. Chan is an executive director of Energy International Investments Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 353), an independent non-executive of each of Zhong Ao Home Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1538), China Water Affairs Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 855) and China Oil Gangran Energy Group Holdings Limited (a company listed on the GEM of the Stock Exchange, stock code: 8132). He was an independent non-executive director of each of Carnival Group International Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 996) from 10 December 2014 to 30 April 2019 and EJE (Hong Kong) Holdings Limited (a company listed on the GEM of the Stock Exchange, stock code: 8101) from 26 September 2013 to 22 May 2016 and he also was a non-executive director of China Nonferrous Metals Company Limited (a company previously listed on the GEM of the Stock Exchange, stock code: 8306) from 1 June 2015 to 31 May 2019.

Mr. Lam Ho Pong, aged 34, was appointed as an Independent Non-executive Director, a member of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee of the Company with effect from 7 February 2017. He graduated from the City University of Hong Kong with a degree in Bachelor of Business Administration (Honours) in Accountancy. Mr. Lam is a member of the Hong Kong Institute of Certified Public Accountants. He is a financial controller of an organization in the money lending business in Hong Kong (China). Mr. Lam is responsible for overseeing a full spectrum of financial, accounting and regulatory compliance functions for the group. Prior to joining the company, he worked for a global international accounting firm for 8 years. Mr. Lam is an executive director of Finsoft Financial Investment Holdings Limited (a company listed on the GEM of the Stock Exchange, stock code: 8018).

Corporate Governance Report

The Board is pleased to present the corporate governance report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability. The Company has adopted the code provisions (the "Code Provisions") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. The corporate governance principles of the Company emphasise a quality board, sound internal controls, and transparency and accountability to all the Shareholders.

The Company has complied with all the Code Provisions of the CG Code during the year ended 31 December 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 (the "Model Code") to the Listing Rules as its own code of conduct regarding the dealings in securities of the Company by the Directors.

Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Promoting good corporate governance and managing enterprisewide risk is a top priority of the Company. The Company is convinced that corporate governance and Directors and Officers Liability Insurance (the "D&O Insurance") complement each other. The Company has arranged appropriate D&O Insurance coverage on Directors' and officers' liabilities in respect of legal actions against the Directors and senior management arising out from corporate activities. The D&O Insurance will be reviewed and renewed annually.

Corporate Governance Report

BOARD OF DIRECTORS

Board Composition

During the year and up to the date of this annual report , the Board comprises the following Directors:

Executive Directors
Mr. Li Qing *(Chairman) (Note 1)*
Mr. Lam Kwan Sing *(Chief Executive Officer)*
Mr. Liu Zhijun
Ms. Yi Sha
Ms. Wang Mengsu *(Note 2)*
Mr. Hon Ming Sang

Independent Non-executive Directors
Mr. Fok Ho Yin, Thomas
Mr. Chan Wai Cheung, Admiral
Mr. Lam Ho Pong

Notes:

1 Appointed as Executive Director and the Chairman of the Board with effect from 15 January 2019.

2 Appointed as Executive Director with effect from 15 January 2019.

An updated list of Directors identifying their roles and functions has been published on the websites of the Company and the Stock Exchange, and the Independent Non-executive Directors have been identified in all corporate communications that disclose the names of Directors. The biographies of the Directors are set out on pages 24 to 26 of this annual report.

Corporate Governance Report

Directors' Attendance Record

The Company held twelve Board meetings and one annual general meeting ("AGM") and nil extraordinary general meetings ("EGM") throughout the year. During the year, the Chairman held a meeting with the Independent Non-executive Directors without the presence of other Directors.

The attendance records of individual Directors are set out as follows:

	Attendance/Number of meetings		
	Board Meetings	**AGM**	**EGM**
Executive Directors			
Mr. Li Qing *(Chairman) (Note 1)*	8/11	1/1	0/0
Mr. Lam Kwan Sing *(Chief Executive Officer)*	12/12	1/1	0/0
Mr. Liu Zhijun	8/12	0/1	0/0
Ms. Yi Sha	7/12	0/1	0/0
Ms. Wang Mengsu *(Note 2)*	8/11	1/1	0/0
Mr. Hon Ming Sang	12/12	1/1	0/0
Independent Non-executive Directors			
Mr. Fok Ho Yin, Thomas	12/12	0/1	0/0
Mr. Chan Wai Cheung, Admiral	12/12	1/1	0/0
Mr. Lam Ho Pong	12/12	1/1	0/0

Notes:

1 Appointed as Executive Director and the Chairman of the Board with effect from 15 January 2019.

2 Appointed as Executive Director with effect from 15 January 2019.

DUTIES OF THE BOARD AND MANAGEMENT

Duties of the Board

The Board, led by the Chairman of the Board, is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The Board has delegated to the management of the Company the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

Corporate Governance Report

Delegation of Management Functions

The Board reserved for its decision for all major matters of the Company, including: approving and monitoring all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

Daily management and administration functions were delegated to the management. The Board has delegated various responsibilities to the management of the Company. These responsibilities include implementing decisions of the Board, directing and co-ordinating day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the operation and production plans and budgets, and supervising and monitoring the internal control systems.

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. All of them have appropriate professional qualifications or accounting or related financial management expertise.

Save as otherwise disclosed in this annual report, the Board members have no financial, business, family or other material/relevant relationships with each other. All the Directors carry out their duties in good faith and in compliance with applicable laws and regulations, making decisions objectively and acting in the interests of the Company and its shareholders at all times.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Li Qing, the chairman, has provided leadership for the Board and ensures that the Board works effectively and that all important issues are discussed in a timely manner.

Mr. Lam Kwan Sing, the Chief Executive Officer of the Company, is responsible for managing the Group's day-to-day businesses and implementing major strategies and policies of the Group. The positions of the Chairman and the Chief Executive Officer are held by separate individuals so as to maintain an effective segregation of duties.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The three Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting and finance. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Generally they should also attend general meetings to gain and develop a balanced understanding of the views of Shareholders.

The Independent Non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company (the "Articles").

The Company has received an annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules from each of Mr. Fok Ho Yin, Thomas, Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong, being the Independent Non-executive Directors, and as at the date of this annual report, the Company still considers them to be independent.

Corporate Governance Report

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each Director has entered into a letter of appointment with the Company with an initial term of 3 years commencing from the date of appointment and is subject to the re-appointment in accordance with the Articles.

In accordance with the Articles, the Directors appointed to fill a casual vacancy on the Board shall be subject to re-election by Shareholders at the first general meeting after their appointments and any Directors appointed by the Board as an addition to the existing Board shall then be eligible for re-election at the next following annual general meeting. Every Directors (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings 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, then the number nearest but not less than one-third, shall retire from office by rotation and shall be eligible for re-election.

BOARD MEETINGS

Regular Board meetings are held at least four times a year at approximately quarterly intervals. Any Director who is not able to present physically may participate at any Board meeting through electronic means of communication, such as conference telephone, electronic or other communication equipment, in accordance with the Bye-laws.

At least 14 days' notice for all regular Board meetings will be given to all Directors and they must be given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying Board papers will be sent to all Directors at least three days in advance of every regular Board meeting.

Minutes of the Board meetings and the meetings of the Board committees are recorded in sufficient details. Originals of such minutes, being kept by the Company Secretary, are open for inspection at any reasonable time on reasonable notice by any Director. Directors may obtain independent professional advice under appropriate circumstances and as and when necessary at the Company's expense, ensuring that Board procedures and all applicable rules and regulations are followed. If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter must be dealt with by a physical Board meeting with the Independent Non-executive Directors present at the meeting rather than by written resolutions.

The Board is responsible for maintaining an on-going dialogue with Shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation.

CONTINUOUS PROFESSIONAL DEVELOPMENT

In compliance with the Code Provision A.6.5, the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge, skills and understanding of the Group and its business or to update their skills and knowledge on the latest development or changes in the relevant regulations, the Listing Rules and corporate governance practices. The Company will also update the Directors of any material changes in the rules and regulations from time to time.

According to the confirmation/records provided by the Directors, all the Directors have participated in the continuous professional developments in the following manners during the year ended 31 December 2019:

	Attending or participating in seminars/in-house briefing or reading materials relevant to the Company's business/ director's duties
Executive Directors	
Mr. Li Qing *(Chairman) (Note 1)*	✓
Mr. Lam Kwan Sing *(Chief Executive Officer)*	✓
Mr. Liu Zhijun	✓
Ms. Yi Sha	✓
Ms. Wang Mengsu *(Note 2)*	✓
Mr. Hon Ming Sang	✓
Independent Non-executive Directors	
Mr. Fok Ho Yin, Thomas	✓
Mr. Chan Wai Cheung, Admiral	✓
Mr. Lam Ho Pong	✓

Notes:

1. Appointed as Exeutive Directors and the Chairman of the Board with effect from 15 January 2019.

2. Appointed as Exeutive Directors with effect from 15 January 2019.

Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

BOARD COMMITTEES

Audit Committee

The Board established the Audit Committee with written terms of reference on 20 June 2014 and amended on 30 December 2015 and 16 April 2019 respectively. The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Fok Ho Yin, Thomas (as chairman), Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong.

None of the Audit Committee members is or has been a former partner of the Company's existing external auditor for the past two years. The terms of reference of the Audit Committee are available at the Company's website and on the website of the Stock Exchange. The main duties of the Audit Committee are as follows:

(a) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

(d) to review the financial controls, risk management and internal control systems of the Company; and

(e) to discuss the risk management and the internal control systems (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function) with management to ensure that the management has performed its duty to have effective systems.

The Audit Committee shall meet at least twice a year. During the year, the Audit Committee convened two meetings and the attendance records of individual committee members are as follows:

Members	**Attendance/ Number of Board Meetings**
Mr. Fok Ho Yin, Thomas *(Chairman of the Audit Committee)*	2/2
Mr. Chan Wai Cheung, Admiral	2/2
Mr. Lam Ho Pong	2/2

During the year, the Audit Committee performed the following work:

(i) reviewed the annual and interim financial statements, reports, and results announcement of the Group prior to publication;

(ii) reviewed the Group's risk management and internal control systems;

(iii) reviewed the appointment and the resignation of the auditors; and

(iv) after due consideration, made recommendations in respect of above reviews to the Board for approval.

The Audit Committee had, amongst other things, reviewed the audited results of the Group for the year and this report.

Nomination Committee

The Board established the Nomination Committee with written terms of reference on 20 June 2014 and amended on 16 April 2019 respectively. The Nomination Committee consists of three Independent Non-executive Directors, namely Mr. Fok Ho Yin, Thomas (as chairman), Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong. The terms of reference of the Nomination Committee are available at the Company's website and on the website of the Stock Exchange. The main duties of the Nomination Committee are as follows:

(a) to review the structure, size, diversity and composition of the Board (including but not limited to gender, age, cultural and educational background, skills, professional qualifications, knowledge and experience) at least annually and make recommendations to the Board regarding any proposed changes to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships with due regard for the benefits of diversity on the Board;

(c) to make recommendations to the Board on the appointment or re-appointment of directors of the Company and succession planning for directors of the Company in particular the chairman and the chief executive officer of the Company;

(d) to assess the independence of independent non-executive directors of the Company; and

(e) to review the policies on both the board diversity policy and nomination policy, as appropriate; and review the measurable objectives that the Board had set for implementing the board diversity policy, and the progress on achieving the objectives; and make disclosure of its review results in the Corporate Governance Report annually.

The Nomination Committee may obtain independent professional advice to perform its responsibilities, where necessary, at the Company's expense.

The Nomination Committee shall meet at least once a year. During the year, the Nomination Committee convened two meeting and the attendance records of individual committee members are as follows:

Members	**Attendance/ Number of Board Meetings**
Mr. Fok Ho Yin, Thomas *(Chairman of the Nomination Committee)*	2/2
Mr. Chan Wai Cheung, Admiral	2/2
Mr. Lam Ho Pong	2/2

During the year, the Nomination Committee performed the following work:

(i) reviewed the structure, size and composition of the Board with reference to the Company's board diversity policy;

(ii) reviewed the proposed re-election of the retiring Directors at the AGM held on 22 May 2019;

(iii) reviewed the confirmations of independence from the Independent Non-executive Directors;

(iv) provided the recommendation to the Board with respect to the respective appointment of Mr. Li Qing and Ms. Wang Mengsu as Executive Director with reference to the Company's Nomination Policy; and

(v) after due consideration, made recommendations in respect of above reviews to the Board for approval.

Nomination Policy

The Board has established a set of nomination policy setting out the approach to nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies. The criteria of nomination have been considered from a number of aspects, including but not limited to, skills, experience, qualifications and aspects as detailed in the board diversity policy.

During this year, the Company reviewed its nomination policy for a formal, considered and transparent procedure to help identifying and nomination of candidates for Directors. All valid nomination of candidates, accompanied with biographical details, would be presented to the Board for consideration. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Group's business. It is believed that members of the Nomination Committee collectively would have required relevant knowledge and skills to identify, invite and evaluate qualifications of nominated candidates for directorship.

The process of our appointment and re-election of Directors are as follows:

Potential new Directors are identified and considered for appointment at any time by the Board upon the recommendation of the Nomination Committee. Nomination Committee considers the candidates based on merit having regard to the knowledge, experience, skills and expertise as well as the overall board diversity which, in the opinion of the Directors, will enable them to make positive contributions on the performance of the Board and makes recommendations to the Board as appropriate. Emoluments of new Directors will be considered by the Remuneration Committee.

Newly appointed members by the Board to fill a casual vacancy on the Board is subject to re-election by Shareholders at the first general meeting after their appointment or as addition to the existing Board is subject to re-election by Shareholders at the first annual general meeting after their appointment. Every Directors shall be subject to retirement at annual general meeting at least once every three years.

Board Diversity Policy

The Company continuously seeks to enhance the effectiveness of the Board and to maintain a high standard of corporate governance and recognises and embraces the benefits of diversity in the composition of the Board.

In December 2016, the Company has adopted a board diversity policy which was update in December 2018 (the "Board Diversity Policy") for compliance with the Code Provision of the Listing Rules concerning the diversity of Board members. A summary of the Board Diversity Policy, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. In forming its perspective on diversity, the Company will also take into account of factors based on its own business model and specific needs from time to time.

Measurable Objectives

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

Monitoring and Reporting

The Nomination Committee will disclose the composition of the Board annually in the Corporate Governance Report and monitor the implementation of the Board Diversity Policy. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of this policy. Also, the Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises nine Directors. Three of them are Independent Non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by diversity, whether considered in terms of age, experience, cultural, skills and knowledge and educational background.

The Nomination Committee will continue to review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Remuneration Committee

The Board established the Remuneration Committee with written terms of reference on 20 June 2014 and amended on 16 April 2019. The Remuneration Committee consists of three Independent Non-executive Directors, namely Mr. Fok Ho Yin, Thomas (as chairman), Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange. The main duties of the Remuneration Committee are as follows:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

(c) to ensure that no director of the Company or any of his or her associates is involved in deciding his or her own remuneration.

The Remuneration Committee shall meet at least once a year. During the year, the Remuneration Committee convened two meetings and the attendance records of individual committee members are as follows:

Members	**Attendance/ Number of Board Meetings**
Mr. Fok Ho Yin, Thomas *(Chairman of the Remuneration Committee)*	2/2
Mr. Chan Wai Cheung, Admiral	2/2
Mr. Lam Ho Pong	2/2

During the year, the Remuneration Committee performed the following work:

(i) provided the recommendation to the Board with respect to the remuneration of Mr. Li Qing and Ms. Wang Mengsu on their respective appointment as executive Director;

(ii) reviewed the performance of the Directors and senior management, and made recommendations as to their discretionary bonus and remuneration package;

(iii) reviewed the remuneration policy and annual bonus policy; and

(iv) after due consideration, made recommendations in respect of above reviews to the Board for approval.

Remuneration of the Senior Management

Pursuant to Code Provision B.1.5 of the CG code, the remuneration of the Senior Management by band for the year ended 31 December 2019 and the Board of Directors are counted as Senior Management and, is set out as below:

	No. of person	
Band of remuneration (HK$)	**2019**	2018
HK$1,000,000 and below	**4**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**0**	1
Over HK$2,000,000	**1**	2

Further details of the remuneration of Directors and five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 10 and 11 respectively to the financial statements.

Corporate Governance Committee

The Board is responsible for ensuring that the Company shall establish comprehensive corporate governance practices and procedures during the year. The Board established the Corporate Governance Committee with written terms of reference on 20 June 2014 and amended on 16 April 2019 respectively. The Corporate Governance Committee consists of two Executive Directors, namely Mr. Lam Kwan Sing (as chairman) and Mr. Hon Ming Sang; and three Independent Non-executive Directors, namely Mr. Fok Ho Yin, Thomas, Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong. The terms of reference of the Corporate Governance Committee are available at the Company's website and on the website of the Stock Exchange. The main duties of the Corporate Governance Committee are as follows:

(a) developing and reviewing the Group's policies and practices on corporate governance and making recommendations to the Board;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) reviewing the Group's compliance with the CG Code and disclosure in the Corporate Governance Report.

Corporate Governance Report

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 Corporate Governance Committee convened one meetings and the attendance records of individual committee members are as follows:

Members	**Attendance/ Number of Board Meetings**
Mr. Lam Kwan Sing *(Chairman of the Corporate Governance Committee)*	1/1
Mr. Hon Ming Sang	1/1
Mr. Fok Ho Yin, Thomas	1/1
Mr. Chan Wai Cheung, Admiral	1/1
Mr. Lam Ho Pong	1/1

During the year, the Corporate Governance Committee performed the following work:

(i) reviewed and monitored the policies and practices of the Group on corporate governance;

(ii) approved the Corporate Governance Report and the Environmental, Social and Governance Report of the previous reporting year;

(iii) reviewed and monitored the training and continuous professional development of Directors; and

(iv) after due consideration, made recommendations in respect of above reviews to the Board for approval.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparation of the consolidated financial statements of the Group for the year ended 31 December 2019, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards.

The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

AUDITOR'S REMUNERATION

The fees paid or payable to the auditors (Ernst & Young and ZHONGHUI ANDA CPA Limited) of the Company for the year ended 31 December 2019 are set out as follows:

	Fees paid/ payable HK$'000
Audit service	1,450
Non-audit services	
Interim review	650
Total	2,100

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge and understand their responsibility for preparing the financial statements and to ensure that the financial statements of the Group are prepared in a manner which reflects the true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required under the Listing Rules.

The statement of the external auditors of the Company, ZHONGHUI ANDA CPA Limited (the "Auditors"), about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 75 to 76.

The Auditors issued a disclaimer of opinion (the "Disclaimer of Opinion") on the consolidated financial statements of the Group for the year ended 31 December 2019. Set out below is the paragraph headed "Basis for Disclaimer of Opinion" as disclosed in the Independent Auditor's Report:–

"We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred loss attributable to owners of the Company of HK$111,390,000 and HK$101,279,000 respectively for two consecutive years of year ended 31 December 2019 and 2018 and as at 31 December 2019 the Group had net current liabilities and net liabilities of HK$124,423,000 and HK$120,364,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the substantial shareholders, at a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the financial support. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the uncertainty relating to the continued support of the Group's substantial shareholders, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis."

During the course of audit of the consolidated financial statement of the Company for the year ended 31 December 2019, the Auditors had raised concern on the Group's ability to operate as a going concern. In order to address this concern, the Company has, among other things, taken the following steps:–

(i) The Group has been urging its customers of the money lending segment to settle all overdue loans. In January 2020, the Company received HK$35 million from a customer and has applied such proceeds to settle part of the bond payables (details of which are to be discussed below). It is expected that the Company will received HK$40 million from a customer on or before 25 July 2020. The Company intends to apply such proceeds to settle the outstanding bond payables of HK$29 million (details of which are to be discussed below), and the remaining will be used as working capital of the Group. For the remaining overdue loan receivables, the Company is negotiating with the customer.

(ii) The Company has received a letter of intent from Kapok Spirit Investment Limited ("Kapok Spirit"), an entity indirectly wholly owned by SFund International Investment Fund Management Limited ("SFund International") which is the substantial shareholder of the Company, to extend the maturity date of the outstanding bond payable of HK$80 million, which was matured in September 2019.

(iii) On 20 January 2020, the Group and an independent third party have entered into a loan agreement, pursuant to which the lender agreed to provide a loan in the principal amount of HK$75 million (the "Loan"). In January 2020, the Group has already drawn down the Loan to settle part of the bond payables (details of which are to be discussed below).

(iv) On 27 March 2020, the Company has obtained a letter of intent from SFund International, to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due.

Based on the above, and in preparing the consolidated financial statements, the Directors have reviewed the Group's financial and liquidity position, and planned to raise funds by issuing of securities in future. As such, the Board considered the Group will have sufficient liquidity to finance its operations for the next twelve months and therefore is of the view that the Group would be able to continue as a going concern.

Despite the effort by the Company to address the concern, the Auditors issued the Disclaimer of Opinion as they cast doubt on the certainty of the continued financial support by SFund International. The management of the Company (the "Management") has considered the Auditors' rationale and understood their consideration in arriving their opinion.

In order to address the Disclaimer of Opinion, the Company will continue to take the following steps to improve the Group's working capital and cash flow position and mitigate its liquidity pressure:–

(i) Possible settlement of bond payables and shareholder's loans by way of capitalisation

As at 31 December 2019, the bond payables amounted to HK$219 million which shall be due within twelve months from 31 December 2019, of which (i) HK$80 million was held by Kapok Spirit, and (ii) HK$139 million was held by another bond holder (the "Bond Holder").

The Group has already drawn down the Loan and repaid HK$110 million to the Bond Holders as mentioned above. It is expected that the remaining balance of HK$29 million due by the Company to the Bond Holder will be repaid on or before July 2020 by the proceeds to be received from the customer as mentioned above. The Group is negotiating with the Bond Holder regarding the payment date.

As regards the bonds held by Kapok Spirit, the Company intends to negotiate with Kapok Spirit and SFund International to capitalise the principal amount of the outstanding bonds and the outstanding shareholder's loans (the "Possible Capitalisation"). Subject to the approval from the Stock Exchange, it is expected that the Possible Capitalisation will be carried by the Group in the third quarter of 2020. It is expected that the Company would be able to improve the financial position and reduce the finance costs if the Possible Capitalisation is materialised.

(ii) Possible issue of new securities

The Company also intends to raise funds by issuing new securities. As at the date of this annual report, the Group has not yet entered into any understanding, arrangement or agreement about the aforesaid plan. Subject to the approval form the Stock Exchange and market conditions, it is expected that the Group will conduct such fundraising activity at the end of 2020. The Company intends to use such proceeds for the potential acquisition, expansion of the Group's business and/or as working capital of the Group.

(iii) Financial support

As mentioned above, SFund International intends to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due. As at 22 April 2020, the Company has obtained HK$14.4 million shareholder's loans from SFund International. SFund International is intended to further provide HK$15.6 million shareholder's loans to the Group. As discussed above, the Company intends to negotiate with SFund International to settle all outstanding shareholder's loans by way of capitalisation. It is expected that the Company would be able to improve the financial position and reduce the finance costs if the Possible Capitalisation is materialised.

(iv) Income-generating and cost-saving measures

In order to improve financial performance and operating efficiency, the Group has, among others, been implemented a number of income-generating and cost-saving measures:–

(a) Expansion on financial services business

On 25 March 2020, 廣俊粵港澳產業投資基金管理（廣州）有限公司(Guangjun Guangdong-Hong Kong-Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the "GJ Fund Management Company"), an associate company of the Group, and 廣州南沙經濟技術開發區商務局(Guangzhou Nansha Economic and Technology Development Zone Commercial Bureau*) have entered into an agreement, pursuant to which GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC.

湖南匯垠天星股權投資私募基金管理有限公司(Hunan Huiyin Tianxing Private Equity Investment Fund Management Co., Ltd*) which is a subsidiary of the Company and holds Private Equity Fund Management License in the PRC, is planning to be a general partner to manage the fund.

In order to expand the fund management business, the Company is planning to set up other new funds. The Company is also contemplating to set up a fixed income business to further expand its financial business. The proposals are under discussion, and the Company is discussing with its parent company to execute these plans. The Directors are optimistic about the implementation of these proposals and it is expected that the Group's revenue from financial services will be increased in the forthcoming years.

(b) Cost-saving/reduction

The Company plans to dispose certain subsidiaries with minimal or nil revenue in past years to save staff costs. It is expected that the Group would be able to reduce certain administrative expenses in the current financial year.

SFund International, as the substantial shareholder of the Company, has provided its continuous support to the Company, including the support on the aforementioned measures taken and to be taken by the Company, and is willing to further provide more support to the Company and protect the interests of minority shareholders of the Company. In light of the above, the Board is confident that the Disclaimer of Opinion would be removed for the financial year ending 31 December 2020.

Corporate Governance Report

The members of the audit committee of the Company (the "Audit Committee") had critically reviewed the Disclaimer of Opinion, the Management's position concerning the Disclaimer of Opinion and measures taken by the Company for addressing the Disclaimer of Opinion. The Audit Committee agreed with the Management's position based on the reasons above and due to the historical track record of continuous financial support from SFund International. Moreover, the Audit Committee requested the Management to take all necessary actions to address the effect on the Disclaimer of Opinion that no such Disclaimer of Opinion to be made in the forthcoming audited financial statements. The Audit Committee had also discussed with the Auditors regarding the financial position of the Group, measures taken and to be taken by the Company, and considered the Auditors' rationale and understood their consideration in arriving their opinion.

RISK MANAGEMENT AND INTERNAL CONTROLS

A sound and effective risk management and internal control systems is important to safeguard the Shareholders' investment and the Group's assets. The Board acknowledges its responsibility for the risk management and internal control systems of the Group and reviewing their effectiveness. Such systems are designed to manage, rather than eliminate, the risk associated in failing to achieve certain business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The process used by the Group to identify, evaluate and manage significant risks are twofold:

Internally, the Corporate Governance Committee closely monitors the effectiveness of the Group's risk management and internal control systems and reports to the Board regularly. The Corporate Governance Committee shall report to the Board immediately once any non-compliance issues are noted.

Externally, the Company engages an independent external assurance provider to perform the internal audit function, who is responsible for carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems.

For the year ended 31 December 2019, the Board conducted an annual review of its risk management and internal control systems and reviewed the reports issued by the independent external assurance provider. The annual review considered the adequacy of resources, staff qualifications and experience etc. of the Group's accounting, internal audit and financial reporting functions. The main features of the Group's risk management and internal control systems include financial, operational and compliance controls.

The Board is of the view that the Group's risk management and internal control systems are effective and adequate. The Board will continue to assess the effectiveness of its risk management and internal control systems by considering reviews and recommendations made by the Corporate Governance Committee and senior management.

COMPANY SECRETARY

Mr. Hon Ming Sang was appointed as the Company Secretary of the Company with effect from 7 July 2017. During the year, Mr. Hon Ming Sang have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Corporate Governance Report

INVESTOR RELATIONS

Communication with Shareholders

The Board recognised the importance of maintaining a clear, timely and effective communication with the Shareholders and investors of the Company. The Board also recognised that effective communication with the Company's investors is critical in establishing investor confidence and to attract new investors. Therefore, the Shareholders' Communication Policy of the Company is committed to maintaining a high degree of transparency to ensure the Shareholders and the investors of the Company will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the website of the Company.

In respect of each matter to be considered at the annual general meetings and extraordinary general meetings, including the re-election of Directors, a separate resolution will be proposed by the Chairman of the Board. Voting at general meetings of the Company is conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

Members of the Board and Chairmen of various Board Committees will attend the forthcoming annual general meeting of the Company to be held on Tuesday, 2 June 2020 at 2:30 p.m. (the "AGM") to answer questions raised by the Shareholders. Pursuant to Code Provision E.1.2, the Company will invite representatives of the auditor to attend the AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. Besides, various rights of Shareholders, including the right to propose resolutions, are contained in the Articles.

The summary of certain rights of the Shareholders are disclosed below:

Procedures for Convening Extraordinary General Meetings and Putting Forward Proposals at General Meetings

Each general meeting other than an annual general meeting shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board. According to Article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the Secretary of the Company at the Company's principal place of business in Hong Kong (China) at Suites 904–5, 9/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The requisitionist(s) must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionist(s). Upon receipt, the Company will verify the particulars of requisitionist(s) and if the request is in order, the Company will convene the extraordinary general meeting in accordance with the Articles.

Procedures for Shareholders to Propose a Person for Election as a Director

The Articles published on the websites of the Company and the Stock Exchange and the "procedures for shareholders to propose a person for election as a director of the Company" on the website of the Company.

Procedures for Directing Shareholders' Enquiries to the Board and Company's Contact Details

Shareholders and other stakeholders may send their enquiries, concerns and requisitions to the Board by addressing them to the Company Secretary at the Company's principal place of business in Hong Kong (China) at Suites 904–5, 9/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

DIVIDEND POLICY

The Company has adopted a dividend policy setting out the principles and guidelines in relation to declaration, payment or distribution of its net profits as dividends to the shareholders. The distribution of dividend will be considered and determined by the Board based on the Group's operating results, cash flow, financial position, business prospects, and statutory and regulatory restrictions relating to dividend distributions as well as other factors that the Board considers appropriate.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, there was no change in the Company's constitutional documents. The Articles and the memorandum of association of the Company are available on the Company's website and on the website of the Stock Exchange.

PROCEDURES AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

– the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong;

– the Group regulates the handling and dissemination of inside information to ensure inside information remains confidential until the disclosure of such information is appropriately approved. Inside information is restricted to relevant parties on a need-to-know basis so as to ensure confidentiality;

– the Group strictly prohibits unauthorised use of confidential or inside information;

– the Group has also implemented procedures to guard against possible mishandling of inside information within the Group including notification of regular blackout period and securities dealing restrictions to Directors and relevant employees; and

– the Group keeps the Directors and employees appraised of the latest regulatory updates on disclosure requirements of inside information.

Environmental, Social and Governance Report

The Board is pleased to present this report on environmental, social and governance ("ESG") which set out the Group's support to various sustainable development efforts and ESG concepts, visions and policies during the year ended 31 December 2019 ("the Year").

APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE AND REPORTING

This Environmental, Social and Governance Report (the "ESG Report") summarises the initiatives, programmes and performance of the Group as well as demonstrates its commitment to sustainability.

The core businesses of the Group are principally engaged in the trading of apparel products and provision of apparel supply chain management services, provision of financial services, provision of money lending and provision of securities investment.

The Group believes that environmental protection, low carbon footprint, resource conservation and sustainable development are the key trends in society. In order to follow the key trends and pursue a successful and sustainable business model, the Group recognises the importance of integrating ESG aspects into its risk management system and has taken corresponding measures in its daily operation and governance perspective.

For the sake of effective top-down implementation of sustainable development strategy, the Group has developed an independent internal control and risk management framework with the Board, chief executive officer and senior management of the Company as the core. Moreover, we will review and adjust relevant sustainable development policies from time to time to understand and meet the expectations and needs of different stakeholders.

The ESG governance framework of the Group is as follows:

Board of Directors

- Developing and approving the development and business strategies, policies, annual budget and business plan of the Group; and
- Reviewing, tackling and reporting all environmental and social issues under the subject areas and aspects of the ESG Guide.

Chief Executive Officer

- Executing the duties entrusted by the Board, including the overall strategies and approach on operational, financial, environmental and social issues and obligations;
- Analysing and establishing key performance indicators; and
- Coordinating with the objectives, visions and policies of the Group to carry out supervision and continual actions.

Senior Management

- Leading and supervising the implementation of sustainable development objectives and policies of the Group.

Business Unit

- Coordinating and implementing ESG policies and measures at different stages of business operations, such as environmental protection policies.

REPORTING SCOPE

Unless stated otherwise, this report mainly covers the Group's major operating revenue activities under direct management control, including its the trading of apparel products and provision of apparel supply in the PRC.

The Group will continue to assess the major environmental, social and governance aspects of different businesses to determine whether it needs to be included in the environmental, social and governance reporting.

REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Listing Rules (the "ESG Reporting Guide").

Information relating to the corporate governance practices of the Group has been set out in the Corporate Governance Report on pages 27 to 45 of this report.

REPORTING PERIOD

The ESG Report specifics the environmental, social and governance activities, challenges and measures being taken during the year ended 31 December 2019.

STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their views relating to its businesses and environmental, social and governance issues. In order to understand and address stakeholders' concerns, the Group communicates with its key stakeholders, including but not limited to employees, investors, customers, suppliers, government bodies and communities through different channels such as conferences, electronic platforms and public events. In formulating operational strategies and environmental, social and governance measures, the Group takes into account the stakeholders' expectations and strives to improve its performance through mutual cooperation with the stakeholders, resulting in creating greater value for the community.

Stakeholder	Expectations and Requirements	Ways of Communication and Response
Government and Regulatory Authorities	• Abiding by national and regional policies, laws and regulations • Promoting local employment • Paying taxes on time	• Timely reporting of information • Ongoing communication with regulatory authorities • Inspection and supervision
Shareholders	• Returns • Compliant operation • Enhancing corporate value • Improving information transparency and effective communication	• General meetings • Company announcements • E-mail, telephone communication and company website
Partners	• Business integrity • Due performance of contracts • Fair competition • Mutual benefit and win-win result	• Reviews and evaluation meetings • Business communication • Communication and discussion • Negotiation and cooperation
Customers	• High quality products and services • Due performance of contracts • Health and safety • Business integrity	• Customer service center and hotline • Customer communication meetings
Environment	• Energy conservation and emission reduction • Energy conservation and emission reduction • Ecological protection	• Communicating with local environmental authorities
Industry	• Promoting industry development	• Participating in industry forums • Investigation and exchange visits
Staff	• Rights and interests protection • Occupational health • Remuneration and benefits • Career development • Human care	• Staff communication meetings • Employee activities • Employee mailbox • Training and workshops
Community and the General Public	• Improving community environment • Participating in public welfare undertakings • Information disclosure and transparency	• Company website • Company announcements • Social media platforms

Materiality Assessment

The management and employees who are responsible for the key functions of the Group have participated in preparing this report, assisted the Group in reviewing its operation, identifying key environmental, social and governance issues and assessing the importance of these issues to our businesses and stakeholders. We compiled a questionnaire in reference to the identified material environmental, social and governance issues to collect the information from relevant departments and business units of the Group.

The following table summarises the Group's significant environmental, social and governance issues as set out in this report:

The ESG Reporting Guide	Material ESG aspects of the Group	Page
A. Environmental		
A1. Emissions	Emissions, Wastewater and Waste Management	P. 50-52
	Greenhouse Gas Emission	P. 51
A2. Use of Resources	Energy Consumption	P. 53
	Water Consumption	P. 53
A3. The Environment and Natural Resources	Environmental Impact Management	P. 54-55
B. Social		
B1. Employment	Employee Benefits and Equal Opportunities Policies	P. 55-56
B2. Health and Safety	Occupational Health and Safety	P. 56
B3. Development and Training	Staff Development and Training	P. 56
B4. Labor Standards	Prevention of Child Labor or Forced Labor	P. 57
B5. Supply Chain Management	Environmental and Social Risk Management of Supply Chain	P. 57-58
B6. Product Responsibility	Quality and Safety of Products and Services	P. 58
	Intellectual Property Management	P. 58
B7. Anti-Corruption	Prevention of Corruption and Fraud	P. 59
B8. Community Investment	Contributions to Society	P. 59

Environmental, Social and Governance Report

During the year ended 31 December 2019, the Group confirmed that appropriate and effective management policies and internal control systems for environmental, social and governance issues are in place and confirmed the information disclosed in the ESG Report meets the ESG Reporting Guide.

Contact us

Comments and suggestions are welcome from our stakeholders. You may provide comments on ESG Report or towards our performance in respect of sustainable development at info@1367HK.com.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and Key Performance Indicators ("KPI")

The core businesses of the Group, which mainly involves (i) the trading of apparel products and provision of apparel supply chain management services; (ii) the provision of financial services; (iii) the money lending business; and (iv) securities investment, mainly rely on internet technology and related equipment and do not involve any manufacturing processes in the course of business. Therefore, during the year ended 31 December 2019, the Group and its office did not generate significant emissions, water pollutants and hazardous wastes during the operation, except for greenhouse gas ("GHG") emissions and non-hazardous waste.

Global warming and climate change have become major environmental issues to the world. The Group aims to minimize energy consumption and carbon emissions and has been exploring ways of adopting operational model which incurs less adverse impact on the environment. From the reporting of environmental perspective, we mainly focused on the environmental impact of the Group's offices in Mainland China and relevant measures to be taken during the daily operation and have formulated policies and procedures relating to the environmental management to govern limited greenhouse gas emissions and non-hazardous waste generated from our operation.

Waste management

The Group adheres to waste management principle and strives to properly manage and dispose wastes produced by our business activities. Our waste management practice has been complied with relevant laws and regulations relating to environmental protection. The non-hazardous wastes generated by the Group's operations mainly consist of paper, toner cartridges and ink cartridges. During the year ended 31 December 2019, the consumption volume generated by the Group is shown as below:

Non-hazardous waste category	Quantity	Unit	Intensity – Unit per employee
Paper	0.4	Tonnes	0.01
Toner cartridge	13	Pieces	0.42

We regularly monitor the consumption volume of paper, toner cartridges and ink cartridges and have implemented a number of reduction measures. The Group's office has also provided suitable facilities and encouraged our staff to sort and recycle the wastes to achieve the objectives in mitigating wastes, reusing and recycling in its operations. The Group maintains high standard in waste reduction, educates its employees the significance of sustainable development and provides relevant support in order to enhance their skills and knowledge in sustainable development.

Apart from recycling, the office has implemented various programs and activities to encourage employees to participate in waste reduction management, including:

- Promote green information and electronic communication, such as e-mail and electronic workflows, to implement "paperless system" concept;
- Place "Green Message" reminders on office equipment;
- Utilise used envelopes and double-side printing. Paper for single-side printing would be only adopted when handling official documents and confidential documents when necessary; and
- Recommend the use of recycled paper.

The Group does not produce any hazardous wastes in its business activities.

GHG emission

The consumption of electricity at the offices and petrol are the largest sources of greenhouse gas emissions of the Group. During the year ended 31 December 2019, the Group's total GHG emissions amounted to approximately 51.4 tonnes and the total GHG emission per employee was 1.7 tonnes/employee. The detailed summary of the GHG emission is shown as below:

GHG Performance Summary

GHG Scope[1]	**Tonnes**	**Intensity – Tonnes per employee**
Direct GHG emission (Scope 1) – petrol consumption	10.4	0.3
Indirect GHG emission (Scope 2) – electricity consumption	39.7	1.3
Other indirect GHG emission (Scope 3) – paper and water consumption	1.3	0.04
Total GHG emission	51.4	1.7

1 GHG emissions data is presented in carbon dioxide equivalent and was in reference to, including but not limited to, the reporting requirements of the "GHG Protocol Corporate Accounting and Reporting Standard" issued by the World Resources Institute and the World Business Council for Sustainable Development, the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)" and the latest published Baseline Emission Factors for Regional Power Grids in Mainland China.

The Group has implemented a number of measures to mitigate energy consumption such as turning off the air conditioning system at night or when leaving office, keeping the office temperature at 25˚C in summer and using LED lights or energy-saving light in the office, etc.

At the project level, the Group considers the principle of environmental protection when launching each of its projects. For example, in the course of selecting suppliers, we assess whether the materials used by the suppliers in the activities are hazardous to the environment and whether they can effectively conserve energy and minimize carbon emissions. In addition to the above-mentioned measures, the Group issues environmental-related memorandum to its staff to raise their awareness of environmental preservation. Notices and posters relating to the environmental information have been placed in the offices to promote the best practice of the environmental management.

The Group has complied with relevant environmental laws and regulations, including but not limited to Environmental Protection Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Air Pollution and Environmental Protection Law of Solid Waste Pollution of the People's Republic of China. During the year ended 31 December 2019, the Group was not aware of any material noncompliance with laws and regulations relating to the air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a significant impact on the Group.

On top of complying with the general disclosure requirement of Aspect A1, we have complied with the KPI requirement which is summarised below:

"Comply or explain" Provisions

KPI A1.1	The types of emissions and respective emissions data.	Disclosed
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Disclosed
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	Not applicable
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Disclosed
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Disclosed
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed

A2. Use of Resources

General Disclosure and KPI

Energy Consumption

Due to the business nature of the Group, the volume of energy consumption, electricity consumption and water consumption are considered as relatively low, in particular water consumption is very minimal. As mentioned in the Aspect A1 section, the Group has formulated policies and procedures relating to the environmental management, including energy management. Electricity consumption and petrol consumption account for a substantial part of the carbon emission for the Group.

During the year ended 31 December 2019, the Group's consumption in petrol and electricity were:

Energy Type	Quantity	Unit	Intensity – Unit per employee
Petrol	4,911	litre	158
Electricity	67,063	kWh	2,163

On top of the measures of mitigating the energy consumption mentioned in previous section, the Group strives to utilize telephone or video conference to minimize face-to-face meeting in order to reduce petrol consumption in traveling and unnecessary business trips. The Group encourages resources saving in daily office operation and proactively fosters a low-carbon corporate culture, which further increases our employees' awareness in energy conservation.

Water consumption and use of packaging materials

The Group does not consume significant water in its business activities. Regardless of limited water consumption, we still promote behavioral changes at office and encourage water conservation. Pantry and toilets are posted with environmental messages to remind employees for water conservation, which results in further enhancing our employees' awareness in water conservation.

In addition, due to the nature of business, the Group did not have physical products for sale and therefore did not involve any use of packaging materials. Therefore, this disclosure is not applicable to the Group.

On top of complying with the general disclosure requirement of Aspect A2, we have complied with the KPI requirement which is summarised below:

"Comply or explain" Provisions

KPI A2.1	Direct and/or indirect energy consumption by type and intensity.	Disclosed
KPI A2.2	Water consumption in total and intensity.	Disclosed
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Disclosed
KPI A2.4	Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable
KPI A2.5	Total packaging material used for finished products.	Not applicable

A3. The Environment and Natural Resources

General Disclosure and KPI

Environmental impact management

The Group pursues the best practices in the environment protection and focuses on the impact of the Group's businesses to the environment and natural resources. In addition to complying with relevant environmental laws and regulations as well as properly preserve the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operations, with the aim of achieving environmental sustainability.

The Group strives to promote environmental protection and make effective use of resources. It carries out continuous monitoring if the business operations incur any potential impact to the environment, and minimises such impact to the environment through promoting green office and operating environment by adopting four basic principles which comprise of reduce, reuse, recycle and replacement. Where applicable, we adopt green purchasing strategies and the most practical technologies to protect our natural resources.

Noise Pollution

Noise pollution practices are implemented during our construction activities, in order to minimise the noise pollution. Programs are produced in the studios with good soundproof facilities.

Outdoor lightings

During outdoor constructions, the lightings are adjusted to avoid disturbing neighborhood whenever possible.

Landscape and natural habitat

The Group strives to minimise any unnecessary interference to the natural landscape and animal habitat in the process of construction, in order to maintain the natural beauty of the environment.

The Group regularly reviews its environmental protection policies and has adopted the necessary precautionary measures and actions to reduce significant impact on the environment and natural resources, and ensure that the Group complies with relevant laws and regulations.

During the year ended 31 December 2019, the Group has not found any non-compliance with laws and regulations in respect of the environment and natural resources.

On top of complying with the general disclosure requirement of Aspect A3, we have complied with the KPI requirement which is summarized below:

"Comply or explain" Provisions

KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed

B. SOCIAL

B1. Employment

General Disclosure

Employee Benefits and Equal Opportunities Policies

Employees are regarded as the Group's largest and most valuable assets and the core of competitive advantage. They provide the driving force for continuous innovation to the Group.

During the year ended 31 December 2019, the Group has fully complied with relevant rules and regulations in the PRC, including the Company Law of the People's Republic of China, the Contract Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and the Regulations on Labor Inspection and Security, as well as the statutory requirements in Hong Kong (China), including the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Mandatory Provident Fund Schemes Ordinance (Chapter 57 of the Laws of Hong Kong), the Minimum Wages Ordinance, the Personal Data Privacy Ordinance and other relevant rules and regulations.

The Group is committed to maintaining a diverse workforce that includes age, gender, family status, sexual orientation, disability, ethnicity, religion and equal opportunities.

The Group's staff handbook contains polices in regards to recruitment, promotion, discipline, working hours and leave. The human resources department has been responsible for ensuring all employees have fully understood the contents of the handbook.

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the staff. Remuneration and benefits have been adjusted on an annual basis in accordance with the employees' individual performance, contribution and market conditions.

During the year ended 31 December 2019, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B2. Health and Safety

General Disclosure

Occupational Health and Safety

The Group has always placed emphasis on occupational safety and has set up an occupational health and safety management system to provide a safe working environment for office employees.

During the year ended 31 December 2019, the Group has complied with relevant rules and regulations in the PRC, including the Law of the People's Republic of China on Work Safety and Occupational Disease Prevention and Control Law of the People's Republic of China, as well as the legislative requirements in Hong Kong (China), including the Occupational Safety and Health Ordinance.

During the year ended 31 December 2019, the Group was not aware of any non-compliance with the health and safety laws and regulations.

B3. Development and Training

General Disclosure

Staff Development and Training

Employees are regarded as the Group's largest and most valuable assets and an essential part of maintaining a competitive advantage. The Group provides its staff with training courses for upgrading skills and development as needed.

The Group encourages and supports employees to participate in personal and professional training to fulfill the needs of emerging technologies and new equipment. The Group also encourages the culture of sharing of knowledge and experience.

The Group has made good use of its internal resources to organise various forms of training for its office in Mainland China, including management, customer service and financial knowledge with the assistance of the Hong Kong (China) Office of General Services.

B4. Labour Standards

General Disclosure

Prevention of Child Labor or Forced Labor

The Group strictly prohibits employing any child labor or forced labor in its operations in Hong Kong (China) and the PRC. The Group has established a well-defined recruitment process which examines the background of candidates and a formal reporting procedure for handling any exception. During the recruitment process, the age of the applicant is verified against the identity documents of the applicant. In addition, the Group conducts regular reviews and inspections to prevent any child labor or forced labor in operation.

In the meantime, the Group also avoids engaging vendors and contractors which are already known to be employing child labor or forced labor in their operations. The Group has complied with the Employment of Children Regulations (Chapter 57B of the Laws of Hong Kong) under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Convention on the Abolition of Forced Labor with respect to Employment of Workers, the Labor Law of the People's Republic of China on the Employment of Adolescents under the Age of 16 and their Legal Rights and Interests and Provisions on the Prohibition of Child Labor in the People's Republic of China.

During the year ended 31 December 2019, the Group complied with all the laws and regulations relating to the prevention of child labor or forced labor. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B5. Supply Chain Management

General Disclosure

Environmental and Social Risk Management of Supply Chain

The Group has established and implemented the Supplier Management Policy. In order to strengthen the selection of suppliers, the Group welcomes qualified, competent and high-quality suppliers to join. The Group's procurement department has specially formulated this policy in order to standardise the supplier management and improve the operational standard.

The Group's procurement department is also responsible for organising the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. The evaluation results will serve as the basis of supplier management. Suppliers need to react quickly to the assessment result, taking effective measures to improve the services provided within prescribed period. The Group has the rights to terminate the cooperation with service providers who violate the rules or do not meet the targets.

In the selection of new suppliers, the Group has compared at least three different companies, taking account of their operational and compliance records as well as their commitment level on top of cost consideration. Prior to conducting business with suppliers, we carry out annual reviews and evaluations in various aspects including occupational health and safety, employee rights protection, environmental protection and corporate social responsibility. This ensures that our operations comply with national standards or relevant regulations and that we have no child or forced labor issues. The assessment results will be used as a benchmark for the continuation or termination of cooperation in the future.

The Group maintains close liaison with its suppliers to monitor its performance to ensure that it is consistent with its service commitment.

B6. Product Responsibility

General Disclosure

Quality and Safety of Products and Services

The Group pays high attention to the quality and safety of its services. The Group has established relevant quality and safety inspection policies for different projects, communicates with our customers and confirms their project expectation and direction prior launching any project, and actively coordinates projects with customers in the process of providing services.

Intellectual Property Management

The Group's day-to-day operations involve the use of the intellectual property owned by customers, suppliers or the Group itself. Therefore, the protection of intellectual property rights is an extremely important task for the Group. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department will also review all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project.

During the year ended 31 December 2019, the Group complies with relevant laws governing the confidentiality of data and intellectual property, including but not limited to Hong Kong Intellectual Property Law, Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China and Copyright Law of the People's Republic of China.

During the year ended 31 December 2019, the Group was not aware of any non-compliance with relevant laws and regulations related to product responsibility.

B7. Anti-Corruption

General Disclosure

Prevention of Corruption and Fraud

Preventive Measures, Enforcement and Monitoring

The Group has implemented the Prevention of Commercial Bribery Management Policy, strengthening its internal control mechanism, anti-corruption and anti-bribery work so as to achieve the business philosophy of "abiding by the law, integrity and quality service". For projects with higher monetary value, the Group makes an open bidding invitation to at least three suppliers. Different level of approval and authorisation is required according to the size of the tender agreement.

Reporting Mechanism

The mechanism includes the establishment of an inspection team and the establishment of a channel for evaluation and reporting. It is strictly forbidden to use the business opportunities or powers to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing within the Group voluntarily.

The Group has complied with major relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance" and the Mainland's "Corruption Ordinance of the People's Republic of China".

During the year ended 31 December 2019, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

B8. Community Investment

General Disclosure

Contributions to Society

As a responsible company, the Group actively strives to become a positive force in the community and maintains close communication and interaction with the community to contribute to community development.

The Group enhances the quality of life of community through arts, culture and entertainment using on demand systems and activities. Following the development of culture, the community can gain a deeper understanding of history and culture and cultivate higher appreciation of the present and future cultural activities and to a greater level of enjoyment.

The Group will also actively encourage employees to contribute their time and skills to community volunteer works to benefit local communities by giving them opportunities to learn more about social and environmental issues and enhance the corporate value of the Group.

As a moral and responsible enterprise, the Group will consider from time to time to make donations to charities when the Group records after-tax profits and has sufficient funds.

Report of the Directors

The Directors present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by geographical areas and businesses is set out in note 6 to the financial statements.

BUSINESS REVIEW

A fair business review of the Group as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 5 and pages 6 to 23 respectively of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The risk management policies and practices of the Group are shown in note 39 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has actively participated in sustainability and social responsibility and recognises its responsibility to protect the environment from its business activities. The Group endeavours to comply with the laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is 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 business and operation of the Group during the year.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2019 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 77 to 154 of this annual report.

Report of the Directors

DIVIDEND

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

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of change in equity, respectively in this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2019 and 2018 were as follows:

	2019	2018
	HK$'000	HK$'000
Share premium	**48,873**	48,873
Capital reserve	**1,488**	1,488
Accumulated losses	**(175,525)**	(49,755)
	(125,164)	606

The Company's reserves available for distribution to shareholders as at 31 December 2019 and 2018 were HK$nil and approximately HK$606,000, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report. This summary does not form part of the audited financial statements for the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

There were no movements in the Company's share capital during the year ended 31 December 2019. Details of the share capital of the Company for the year are set out in note 31 to the consolidated financial statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Articles and there is no restriction against such rights under the laws of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DONATIONS

The Group made charitable donations totaling HK$37,000 (2018: HK$1,388,000) for the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, sales to the Group's largest customer and five largest customers accounted for approximately 35.8% and 83.0% respectively of the total revenue of the Group for the year. Purchases from the Group's largest supplier and five largest suppliers, which comprise third-party manufacturers, accounted for approximately 55.2% and 98.7% respectively of the total purchases of the Group for the year ended 31 December 2019.

To the best knowledge of the Directors, none of the Directors, any of their close associates (within the meaning of the Listing Rules) or any Shareholders who or which owns more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2019.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with suppliers and customers. During the year ended 31 December 2019, there were no material and significant dispute between the Group and its suppliers and/or customers.

Report of the Directors

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this annual report are:

Executive Directors

Mr. Li Qing *(Chairman) (Note 1)*
Mr. Lam Kwan Sing *(Chief Executive Officer)*
Mr. Liu Zhijun
Ms. Yi Sha
Ms. Wang Mengsu *(Note 2)*
Mr. Hon Ming Sang

Independent Non-executive Directors

Mr. Fok Ho Yin, Thomas
Mr. Chan Wai Cheung, Admiral
Mr. Lam Ho Pong

Notes:

1 Appointed as Executive Director and the Chairman of the Board with effect from 15 January 2019.

2 Appointed as Executive Director with effect from 15 January 2019.

In accordance with Article 84 of the Articles, Mr. Li Qing, Mr. Lam Kwan Sing and Mr. Chan Wai Cheung, Admiral will retire from office by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

BIOGRAPHIES OF DIRECTORS

Biographical details of the Directors are set out on pages 24 to 26 of this annual report.

Report of the Directors

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules from each of Mr. Fok Ho Yin, Thomas, Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong, being the current Independent Non-executive Directors, and as at the date of this annual report, the Company still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Each Director has entered into a letter of appointment with the Company for a term of 3 years commencing from his/her date of appointment which term will continue, and such letter of appointment may be terminated by either party by serving not less than one-month's prior written notice to the other party. Each Director will be re-elected at the AGM in accordance with the Articles.

Save as disclosed above, no Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration for the year ended 31 December 2019 are set out in note 10 to the consolidated financial statements.

REMUNERATION POLICY

The Directors' remuneration including the Directors' fees is subject to the Shareholders' approval at general meeting. Other emoluments are recommended by the Remuneration Committee for the Board approval, having regard to the operating results of the Group, individual performance and comparable market statistics.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed under the section headed "Related Party Transactions/Exempted Continuing Connected Transactions" on Page 65 of this annual report and notes 28, 29 and 36 to the consolidated financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Group to which the Company's holding company or any of the Company's subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed below, during the year and up to the date of this report, none of the Directors are considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group required to be disclosed under the Listing Rules.

Name of the Director	Position(s) within the Company	Position(s) in other companies which may compete with the Group
Mr. Li Qing	Executive Director and Chairman of the Board	SFund International Investment Fund Management Limited – director, redesignated from chairman to general manager on 24 February 2020.
Mr. Liu Zhijun	Executive Director	廣州產業投資基金管理有限公司 (Guangzhou Industrial Investment Fund management Co., Ltd.*) – director and general manager
		廣州科技金融創新投資控股有限公司 (Guangzhou Technology Financial Innovation Investment Holding Ltd.*) – chairman
Ms. Yi Sha	Executive Director	廣州產業投資基金管理有限公司 (Guangzhou Industrial Investment Fund management Co., Ltd.*) – financial controller
		SFund International Investment Fund Management Limited – director (resigned on 20 February 2020)
Ms. Wang Mengsu	Executive Director	SFund International Investment Fund Management Limited – assistant general manager and investment director

RELATED PARTY TRANSACTIONS/EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Details of the related party transactions of the Group are set out in note 28, 29 and 36 to the consolidated financial statements which constituted exempted continuing connected transactions under Chapter 14A of the Listing Rules.

During the year, the Group had the following continuing connected transactions which are exempted from the reporting, announcement or independent shareholders' approval requirements under Rule 14A.76 of the Listing Rules and are included herein for information only.

1. Loan Agreement with Mr. Lai Leong

During the year, the Group entered into the loan agreements amounting to HK$5,500,000 (the "Loans") with Mr. Lai Leong, who is deemed to be interested in 36.93% shareholding of the Company as at 31 December 2019, pursuant to which Mr. Lai Leong had agreed to provide the Loans to the Group at interest rate of 8% per annum with a term of 6 months. Mr. Lai Leong through his wholly-owned company, Plus Value International Limited, holds 177,300,000 Shares, representing 36.93% of the issued share capital of the Company and thus Mr. Lai Leong and Plus Value International Limited are the controlling Shareholders as at 31 December 2019. For the year ended 31 December 2019, the interest expense to Mr. Lai Leong was HK$212,000.

2. Bond Subscription Agreement with Kapok Spirit Investment Limited

On 27 October 2017, the Company, as the issuer, entered into the Subscription Agreement A with Kapok Spirit Investment Limited, a company indirectly wholly-owned by Guangzhou Industrial Investment Fund Management Co., Ltd., a substantial Shareholder, as the subscriber, in relation to the subscription of the Bonds. The issue of Bonds constituted an exempt connected transaction of the Company under Rule 14A.90 of the Listing Rules. Pursuant to and subject to the satisfaction (or waiver) of the conditions precedent set out in the Subscription Agreement A, the Company agreed to issue, and the subscriber agreed to subscribe, for the Bonds in the principal amount of up to HK$80,000,000 with a coupon rate of 8% per annum payable quarterly in arrears for a term of 23 months from the date of issue of the Bonds. Kapok Spirit Investment Limited is an associate of Guangzhou Industrial Investment Fund Management Co., Ltd. Ms. Wang Mengsu, the Executive Director of the Company, is the director of Kapok Spirit Investment Limited. Under the Listing Rules and is therefore a connected person of the Company as defined under the Listing Rules. For the year ended 31 December 2019, the interest expense in relation to the Bonds was HK$6,541,000.

Subsequent to the end of the reporting period, Kapok Spirit Investment Limited issued a letter of intent to extend the bond maturity date of a bond payable of HK$80,000,000.

3. Loan Agreement with SFund International Investment Fund Management Limited

During the year, the Company entered into the loan agreements with SFund International Investment Fund Management Limited, a substantial Shareholder of the Company, pursuant to which SFund International Investment Fund Management Limited had agreed to provide the loan to the Company amounting to HK$8,400,000, at interest rate of 8% per annum with a term of 6 months. SFund International Investment Fund Management Limited holds 139,200,000 shares, representing 29% of the issued share capital of the Company. For the year ended 31 December 2019, the interest expenses in relation to the SFund International Investment Fund Management Limited was HK$342,000.

The continuing connected transactions mentioned above have been reviewed by the Independent Non-executive Directors who have confirmed that the transactions have entered into: (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

Save as disclosed above, the Group has not entered into any connected transaction or continuing connected transaction during the year which should be disclosed pursuant to the requirements under the Listing Rules.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2019, none of the Directors or Chief Executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required, to be recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year or up to the date of this report were there any rights to acquire benefits by means of the acquisition of shares of the Company in or debentures of the Company granted to any of the Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 20 June 2014 (the "Share Option Scheme") which became effective on 11 July 2014. The purpose of the Share Option Scheme is to motivate certain eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. Eligible persons of the Share Option Scheme, amongst others, include any executives, any employee (including proposed, full-time or part time employee), a director or proposed director (including an Independent Non-executive Director) of any member of the Group, a direct or indirect shareholder of any member of the Group and an associate of any of the aforementioned persons.

The maximum number of shares which may be issued under the Share Option Scheme and any other schemes of the Group must not exceed 48,000,000 shares, representing 10% of the total number of shares in issue as at the date of listing of the shares of the Company on the Stock Exchange.

The maximum number of shares issued and to be issued upon exercise of the options granted to any one eligible person (including exercised and outstanding options) under the Share Option Scheme in any 12-month period must not exceed 1% of the issued shares from time to time unless approved in advance by the Shareholders in general meeting with such eligible person and his close associates (as defined in the Listing Rules) (if such eligible person is a connected person) abstaining from voting.

Any offer of an option under the Share Option Scheme proposed to be made to a Director, Chief Executive or substantial Shareholder or to any of their respective associates must first be approved by the Independent Non-executive Directors (excluding Independent Non-executive Director who or whose associate is the grantee of the option). In addition, where any grant of options to a substantial Shareholder (as defined in the Listing Rules) or an Independent Non-executive Director or to any of their respective associates which would result in the relevant class of securities in issue and to be issued upon exercise of all options already granted or 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 (i) in excess of 0.1% of the relevant class of securities in issue; and (ii) with an aggregate value (based on the closing price of the securities at the date of each grant) in excess of HK$5,000,000, such further grant of options is subject to approval by the Shareholders in general meeting, with such person, his associates and all core connected persons (as defined in the Listing Rules) of the Company abstaining from voting.

The offer of a grant of options under the Share Option Scheme may be accepted by the eligible person for a period of 28 days from the date of the offer and by payment received by the Company of HK$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as 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 on which the option is deemed to be granted and accepted in accordance with the Share Option Scheme.

The Share Option Scheme will be valid and effective for a period of ten years from 20 June 2014.

The exercise price is determined by the Board and shall be at least the highest of: (i) the nominal value of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (iii) the average closing price of a share as stated in the Stock Exchange's daily quotations sheet for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

As at 31 December 2019, no share options were granted, cancelled, lapsed or forfeited under the Share Option Scheme and there were no outstanding share options under the Share Option Scheme as at 31 December 2019.

EQUITY-LINKED AGREEMENTS

For the year, save for the Share Option Scheme previously mentioned, the Company has not entered into any equity-linked agreements, and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2019.

CONTRACTS OF SIGNIFICANCE

During the year, the Group entered into the loan agreements amounting to HK$5,500,000 (the "Loans") with Mr. Lai Leong, who is deemed to be interested in 36.93% shareholding of the Company as at 31 December 2019, pursuant to which Mr. Lai Leong had agreed to provide the Loans to the Group at interest rate of 8% per annum with a term of 6 months. Mr. Lai Leong through his wholly-owned company, Plus Value International Limited, holds 177,300,000 Shares, representing 36.93% of the issued share capital of the Company and thus Mr. Lai Leong and Plus Value International Limited are the controlling Shareholders as at 31 December 2019. For the year ended 31 December 2019, the interest expense to Mr. Lai Leong was HK$212,000.

On 27 October 2017, the Company, as the issuer, entered into the Subscription Agreement A with Kapok Spirit Investment Limited, a company indirectly wholly-owned by Guangzhou Industrial Investment Fund Management Co., Ltd., a substantial Shareholder, as the subscriber, in relation to the subscription of the Bonds. The issue of Bonds constituted an exempt connected transaction of the Company under Rule 14A.90 of the Listing Rules. Pursuant to and subject to the satisfaction (or waiver) of the conditions precedent set out in the Subscription Agreement A, the Company agreed to issue, and the subscriber agreed to subscribe, for the Bonds in the principal amount of up to HK$80,000,000 with a coupon rate of 8% per annum payable quarterly in arrears for a term of 23 months from the date of issue of the Bonds. Kapok Spirit Investment Limited is an associate of Guangzhou Industrial Investment Fund Management Co., Ltd. Ms. Wang Mengsu, the Executive Director of the Company, is the director of Kapok Spirit Investment Limited. Under the Listing Rules and is therefore a connected person of the Company as defined under the Listing Rules. For the year ended 31 December 2019, the interest expense in relation to the Bonds was HK$6,541,000.

Subsequent to the end of the reporting period, Kapok Spirit Investment Limited issued a letter of intent to extend the bond maturity date of a bond payable of HK$80,000,000.

During the year, the Company entered into the loan agreements with SFund International Investment Fund Management Limited, a substantial Shareholder of the Company, pursuant to which SFund International Investment Fund Management Limited had agreed to provide the loan to the Company amounting to HK$8,400,000, at interest rate of 8% per annum with a term of 6 months. SFund International Investment Fund Management Limited holds 139,200,000 shares, representing 29% of the issued share capital of the Company. For the year ended 31 December 2019, the interest expenses in relation to the SFund International Investment Fund Management Limited was HK$342,000.

Save as disclosed above and in note 28, 29 and 36 to the consolidated financial statements, the Company neither has any contract of significance between the Company, or any of its subsidiaries, and a controlling Shareholder or any of its subsidiaries nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries. The Group's business in 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 during or at the end of the year.

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

As at 31 December 2019, so far as is known to the Directors or Chief Executive of the Company, the following persons (other than Directors or Chief Executive of the Company), who had interests or short positions in the shares and the underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO were as follows.

Long positions in the Ordinary Shares of HK$0.01 each of the Company

Name of Shareholder	Capacity/ Nature of Interests	Number of Shares held Long Position	Number of Shares held Short Position	Approximate Shareholding Percentage Long Position	Approximate Shareholding Percentage Short Position
SFund International Investment Fund Management Limited *(Note 1)*	Beneficial owner	139,200,000	90,000,000	29%	18.75%
廣州滙垠天粵股權投資基金管理公司 Guangzhou Huiyin Tianye Equity Investment Fund Management Ltd.* *(Note 1)*	Interest in a controlled corporation	139,200,000	90,000,000	29%	18.75%
廣州科技金融創新投資控股有限公司 Guangzhou Technology Financial Innovation Investment Holdings Ltd.* *(Note 1)*	Interest in a controlled corporation	139,200,000	90,000,000	29%	18.75%
廣州產業投資基金管理有限公司 Guangzhou Industrial Investment Fund Management Co., Ltd.* *(Note 1)*	Interest in a controlled corporation	139,200,000	90,000,000	29%	18.75%
廣州市城市建設投資集團有限公司 Guangzhou City Construction Investment Group Co., Ltd.* *(Note 1)*	Interest in a controlled corporation	139,200,000	90,000,000	29%	18.75%
Plus Value International Limited *(Note 2)*	Beneficial owner	177,300,000	–	36.93	–
Lai Leong *(Note 2)*	Interest in a controlled corporation	177,300,000	–	36.93	–

Notes:

1. SFund International Investment Fund Management Limited is wholly-owned by Guangzhou Huiyin Tianye Equity Investment Fund Management Ltd.*, which is owned as to 95% by Guangzhou Technology Financial Innovation Investment Holdings Ltd.* and as to 5% by Guangzhou Industrial Investment Fund Management Co., Ltd*. Guangzhou Technology Financial Innovation Investment Holdings Ltd. is wholly-owned by Guangzhou Industrial Investment Fund Management Co., Ltd.* Guangzhou Industrial Investment Fund Management Co., Ltd.* is wholly-owned by Guangzhou City Construction Investment Group Co., Ltd.*

2. Plus Value International Limited is wholly-owned by Mr. Lai Leong. By virtue of the SFO, Mr. Lai Leong is deemed to be interested in the Shares held by Plus Value International Limited.

Save as disclosed above, as at 31 December 2019, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in shares and Underlying Shares and Debentures of the Company" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CHANGE OF DIRECTORS' INFORMATION

During the year ended 31 December 2019 and up to the date of this annual report, the updated information on Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are as follow:

1. Mr. Chan Wai Cheung, Admiral
   - Appointed as an independent non-executive director of China Water Affairs Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 855) on 15 January 2020.
   - Appointed as an independent non-executive director of China Oil Gangran Energy Group Holdings Limited (a company listed on the GEM of the Stock Exchange, stock code: 8132) on 5 March 2020.

PROVISION OF FINANCIAL ASSISTANCE AND ADVANCE TO AN ENTITY

Provision of Financial Assistance Amounting to HK$20,000,000

On 19 December 2016, Capital Strategic (as lender) entered into a loan agreement (the "DT Loan Agreement") with a third party independent of the Company and its connected person (as defined under the Listing Rules) (the "Borrower"), pursuant to which, Capital Strategic agreed to provide a loan to the Borrower in the principal amount of HK$20,000,000 (the "DT Loan") for a period of 6 months following the date of the first drawdown at an interest rate of 13% per annum payable on the date falling 6 months from the first drawing of the DT Loan (the "Provision of the Loan"). The DT Loan was extended in the prior years and was settled during the year.

Provision of Loan to an Entity Amounting to HK$180,000,000

On 24 November 2017, Capital Strategic, as the lender, entered into a loan agreement (the "MT Loan Agreement") with Yuan Heng, as the borrower, pursuant to which, Capital Strategic would provide a loan of HK$180,000,000 (the "MT Loan") to Yuan Heng for a term of 6 months from the date of drawdown, which was 25 January 2018, and could be further extended for another 6 months with written consent of Capital Strategic (or any other dates as may be agreed by Capital Strategic and Yuan Heng in writing) at the interest rate of 10% per annum which will be paid monthly.

The MT Loan is secured by (i) a share charge (the "Share Charge") executed by Firmwill Investments Limited ("Firmwill"), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Yuan Heng, in favor of Capital Strategic, whereby, Firmwill would execute the charge over 1 share in Fully World Limited ("Fully World"), a company incorporated in Hong Kong (China) with limited liability and a wholly-owned subsidiary of Firmwill, representing the entire issued share capital of Fully World, to Capital Strategic; and (ii) a floating charge ("Floating Charge") over all or any part of the property and/or assets of Fully World created by Fully World in favour of Capital Strategic. Yuan Heng had repaid HK$100,000,000 of the MT Loan to Capital Strategic by 6 August 2018.

On 25 January 2019, Capital Strategic and Yuan Heng entered into the first supplemental agreement (the "1st Supplemental Agreement") pursuant to which Capital Strategic agreed to extend the maturity date of the remaining HK$80,000,000 of the MT Loan to 25 July 2019 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). Yuan Heng had further repaid HK$5,000,000 of the MT Loan to Capital Strategic by 16 July 2019.

On 26 July 2019, Capital Strategic and Yuan Heng entered into the second supplemental agreement (the "2nd Supplemental Agreement") with retrospective effect from 25 July 2019 pursuant to which Capital Strategic had agreed to extend the maturity date of the remaining HK$75,000,000 of the MT Loan to 25 January 2020 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). The MT Loan continues to be secured by the Share charge and the Floating charge.

Subsequent to the financial year under review, on 21 January 2020, Yuan Heng had further repaid HK$35,000,000 of the Original Facility to Capital Strategic.

The grant of the MT Loan under the MT Agreement is a financial assistance provided by the Company within the meaning of the Listing Rules and the MT Loan constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Details of the MT Loan are also set out in the announcements of the Company dated 24 November 2017, 25 January 2018, 25 January 2019 and 26 July 2019 and circular dated 22 December 2017, respectively. The MT Loan was completed on 25 January 2018 and the MT loan is still outstanding as at 31 December 2019.

Provision of Financial Assistance Amounting to HK$40,000,000

On 14 February 2018, Capital Strategic, as the lender, entered into a loan agreement (the "CH Loan Agreement") with China-HK, as the borrower, pursuant to which Capital Strategic would provide a loan facility of HK$40,000,000 (the "CH Loan") to China-HK for a term of 6 months from the date of the relevant drawdown, which could be extended upon the requested of China-HK and subject to agreement of Capital Strategic in writing, at the interest rate of 12% per annum which will be paid on the relevant repayment dates of the CH Loan drawn down.

On 14 August 2018, Capital Strategic entered into a supplemental loan agreement with China-HK to, among other matters, extend the maturity date from 14 August 2018 to 14 February 2019. Other than the maturity date which had been extended to 14 February 2019 pursuant to the supplemental loan agreement, the principal terms of the CH Loan Agreement remains applicable to Capital Strategic and China-HK in connection with the CH Loan.

The CH Loan is secured by (i) charge over 10,000 shares of China-HK, being the entire issued share capital of the China-HK, in favour of Capital Strategic, by Wide Merit Limited, a company incorporated in the British Virgin Islands, being the holding company of China-HK; and (ii) charges over the entire share capital of 長三角徐州石油科技有限公司 (Changsanjiao Xuzhou Petroleum Technology Company Limited*), being a wholly-owned subsidiary of China-HK, and鹽城賽孚石油化工有限公司 (Yancheng Saifu Petroleum & Chemical Company Limited*), being a wholly-owned subsidiary of Changsanjiao Xuzhou Petroleum Technology Company Limited.

The provision of the CH Loan under the CH Loan Agreement is a financial assistance provided by the Company within the meaning of the Listing Rules and the CH Loan constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Details of the CH Loan are set out in the announcement of the Company dated 14 February 2018 and 14 August 2018. The CH Loan is still outstanding as at 31 December 2019.

Save as disclosed above, the Group did not have any other provision of financial assistance and advance to an entity.

SUBSEQUENT EVENTS

On 17 January 2020, the Company, as the borrower, entered into a loan agreement (the 'Loan Agreement") with the lender, a business company incorporated under the laws of the British Virgin Islands (the "Lender") and a third party independent of the Company and its connected person. Pursuant to and subject to the satisfaction of the conditions precedent set out in the Loan Agreement, the Lender agreed to provide a loan in the principal amount of HK$75,000,000 (the "Loan") for a term of one year from the date of the Loan but can be extended to two years subject to the consent of the Lender (at its absolute discretion) upon the request of the Company at the interest rate of 8.5% per annum which will be paid quarterly. The Loan was used for the Company's loan repayment.

Regarding the Group's financial services business, subsequent to the financial year under review, on 31 January 2020, the Group has entered into an agreement to acquire 30% equity interest in 廣俊粵港澳產業投資基金管理（廣州）有限公司 (Guangjun Guangdong–Hong Kong–Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the "GJ Fund Management Company") at a consideration of approximately HK$3 million. GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC. The Group is optimistic about the prospect of GJ Fund Management Company and believe such acquisition would strengthen the Group's network in the PRC fund industry, which is in line with the expansion plan of the Group.

After the outbreak of a respiratory illness caused by the COVID –19 coronavirus in early 2020 which was later characterised as a pandemic (the "Pandemic"), a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the Pandemic and evaluate its impact on the financial position and operating results of the Group in 2020. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent to which could not be estimated as at the date of this report.

Except as disclosed elsewhere in this report, there is no material subsequent event untaken by the Group after 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

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

PERMITTED INDEMNITY PROVISIONS

Pursuant to Code Provision A.1.8 of the CG Code set out under Appendix 14 to the Listing Rules and subject to the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of any losses or liabilities incurred, or any legal actions brought against the Directors and management of the Group which may arise out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance.

Report of the Directors

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the AGM to be held on Tuesday, 2 June 2020, the register of members of the Company will be closed from Thursday, 28 May 2020 to Tuesday, 2 June 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong (China), Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 27 May 2020 (Hong Kong (China) time).

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 27 to 45 of this annual report.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company established the Audit Committee with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, risk management and internal controls systems of the Group. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Fok Ho Yin, Thomas (chairman), Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and risk management and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2019 with the management and the Company's external auditor, ZHONGHUI ANDA CPA Limited.

AUDITOR

Ernst & Young ("EY") resigned as the auditor of the Company with effect from 21 February 2020 and ZHONGHUI ANDA CPA Limited ("ZHONGHUI") was then appointed as the auditor of the Company following the resignation of EY as the auditor of the Company. ZHONGHUI will hold office until the conclusion of the next annual general meeting of the Company. ZHONGHUI will retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution for re-appointment of ZHONGHUI as auditor of the Company is to be proposed at the AGM.

By order of the Board
Li Qing
Chairman

Hong Kong (China), 30 March 2020

The English translation of Chinese names or words in this report, where indicated by "", are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

Independent Auditor's Report

ZHONGHUI

To the Shareholders of Sfund International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Sfund International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 77 to 154, which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred loss attributable to owners of the Company of HK$111,390,000 and HK$101,279,000 respectively for two consecutive years of year ended 31 December 2019 and 2018 and as at 31 December 2019 the Group had net current liabilities and net liabilities of HK$124,423,000 and HK$120,364,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the substantial shareholders, at a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the financial support. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the uncertainty relating to the continued support of the Group's substantial shareholders, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

Independent Auditor's Report

RESPONSIBILITIES OF 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

Sze Lin Tang
Audit Engagement Director
Practising Certificate Number P03614

Hong Kong (China), 30 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	7	**64,330**	137,744
Cost of sales and services rendered		**(41,923)**	(104,201)
Gross profit		**22,407**	33,543
Other income and gains	7	**2,022**	18,897
Selling expenses		**(2,731)**	(3,704)
Administrative expenses		**(85,783)**	(120,171)
Other expenses, net		**(44,603)**	(4,695)
Finance costs	8	**(19,235)**	(21,094)
Share of profit of an associate		**486**	125
LOSS BEFORE TAX	9	**(127,437)**	(97,099)
Income tax credit/(expense)	12	**2,016**	(1,898)
LOSS FOR THE YEAR		**(125,421)**	(98,997)
Other comprehensive loss, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(441)**	(2,717)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(125,862)**	(101,714)
Attributable to:			
Owners of the Company		**(111,390)**	(101,279)
Non-controlling interests		**(14,031)**	2,282
		(125,421)	(98,997)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	13	**HK$(23.21) cents**	HK$(21.10) cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
LOSS FOR THE YEAR	**(125,421)**	(98,997)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(441)**	(2,717)
OTHER COMPREHENSIVE LOSS FOR THE YEAR	**(441)**	(2,717)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(125,862)**	(101,714)
Attributable to:		
Owners of the Company	**(111,658)**	(102,817)
Non-controlling interests	**(14,204)**	1,103
	(125,862)	(101,714)

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipments	15	**2,244**	3,165
Right-of-use assets	16	**6,432**	10,824
Goodwill	17	**–**	11,110
Intangible assets	18	**4,000**	17,100
Investment in an associate	19	**2,219**	1,770
Financial assets at fair value through profit or loss	20	**1,102**	3,509
Deposits and other receivables	24	**205**	6,298
Total non-current assets		**16,202**	53,776
CURRENT ASSETS			
Inventories	21	**–**	50
Accounts receivable	22	**4,229**	42,139
Loans receivable	23	**113,772**	131,256
Prepayments, deposits and other receivables	24	**47,551**	43,398
Cash and cash equivalents	25	**23,104**	40,159
Total current assets		**188,656**	257,002
CURRENT LIABILITIES			
Trade payables	26	**4,596**	7,337
Other payables and accruals	27	**56,707**	52,530
Other borrowings	28	**24,060**	7,816
Bond payables	29	**219,229**	79,962
Tax payables		**8,487**	10,109
Total current liabilities		**313,079**	157,754
NET CURRENT (LIABILITIES)/ASSETS		**(124,423)**	99,248
TOTAL ASSETS LESS NET CURRENT LIABILITIES		**(108,221)**	153,024
NON-CURRENT LIABILITIES			
Other payables and accruals	27	**3,062**	6,528
Bond payables	29	**–**	138,131
Other borrowings	28	**8,400**	–
Deferred tax liabilities	30	**681**	2,867
Total non-current liabilities		**12,143**	147,526
Net (liabilities)/assets		**(120,364)**	5,498

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	31	**4,800**	4,800
Reserves	32	**(132,856)**	(21,198)
		(128,056)	(16,398)
Non-controlling interests	33	**7,692**	21,896
Total equity		**(120,364)**	5,498

Li Qing
Director

Lam Kwan Sing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company									
	Issued capital	Share premium*	Capital reserve*	Exchange fluctuation reserve*	Legal reserve*	Merger reserve*	Retained profits/ (accumulated losses)*	Total	Non-controlling interest	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	4,800	48,873	10,071	(56)	49	8,417	14,265	86,419	20,793	107,212
(Loss)/profit for the year	–	–	–	–	–	–	(101,279)	(101,279)	2,282	(98,997)
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	–	–	–	(1,538)	–	–	–	(1,538)	(1,179)	(2,717)
Total comprehensive (loss)/income for the year	–	–	–	(1,538)	–	–	(101,279)	(102,817)	1,103	(101,714)
At 31 December 2018	4,800	48,873	10,071	(1,594)	49	8,417	(87,014)	(16,398)	21,896	5,498
As 1 January 2019	**4,800**	**48,873**	**10,071**	**(1,594)**	**49**	**8,417**	**(87,014)**	**(16,398)**	**21,896**	**5,498**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(111,390)**	**(111,390)**	**(14,031)**	**(125,421)**
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(268)**	**–**	**–**	**–**	**(268)**	**(173)**	**(441)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(268)**	**–**	**–**	**(111,390)**	**(111,658)**	**(14,204)**	**(125,862)**
As 31 December 2019	**4,800**	**48,873**	**10,071**	**(1,862)**	**49**	**8,417**	**(198,404)**	**(128,056)**	**7,692**	**(120,364)**

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position as at 31 December 2019.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(127,437)**	(97,099)
Adjustments for:		
Share of profit of an associate	**(486)**	(125)
Bank interest income	**(159)**	(339)
Imputed interest income on non-interest-bearing financial arrangement	**(88)**	(83)
Gain on disposal of a property	**–**	(15,600)
Distribution income	**(128)**	(134)
Finance costs	**19,235**	21,094
Depreciation of property, plant and equipment	**1,603**	2,176
Depreciation of right-of-use assets	**5,448**	5,710
Impairment of accounts receivable	**19,522**	517
Impairment of loans receivable	**1,019**	188
(Reversal of impairment)/impairment of other receivables	**(8)**	124
Impairment of goodwill	**11,110**	1,210
Impairment of intangible assets	**13,100**	–
Reversal of provision for slow-moving inventories	**–**	(91)
Operating loss before working capital changes	**(57,269)**	(82,452)
Decrease in inventories	**50**	59
Decrease in accounts receivable	**18,297**	7,424
Decrease/(increase) in loan receivables	**16,465**	(115,190)
Decrease/(increase) in prepayments, deposits and other receivables	**1,470**	(26,295)
Decrease in financial assets at fair value through profit or loss	**131**	6,016
Decrease in trade payables	**(2,741)**	(4,967)
Increase in other payables and accruals	**3,148**	33,953
Cash used in operations	**(20,449)**	(181,452)
Interest received	**159**	339
Hong Kong (China) profits tax refunded	**–**	98
Overseas and Mainland China taxes paid	**(1,774)**	(1,848)
Net cash used in operating activities	**(22,064)**	(182,863)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(700)**	(1,554)
Proceeds from disposal of a property	**–**	17,250
Investment in an associate	**–**	(1,645)
Decrease in time deposits with original maturity of more than three months when acquired	**–**	1,201
Distribution income received	**128**	134
Redemption of unlisted investment	**2,270**	297
Net cash generated from investing activities	**1,698**	15,683

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New trade finance loans	–	6,290
Repayment of trade finance loans	–	(8,392)
Proceeds from other borrowings	45,778	8,657
Repayment of other borrowings	(21,093)	(6,500)
Proceeds from issuance of bond	–	217,800
Repayment of a bond payable	–	(85,000)
Capital element of finance lease rental payments	(82)	(81)
Lease payments	(6,073)	(6,213)
Interest paid	(14,878)	(16,399)
Net cash generated from financing activities	3,652	110,162
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,714)	(57,018)
Cash and cash equivalents at beginning of year	40,159	98,640
Effect of foreign exchange rate changes, net	(341)	(1,463)
Cash and cash equivalents at end of year	23,104	40,159
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	23,104	40,159
Cash and cash equivalents as stated in the consolidated statement of cash flows	23,104	40,159

1. CORPORATE AND GROUP INFORMATION

SFund International Holdings Limited was incorporated in the Cayman Islands on 30 September 2013 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company is Plus Value International Limited, which is incorporated in the British Virgin Islands (the "BVI"). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong (China) is located at Suites 904–5, 9/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

During the year, the Group was principally engaged in (i) the trading of apparel products and provision of apparel supply chain management services; (ii) the provision of financial services; (iii) the money lending business; and (iv) securities investment.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Hanbo Enterprises Limited	Hong Kong (China)/ Mainland China	HK$10,000	100	–	Trading of apparel products and provision of apparel supply chain management services
Hanbo Enterprises Limited – Macao Commercial Offshore	Macau	MOP100,000	–	100	Trading of apparel products
Hanbo Enterprises (Holding) Limited	BVI	US$50,000	100	–	Investment holding
Hanbo GSC (Cambodia) Ltd.	Cambodia	KHR4,000,000,000	–	100	Provision of apparel supply chain management services
Superbo Trading Co. Limited	Hong Kong (China)	HK$1,000,000	–	100	Property investment and provision of management services
億寶服裝(深圳)有限公司# Yibao Clothing (Shenzhen) Co., Ltd. @	People's Republic of China ("PRC")/ Mainland China	HK$16,370,000	–	100	Provision of apparel supply chain management services
Globe Castle Limited	Hong Kong (China)	HK$1	–	100	Provision of management services
Master Step Management Limited	Hong Kong (China)	HK$1	–	100	Provision of management services
Capital Strategic Partners Limited	Hong Kong (China)	HK$610,000	–	100	Money lending
Mega Perfect Business Limited	BVI	US$100	–	100	Securities investment
Nan Guo International Asset Management Limited ("Nan Guo International Asset Management") (formerly known as Benington Capital Limited)	Hong Kong (China)	HK$2,700,000	–	100	Provision of asset management and advisory services
Nan Guo International Securities Limited ("Nan Guo International Securities")	Hong Kong (China)	HK$13,700,000	–	100	Provision of securities brokerage services
湖南滙垠天星股權投資私募基金管理有限公司("湖南滙垠") Hunan Huiyin Tianxing Private Equity Investment Fund Management Co. Ltd. ("Hunan Huiyin Tianxing")^@	PRC/Mainland China	RMB20,408,000	–	51	Provision of fund management services
天宏私募證券投資基金管理(廣州)有限公司 Tian Hong Private Securities Investment Fund Management (Guangzhou) Co. Limited ("Tian Hong Management")^@	PRC/Mainland China	RMB10,000,000	–	51	Securities investment

\# Registered as a wholly-foreign-owned enterprise under PRC law
^ Registered as a Sino-foreign equity joint venture company in the PRC
@ For identification purposes only

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

2. PRESENTATION AND BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires the directors ("Directors") to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 5.

As at 31 December 2019, the Group incurred loss attributable to the owners of the Company of HK$111,390,000 and HK$101,279,000 respectively for two consecutive years of year ended 31 December 2019 and 2018, and as at 31 December 2019 the Group had net current liabilities of HK$124,423,000 and net liabilities of HK$120,364,000. The net current liabilities and the net liabilities position were attributable to material loss for the year as a result of the poor performance of the Group's businesses and the outstanding bond payables balance of HK$219 million due within twelve months from the end of the reporting period. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

2. PRESENTATION AND BASIS OF PREPARATION *(continued)*

The Directors are formulating proposals for fund raising exercises, further details of which will be disclosed by way of announcements and it has taken the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

(i) Subsequent to the end of the reporting period, Kapok Spirit Investment Limited ("Kapok Spirit"), an entity indirectly wholly owned by a substantial shareholder of the Company, issued a letter of intent to extend the bond maturity date of a bond payable of HK$80,000,000.

(ii) A substantial shareholder of the Company has undertaken to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due.

The Directors have given careful consideration to the future liquidity of the Group and are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange fluctuation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, equity investments at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates *(continued)*

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) 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 HK$, which is the Group's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(c) Translation on consolidation

The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Leasehold land and building	2% or over the lease terms, whichever rate is higher
Leasehold improvements	Over the shorter of the lease terms and 20%
Machinery and equipment	10%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	25%
Computer equipment	20% to 25%

The residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Intangible assets

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

The Group's intangible assets represent money lenders' licence and licences for regulated activities issued by the Securities and Futures Commission (the "SFC"), which are stated at cost less any impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land use rights	2% – 5%
Land and buildings	20% – 50%
Motor vehicles	25% – 50%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

The Group as lessor

Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

– Financial assets at amortised cost; and

– Investments at fair value through profit or loss.

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

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

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(ii) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

Impairment of financial assets

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

General approach

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

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

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

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

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

Simplified approach

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers *(continued)*

(a) Sales of garment

The Group recognises revenue from sales of apparel products based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group satisfies a performance obligation when it transfers control of the apparel products to a customer, upon which the apparel products are delivered to the port of shipment. Revenue is recognised at the point in time.

(b) Service fee

The Group recognises revenue from service fee for supply chain management service based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group satisfies a performance obligation when the relevant services are completed. Revenue is recognised at the point in time.

(c) Advisory service income and fund management fee income

The provision of advisory services and fund management service is a single performance obligation that the Group satisfies over time in accordance with the terms of the respective underlying agreements.

Other income

Rework and compensation income is recognised when the right to receive payment has been established.

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

Distribution income is recognised when the shareholders' right to receive payment has been established.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension schemes

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

The employees of the Group's operations in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit of loss as they become payable in accordance with the rules of the central pension scheme.

The employees of the Group's operations in Macao are required to participate in a central social security scheme operated by the Macao Special Administrative Region government. The Group is required to contribute a fixed amount of its payroll costs to the central social security scheme. The contributions are charged to the statement of profit of loss as they become payable in accordance with the rules of the central social security scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax represents the sum of the current tax and deferred tax.

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

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

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A related party is a person or entity that is related to the Group.

(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 Company or of a parent of the Company.

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also 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 Company or to a parent of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 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 is remote.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2.

Principal versus agent considerations

The Group engages third party manufacturers to provide services to certain customers. In determining whether the Group is acting as a principal or as an agent in the provision of such services requires judgement and consideration of all relevant facts and circumstances. In evaluating whether the Group acting as a principal or an agent, the Group considers whether it obtains control of the service and if necessary, also considers individually or in combination, whether the Group is primarily responsible for fulfilling the contract, is subject to inventory risk, or has discretion in establishing prices.

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

Estimation uncertainty

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

Impairment allowances on financial assets

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.

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

Impairment of goodwill and intangible assets with indefinite useful lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. The fair value less cost of disposal is based on quoted market prices of similar transactions in the market. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets

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

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the apparel trading and related services segment engages in the trading of apparel products and provision of the apparel supply chain management services;

(b) the financial services segment engages in the securities dealing business, provision of asset management services, corporate finance and related advisory services;

(c) the money lending segment engages in the provision of loan financing; and

(d) the securities investment segment engages in investment in listed and unlisted investments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's loss before tax except that bank interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

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

(a) all assets are allocated to operating segments other than unallocated assets, cash and cash equivalents and tax recoverable; and

(b) all liabilities are allocated to operating segments other than unallocated liabilities, interest-bearing bank and other borrowings, bond payable, tax payable, deferred tax liabilities and other head office and corporate liabilities as these liabilities are managed on a group basis.

6. OPERATING SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2019

	Apparel trading and related services HK$'000	Financial services HK$'000	Money lending HK$'000	Securities investment HK$'000	Total HK$'000
Revenue from contracts with customers:					
Recognised at a point in time	46,570	–	–	–	46,570
Recognised over time	–	826	–	–	826
	46,570	826	–	–	47,396
Revenue from other sources	–	–	17,051	(117)	16,934
Segment revenue	46,570	826	17,051	(117)	64,330
Segment results	(27,611)	(48,595)	13,042	(131)	(63,295)
Reconciliation:					
Bank interest income					159
Corporate and other unallocated expenses					(45,066)
Finance costs					(19,235)
Loss before tax					(127,437)
As at 31 December 2019					
Segment assets	21,026	59,569	116,218	2,334	199,147
Reconciliation:					
Corporate and other unallocated assets					5,711
Total assets					204,858
Segment liabilities	41,882	138,886	117,348	8,142	306,258
Reconciliation:					
Elimination of intersegment payables					(225,941)
Corporate and other unallocated liabilities					244,905
Total liabilities					325,222
Other segment information:					
Capital expenditure*	567	133	–	–	700
(Reversal of impairment)/impairment of accounts receivable	(540)	20,062	–	–	19,522
Impairment of loans receivable	–	–	1,019	–	1,019
Reversal of impairment of other receivables	(8)	–	–	–	(8)
Impairment of goodwill	–	11,110	–	–	11,110
Impairment of intangible assets	–	13,100	–	–	13,100
Depreciation of property, plant and equipment#	907	483	–	–	1,390
Depreciation of right-of-use assets#	1,714	601	201	–	2,516
Investment in an associate	–	2,219	–	–	2,219
Share of profit of an associate	–	486	–	–	486

Depreciation of property, plant and equipment and depreciation of right-of-use assets amounting to HK$213,000 and HK$2,932,000, were included under corporate and other unallocated expenses.

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

6. OPERATING SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2018

	Apparel trading and related services HK$'000	Financial services HK$'000	Money lending HK$'000	Securities investment HK$'000	Total HK$'000
Revenue from contracts with customers:					
Recognised at a point in time	107,652	–	–	–	107,652
Recognised over time	–	15,685	–	–	15,685
	107,652	15,685	–	–	123,337
Revenue from other sources	–	–	20,423	(6,016)	14,407
Segment revenue	107,652	15,685	20,423	(6,016)	137,744
Segment results	(50,534)	(563)	15,115	(6,022)	(42,004)
Reconciliation:					
Bank interest income					339
Corporate and other unallocated expenses					(34,340)
Finance costs					(21,094)
Loss before tax					(97,099)
As at 31 December 2018					
Segment assets	38,722	86,717	135,686	1,227	262,352
Reconciliation:					
Corporate and other unallocated assets					48,426
Total assets					310,778
Segment liabilities	24,374	94,753	128,503	8,134	255,764
Reconciliation:					
Elimination of intersegment payables					(197,662)
Corporate and other unallocated liabilities					247,178
Total liabilities					305,280
Other segment information:					
Capital expenditure*	683	871	–	–	1,554
Impairment of accounts receivable	435	82	–	–	517
Impairment of loans receivable	55	–	133	–	188
Impairment of other receivables	124	–	–	–	124
Impairment of goodwill	–	1,210	–	–	1,210
Reversal of provision for slow-moving inventories	(91)	–	–	–	(91)
Depreciation of property, plant and equipment#	1,276	687	–	–	1,963
Depreciation of right-of-use assets#	2,020	506	184	–	2,710
Investment in an associate	–	1,770	–	–	1,770
Share of profit of an associate	–	125	–	–	125

Depreciation of property, plant and equipment and depreciation of right-of-use assets amounting to HK$213,000 and HK$3,000,000, were included under corporate and other unallocated expenses.

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

6. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

During the year, approximately 58.3% (2018: 71.0%) of the Group's total revenue from external customers, based on the locations of the products shipped to/locations of customers, were attributed to the United States of America ("USA"). For the purpose of identifying the total revenue from external customers, revenue derived from the fair value change on financial assets at fair value through profit of loss is excluded.

An analysis of disaggregation of revenue from the sales of goods and provision of services based on the locations of the products shipped to is as follows:

	2019 HK$'000	2018 HK$'000
USA	37,599	102,131
Mainland China	302	1,090
Hong Kong (China)	74	–
Others	8,595	4,431
	46,570	107,652

Revenue from the financial services segment amounting to HK$823,000 (2018: HK$15,413,000) and HK$3,000 (2018: HK$272,000), based on the locations of customers, was derived in Mainland China and Hong Kong (China), respectively. Revenue from the money lending segment, based on the location of the customers, was derived in Hong Kong (China).

6. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information *(continued)*

(b) Non-current assets

	2019 HK$'000	2018 HK$'000
Hong Kong (China)	**7,481**	29,210
Mainland China	**7,064**	14,302
Others	**350**	457
	14,895	43,969

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

Information about major customers

Revenue from external customers each contributing 10% or more of the Group's total revenue for the year are set out below:

	Segment	2019 HK$'000	2018 HK$'000
Customer A	Apparel trading and related services	**23,051**	–
Customer B	Apparel trading and related services	**14,245**	–
Customer C	Money lending	**7,770**	14,523
Customer D	Apparel trading and related services	**N/A ***	14,533
Customer E	Apparel trading and related services	**–**	55,856
Customer F	Apparel trading and related services	**–**	36,048

* Less than 10% of revenue

7. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue, other income and gains is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers		
Sales of goods	**43,125**	107,019
Service fee income	**3,445**	633
Advisory service income	**3**	272
Fund management fee income	**823**	15,413
Revenue from other sources		
Interest income from the money lending business	**17,051**	20,423
Fair value loss on financial assets at fair value through profit or loss	**(117)**	(6,016)
	64,330	137,744

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	**Apparel trading and related services** HK$'000	**Financial services** HK$'000	**Total** HK$'000
Type of goods or services			
Sales of goods	43,125	–	43,125
Service fee income	3,445	–	3,445
Advisory service income	–	3	3
Fund management fee income	–	823	823
	46,570	826	47,396
Geographical markets			
USA	37,599	–	37,599
Mainland China	302	823	1,125
Hong Kong (China)	74	3	77
Others	8,595	–	8,595
	46,570	826	47,396
Timing of revenue recognition			
Goods or services transferred at a point in time	46,570	–	46,570
Services transferred over time	–	826	826
	46,570	826	47,396

7. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(i) ***Disaggregated revenue information*** *(continued)*

For the year ended 31 December 2018

Segments	Apparel trading and related services	Financial services	Total
	HK$'000	HK$'000	HK$'000
Type of goods or services			
Sales of goods	107,019	–	107,019
Service fee income	633	–	633
Advisory service income	–	272	272
Fund management fee income	–	15,413	15,413
	107,652	15,685	123,337
Geographical markets			
USA	102,131	–	102,131
Mainland China	1,090	15,413	16,503
Hong Kong (China)	–	272	272
Others	4,431	–	4,431
	107,652	15,685	123,337
Timing of revenue recognition			
Goods or services transferred at a point in time	107,652	–	107,652
Services transferred over time	–	15,685	15,685
	107,652	15,685	123,337

(ii) ***Performance obligations***

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

Sales of garment

The Group recognises revenue from the sale of apparel products based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group satisfies a performance obligation when it transfers control of the apparel products to a customer, upon which the apparel products are delivered to the port of shipment. Revenue is recognised at the point in time.

7. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(ii) ***Performance obligations*** *(continued)*

Service fees income

The Group recognises revenue for provision of supply chain management services based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group satisfies a performance obligation when the relevant services are completed. Revenue is recognised at the point in time.

Advisory service income and fund management fee income

The provision of advisory services and fund management service is a single performance obligation that the Group satisfies over time in accordance with the terms of the respective underlying agreements.

	2019 HK$'000	2018 HK$'000
Other income		
Bank interest income	**159**	339
Distribution income	**128**	134
Sale of scrap materials	**353**	385
Rework and compensation income	**713**	966
Imputed interest income on non-interest-bearing financial arrangement	**88**	83
Rental income	**126**	504
Sundry income	**242**	113
	1,809	2,524
Gains		
Gain on disposal of a property	**–**	15,600
Gain on foreign exchange differences, net	**213**	773
	213	16,373
	2,022	18,897

8. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on trade finance loans	–	53
Interest on bond payables	17,764	20,211
Interest on other borrowings	1,149	347
Interest on a finance lease	2	6
Unwinding of finance costs on lease liability	320	477
	19,235	21,094

9. LOSS BEFORE TAX

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

	2019 HK$'000	2018 HK$'000
Auditor's remuneration	1,450	2,080
Cost of inventories sold	41,383	103,445
Depreciation of property, plant and equipment	1,603	2,176
Depreciation of right-of-use assets	5,448	5,710
Employee benefit expense (including directors' remuneration (note 10))		
– Wages and salaries, allowances, bonuses, commission and benefits in kind	50,918	62,720
– (Reversal of provision for)/provision for long service payments	(153)	196
– Termination payments	116	6
– Pension scheme contributions (defined contribution schemes)#	3,087	4,699
	53,968	67,621
Impairment of accounts receivable*	19,522	517
Impairment of loans receivable*	1,019	188
(Reversal of impairment)/impairment of other receivables*	(8)	124
Impairment of goodwill*	11,110	1,210
Impairment of intangible assets*	13,100	–
Reversal of provision for slow-moving inventories	–	(91)
Minimum lease payments under operating leases	2,546	2,549

At the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

* The balances were included in "Other expenses, net" in the consolidated statement of profit or loss.

10. DIRECTORS' REMUNERATION

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

	2019	2018
	HK$'000	HK$'000
Fees	**720**	720
Other emoluments:		
Salaries and allowances	**5,100**	10,120
Pension scheme contributions	**52**	72
	5,152	10,192
	5,872	10,912

(A) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019	2018
	HK$'000	HK$'000
Mr. Fok Ho Yin, Thomas	**240**	240
Mr. Chan Wai Cheung, Admiral	**240**	240
Mr. Lam Ho Pong	**240**	240
	720	720

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

10. DIRECTORS' REMUNERATION *(continued)*

(B) Executive directors

	Fees	Salaries and allowances	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
2019				
Mr. Li Qing (Appointed on 15 January 2019)	**–**	**115**	**6**	**121**
Mr. Jia Bowei (Resigned on 15 January 2019)	**–**	**150**	**2**	**152**
Mr. Lam Kwan Sing	**–**	**3,120**	**18**	**3,138**
Mr. Wong Nga Leung (Resigned on 15 January 2019)	**–**	**60**	**2**	**62**
Mr. Hon Ming Sang	**–**	**1,300**	**18**	**1,318**
Ms. Yi Sha	**–**	**120**	**–**	**120**
Mr. Liu Zhijun	**–**	**120**	**–**	**120**
Ms. Wang Mengsu (Appointed on 15 January 2019)	**–**	**115**	**6**	**121**
	–	**5,100**	**52**	**5,152**
2018				
Mr. Jia Bowei	–	3,900	18	3,918
Mr. Lam Kwan Sing	–	3,120	18	3,138
Mr. Wong Nga Leung	–	1,560	18	1,578
Mr. Hon Ming Sang	–	1,300	18	1,318
Ms. Yi Sha	–	120	–	120
Mr. Liu Zhijun	–	120	–	120
	–	10,120	72	10,192

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

The above directors' remuneration only included remuneration during the tenure of each executive director of the Company.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two director (2018: two), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	8,300	8,270
Performance related bonuses	171	300
Pension scheme contributions	72	54
	8,543	8,624

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

	2019	2018
HK$5,000,001 to HK$5,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$1,500,001 to HK$2,000,000	2	2

During the year, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

12. INCOME TAX

	2019 HK$'000	2018 HK$'000
Current – Hong Kong (China)		
Charge for the year	–	259
Overprovision in prior years	(1,432)	(471)
Current – Elsewhere		
Charge for the year	1,602	2,221
Deferred (note 29)	(2,186)	(111)
Total tax charge for the year	(2,016)	1,898

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 operate.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong (China) during the year.

12. INCOME TAX *(continued)*

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The subsidiary of the Company established in Mainland China is subject to the PRC corporate income tax at a standard rate of 25% (2018: 25%) during the year.

No provision for Macao complementary tax has been made as the Company's subsidiary established in Macao is exempted from Macao complementary tax pursuant to Macao's relevant tax legislations (2018: Nil).

No provision for Cambodian tax has been made on the Company's subsidiary as no assessable profit in Cambodia was generated during the current year. Cambodian tax on profit was provided at the rate of 1% of total revenues arising during the prior year.

No provision for Bangladesh income tax has been made on the liaison office of the Company's subsidiary as no assessment profit in Bangladesh was generated during the year (2018: Nil).

A reconciliation of the tax expense applicable to loss before tax at the Hong Kong (China)/Mainland China statutory rate to the tax charge at the effective tax rate is as follows:

2019

	Hong Kong (China) HK$'000	Mainland China and elsewhere HK$'000	Total HK$'000
Loss before tax	(96,499)	(30,938)	(111,663)
Tax credit at the Hong Kong (China)/ Mainland China statutory tax rate	(15,922)	(7,735)	(23,657)
Difference tax rates for specific provinces or enacted by local authorities	–	391	391
Effect of deemed profit tax	–	229	229
Adjustments in respect of current tax of previous periods	(1,420)	–	(1,420)
Income not subject to tax	(2,380)	(3,212)	(5,592)
Expenses not deductible for tax	13,759	11,839	25,598
Temporary difference not recognised	(2,186)	–	(2,186)
Tax losses not recognised	4,543	105	4,648
Others	(12)	(15)	(27)
Tax charge at the Group's effective tax rate	(3,618)	1,602	(2,016)

12. INCOME TAX *(continued)*

2018

	Hong Kong (China) HK$'000	Mainland China and elsewhere HK$'000	Total HK$'000
Loss before tax	(54,967)	(42,132)	(97,099)
Tax credit at the Hong Kong statutory tax rate	(9,070)	(10,533)	(19,603)
Different tax rates for specific provinces or enacted by local authorities	–	6,155	6,155
Effect of deemed profit tax	–	547	547
Adjustments in respect of current tax of previous periods	(471)	–	(471)
Income not subject to tax	(2,504)	(31)	(2,535)
Expenses not deductible for tax	8,768	5,819	14,587
Temporary difference not recognised	43	–	43
Tax losses not recognised	2,938	277	3,215
Others	(27)	(13)	(40)
Tax charge at the Group's effective tax rate	(323)	2,221	1,898

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic and diluted loss per share

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$111,390,000 (2018: HK$101,279,000), and the weighted average number of ordinary shares of 480,000,000 (2018: 480,000,000) in issue during the year.

Diluted loss per share equals to basic loss per share as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

14. DIVIDEND

The board of Directors does not recommend the payment of any dividend for the year ended 31 December 2019. (2018: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
Cost								
At 1 January 2018	3,291	3,011	100	834	1,806	2,871	3,422	15,335
Additions	–	944	12	273	139	61	125	1,554
Disposals	(3,291)	–	–	–	–	–	–	(3,291)
Exchange realignment	–	(27)	(6)	(18)	(41)	(53)	(10)	(155)
At 31 December 2018 and 1 January 2019	–	3,928	106	1,089	1,904	2,879	3,537	13,443
Additions	–	27	9	9	72	408	175	700
Exchange realignment	–	(10)	(2)	(5)	(14)	(17)	(4)	(52)
At 31 December 2019	–	3,945	113	1,093	1,962	3,270	3,708	14,091
Accumulated depreciation and impairment								
At 1 January 2018	1,575	2,731	30	639	1,234	893	2,719	9,821
Charge for the year	66	495	11	220	272	721	391	2,176
Written back on disposals	(1,641)	–	–	–	–	–	–	(1,641)
Exchange realignment	–	(10)	(3)	(12)	(26)	(18)	(9)	(78)
At 31 December 2018 and 1 January 2019	–	3,216	38	847	1,480	1,596	3,101	10,278
Charge for the year	–	253	11	128	239	788	184	1,603
Exchange realignment	–	(5)	(1)	(5)	(12)	(8)	(3)	(34)
At 31 December 2019	–	3,464	48	970	1,707	2,376	3,282	11,847
Carrying amount								
At 31 December 2019	–	481	65	123	255	894	426	2,244
At 31 December 2018	–	712	68	242	424	1,283	436	3,165

The net carrying amount of the Group's property, plant and equipment held under a finance lease included in office equipment at 31 December 2019 was HK$Nil (2018: HK$74,000).

16. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

Right-of use assets

	2019 HK$'000	2018 HK$'000
At 1 January	**10,824**	11,494
Additions	**1,836**	5,605
Depreciation provided during the year	**(5,448)**	(5,710)
Remeasurement from early termination of leases	**(718)**	(444)
Exchange realignment	**(62)**	(121)
At 31 December	**6,432**	10,824
At 31 December:		
Cost	**21,915**	24,473
Accumulated depreciation	**(15,483)**	(13,649)
Net carrying amount	**6,432**	10,824

The right-of-use assets represent the Group's rights to use underlying leased premises under operating lease arrangements over the lease terms, which are stated at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability.

Lease liability

	2019 HK$'000	2018 HK$'000
Maturity analysis – contractual undiscounted cash flows:		
Less than one year	**4,107**	5,994
One to five years	**2,836**	5,887
Total undiscounted lease liability at 31 December	**6,943**	11,881
Lease liability included in other payables and accruals (note 27)		
– Current	**4,048**	5,678
– Non-current	**2,613**	5,681
	6,661	11,359

Amounts recognised in the consolidated statement of financial position

	2019 HK$'000	2018 HK$'000
At I January	**11,359**	12,019
Additions during the year	**1,836**	5,605
Interest charged to profit or loss	**320**	477
Remeasurement from early termination of leases	**(718)**	(444)
Payment during the year	**(6,073)**	(6,213)
Exchange realignment	**(63)**	(85)
At 31 December	**6,661**	11,359

16. RIGHT-OF-USE ASSETS AND LEASE LIABILITY *(continued)*

Amounts recognised in the consolidated statement of profit or loss

	2019	2018
	HK$'000	HK$'000
Interest on lease liability	**320**	477
Expenses relating to short-term leases	**2,546**	2,549
	2,866	3,026
Amounts recognised in the consolidated statement of cash flows		
Total cash outflow for leases	**6,073**	6,213
Lease commitments of short-term leases	**47**	126
Income from subleasing right-of-use assets	**126**	504

17. GOODWILL

	HK$'000
Cost	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	12,320
Accumulated impairment losses	
Impairment loss recognised in the year ended 31 December 2018 and balance at 31 December 2018 and 1 January 2018	(1,210)
Impairment loss recognised in the current year	(11,110)
At 31 December 2019	(12,320)
Carrying amount	
At 31 December 2019	–
At 31 December 2018	11,110

17. GOODWILL *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGU") for impairment testing:

- Fund management services CGU;
- Securities dealing CGU; and
- Asset management CGU

The carrying amounts of goodwill are as follows:

	2019 **HK$'000**	2018 HK$'000
Fund management services CGU	–	8,436
Securities dealing CGU	–	1,733
Asset management CGU	–	941
	–	11,110

Fund management services CGU

As at 31 December 2018, the recoverable amount of the fund management CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. The discount rate applied to the cash flow projections is 13% and the cash flows beyond the five-year period are extrapolated using an average growth rate of 3%.

Assumptions were used in the value in use calculation of the fund management services CGU on 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates

The discount rates used are before tax and reflect specific risks relating to the relevant unit.

Price inflation

The inflation rates used are with reference to current market conditions.

As the funding management services CGU has been reduced to its recoverable amount of nil as at 31 December 2019 due to unsatisfactory performance, the goodwill impairment of HK$8,436,000 was recognised in consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

Securities dealing CGU and asset management CGU

As at 31 December 2018, the recoverable amounts of the securities dealing and asset management CGUs have been determined based on fair value less costs of disposal of the underlying assets and are classified under Level 3 in the fair value measurement hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3. In the opinion of the directors, the valuation of the fair value of goodwill was determined using a market approach with significant unobservable inputs, such as recent transaction price in the market.

17. GOODWILL *(continued)*

Securities dealing CGU and asset management CGU *(continued)*

As at 31 December 2019, the recoverable amounts of the securities dealing CGU and asset management CGU determined based on value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. Due to the absence of transactions in an active market for underlying assets, it is appropriate to use of discounted cash flows to estimate the fair value of such assets. The change in valuation method is due to the Group considers that it provides more reliable information about the recoverable amount as at 31 December 2019.

That calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 5-year period, and a discount rate of 10.1%. Cash flows beyond 5-year period are projected using 2.5% growth rate. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue from regulated financial services business, such estimations are based on the CGU's past performance and management's expectations for the market development.

As a result, an impairment of approximately HK$2,674,000 for the goodwill was recognised in profit or loss for the year ended 31 December 2019.

18. INTANGIBLE ASSETS

	2019 **HK$'000**	2018 HK$'000
Cost and net carrying amount at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**4,000**	17,100

The intangible assets represent direct costs incurred for the acquisition of a money lenders licence and licences for regulated activities issued by the SFC (collectively, "Licences"). The intangible assets are stated at cost less any impairment losses.

The Licences is considered by the directors of the Company as having indefinite useful lives because it is expected that the Licences can be renewed continuously at minimal cost and it will contribute net cash inflows for the Group in the foreseeable future. The Licences will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

The Licences are allocated to the money lending CGU, securities dealing CGU and asset management CGU. The carrying amounts of intangible assets are as follows:

	2019 **HK$'000**	2018 HK$'000
Money lending CGU	**900**	900
Securities dealing CGU	**2,135**	10,500
Asset management CGU	**965**	5,700
	4,000	17,100

18. INTANGIBLE ASSETS *(continued)*

Money lending CGU

The recoverable amount of the money lending CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a one-year period.

The discount rate applied to the cash flow projections was 8% (2018: 8%) for the money lending CGU.

Assumptions were used in the value in use calculation of the money lending CGU on 31 December 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of the intangible asset:

Discount rates

The discount rates used are before tax and reflect specific risks relating to the relevant unit.

Securities dealing CGU and asset management CGU

As at 31 December 2018, the recoverable amounts of the securities dealing and asset management CGUs have been determined based on fair value less costs of disposal of the underlying assets. The fair value of the intangible assets is classified under Level 3 in the fair value measurement hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3. In the opinion of the directors, the valuation of the fair value of intangible assets was determined using a market approach with significant unobservable inputs, such as recent transaction price in the market.

As at 31 December 2019, the recoverable amounts of the securities dealing CGU and asset management CGU determined based on value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. Due to the absence of transactions in an active market for underlying assets, it is appropriate to use of discounted cash flows to estimate the fair value of such value. The change in valuation method is due to the Group considers that it provides more reliable information about the recoverable amount as at 31 December 2019.

That calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 5-year period, and a discount rate of 10.1%. Cash flows beyond 5-year period are projected using 2.5% growth rate. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue from regulated financial services business, such estimations are based on the CGU's past performance and management's expectations for the market development.

As a result, an impairment of approximately HK$13,100,000 for the intangible asset was recognised in profit or loss for the year ended 31 December 2019.

19. INVESTMENT IN AN ASSOCIATE

	2019 HK$'000	2018 HK$'000
Unlisted share, at cost		
Share of net liabilities	**(4)**	(491)
Goodwill on acquisition	**2,261**	2,261
Exchange realignment on goodwill	**(38)**	–
	2,219	1,770

Particulars of the associate is as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
湖南國開鐵路建設私募基金管理有限公司 (Hunan Guokai Railway Development Private Equity Fund Management Company Limited ("Hunan Guokai"))	Registered capital	PRC/Mainland China	49%	Provision of fund management service

The following table illustrates the summarised financial information in respect of the Group's associate reconciled to the carrying amount in the consolidated financial statements:

	2019 HK$'000	2018 HK$'000
Current assets	**1,981**	1,208
Current liabilities	**(1,989)**	(2,210)
Net liabilities	**(8)**	(1,002)
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**49%**	49%
Goodwill on acquisition	**2,261**	2,261
Group's share of net liabilities of associate, excluding goodwill	**(4)**	(491)
Exchange realignment on goodwill	**(38)**	–
Carrying amount of the investments	**2,219**	1,770
Post acquisition results:		
Revenue	**826**	432
Profit and total comprehensive income	**991**	256

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through profit or loss		
Listed equity investment	**1,091**	1,222
Unlisted equity investments	**11**	2,287
	1,102	3,509

The unlisted equity investments with an aggregate carrying amount of HK$11,000 were stated at cost less impairment.

21. INVENTORIES

	2019 HK$'000	2018 HK$'000
Finished goods	**–**	50

22. ACCOUNTS RECEIVABLE

	2019 HK$'000	2018 HK$'000
Trade receivables	**4,407**	22,019
Fund management fee receivables	**20,191**	20,967
	24,598	42,986
Impairment	**(20,369)**	(847)
	4,229	42,139

22. ACCOUNTS RECEIVABLE *(continued)*

Trade receivables

Trade receivables relate to the Group's apparel trading and related services business. The Group's trading terms with its customers in the apparel trading and related services business are mainly on credit. The credit periods generally range from 30 to 90 days (2018: 30 to 90 days). Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2019	2018
	HK$'000	HK$'000
Within 1 month	**4,229**	9,874
1 to 2 months	**–**	9,281
2 to 3 months	**–**	753
Over 3 months	**–**	1,393
	4,229	21,301

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

	2019	2018
	HK$'000	HK$'000
At beginning of year	**718**	283
Impairment loss (reversed)/recognised	**(540)**	435
At end of year	**178**	718

22. ACCOUNTS RECEIVABLE *(continued)*

Trade receivables *(continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects, the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At 31 December 2019		**Past due**			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	**0%**	**0%**	**0%**	**100%**	
Gross carrying amount (HK$'000)	**4,229**	**–**	**–**	**178**	**4,407**
Expected credit losses (HK$'000)	**–**	**–**	**–**	**178**	**178**

As at 31 December 2018		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	1.4%	1.6%	1.9%	61.9%	
Gross carrying amount (HK$'000)	19,122	1,690	525	682	22,019
Expected credit losses (HK$'000)	259	27	10	422	718

Fund management fees receivables

Fund management fees receivables relate to the Group's fund management business and are due from investment funds in which the Group acts as the fund manager. Pursuant to the respective fund management agreements, the fund management fees shall be paid in advance at the beginning of each year.

22. ACCOUNTS RECEIVABLE *(continued)*

Fund management fees receivables *(continued)*

An ageing analysis of fund management fees receivables as at the end of the reporting period, based on the period in which services were rendered and net of loss allowance, is as follows:

	2019 HK$'000	2018 HK$'000
Not yet due	–	721
Less than 1 year past due	–	13,363
More than 1 year past due	–	6,754
	–	20,838

The movements in provision for impairment of fund management fees receivables is as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	129	47
Impairment loss recognised	20,062	82
At end of year	20,191	129

An impairment analysis is performed at each reporting date by considering the probability of default of counterparty. As at 31 December 2019, the probability of default applied 100% (2018: ranged from 0.2% to 13%) and the loss given default was estimated to be 100%. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2019 was 100% (2018: 0.6%).

22. ACCOUNTS RECEIVABLE *(continued)*

Fund management fees receivables *(continued)*

An analysis of the gross carrying amount and the corresponding ECL allowance is as follows:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Gross carrying amount as at 1 January 2018	820	–	7,171	7,991
New accounts receivable	15,413	–	–	15,413
Transfer	(13,449)	–	13,449	–
Repaid during the year	(2,053)	–	–	(2,053)
Exchange realignment	(10)	–	(374)	(384)
Gross carrying amount as at 31 December 2018 and 1 January 2019	721	–	20,246	20,967
New accounts receivable	267	–	–	267
Repaid during the year	(986)	–	–	(986)
Exchange realignment	(2)	–	(55)	(57)
Gross carrying amount as at 31 December 2019	–	–	20,191	20,191
ECL allowance as at 1 January 2018	–	–	(47)	(47)
Provided during the year ended 31 December 2018	–	–	(82)	(82)
ECL allowance as at 31 December 2018 and 1 January 2019	–	–	(129)	(129)
Provided during the year ended 31 December 2019	–	–	(20,062)	(20,062)
ECL allowance as at 31 December 2019	–	–	(20,191)	(20,191)

23. LOANS RECEIVABLE

	2019 **HK$'000**	2018 HK$'000
Loans receivable	**115,000**	131,465
Impairment	**(1,228)**	(209)
	113,772	131,256

Loans receivable arising from the money lending business of the Group bear interest at a rate of 10% to 12% (2018: 8% to 13%) per annum. As at 31 December 2019, certain loans receivable with an aggregate carrying amount of HK$113,772,000 (2018: HK$119,889,000) were secured by the pledge of collaterals.

23. LOANS RECEIVABLE *(continued)*

An impairment analysis is performed at each reporting date by considering the probability of default of counterparty. As at 31 December 2019, the probability of default applied ranged from 4.7% to 100% and the loss given default was estimated to be in the range of 0% to 100%. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2019 was in the range of 4.7% to 29.0%.

Analysis of the gross carrying amount and the corresponding ECL allowance is as follows:

	Stage 1 HK$'000	**Stage 2** HK$'000	**Stage 3** HK$'000	**Total** HK$'000
Gross carrying amount as at 1 January 2018	16,275	–	–	16,275
New loans drawndown	220,200	–	–	220,200
Transfer	(40,200)	–	40,200	–
Repaid during the year	(105,010)	–	–	(105,010)
Gross carrying amount as at 31 December 2018 and 1 January 2019	91,265	–	40,200	131,465
Repaid during the year	(16,265)	–	(200)	(16,465)
Gross carrying amount as at 31 December 2019	75,000	–	40,000	115,000
ECL allowance as at 1 January 2018	(21)	–	–	(21)
Provided during the year ended 31 December 2018	(115)	–	(73)	(188)
ECL allowance as at 31 December 2018 and 1 January 2019	(136)	–	(73)	(209)
Provided during the year ended 31 December 2019	(476)	–	(543)	(1,019)
ECL allowance as at 31 December 2019	(612)	–	(616)	(1,228)

Collateral held against loan classified in stage 3 is principally represented by share charges of subsidiaries of borrowers with underlying assets, comprising properties and land with a market value of HK$42,000,000 (2018: HK$50,500,000).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	1,707	1,481
Deposits	2,346	2,393
Loan to a third-party manufacturer	6,181	6,093
Receivables from third-party manufacturers	–	3,484
Other assets	205	205
Other receivables	37,504	36,235
	47,943	49,891
Less: impairment	(187)	(195)
	47,756	49,696
Analysed into:		
Non-current portion	205	6,298
Current portion	47,551	43,398
	47,756	49,696

Other assets represented statutory deposits in respect of the securities dealing business.

Loan to a third-party manufacturer was provided for the enhancement of its production facilities. As at 31 December 2019 and 2018, the loan was secured by a property situated in Cambodia owned by the third-party manufacturer, subject to a guarantee given by an independent party to the Group, interest-free and repayable on 30 April 2020.

During the year ended 31 December 2018, a substantial shareholder of the Company ("Substantial Shareholder"), through a 51% owned subsidiary of the Group, advanced an amount of HK$32,366,000 ("Advance") to an independent third party (the "Borrower") for the purpose of capital contribution to two investment funds managed by the Group (the "Pass-through Arrangement"). The Advance is unsecured, bears interest at 1.5% per month with maturity on 21 August 2018. Under this Pass-through Arrangement, the Group should bear no responsibilities as to the repayment of the Advance by the Borrower and other liabilities as well as the interest associated with the Advance. As at 31 December 2019, the amount of proceeds received from the Substantial Shareholder and the Advance to the Borrower amounting to HK$31,814,000 (2018: HK$32,366,000) were presented on a gross basis and included in "other payables and accruals" and "prepayments, deposits and other receivables", respectively, on the consolidated statement of financial position as the associated document/agreement in connection with the Pass-through Arrangement did not establish the Group's right of off-set.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

The gross receivables and expected credit loss from third-party manufacturers and a loan to a third-party manufacturer are classified as stage 1 as at 31 December 2019 and 2018.

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

	2019 **HK$'000**	2018 HK$'000
At beginning of year	**195**	71
Impairment	**(8)**	124
At 31 December	**187**	195

25. CASH AND CASH EQUIVALENTS

	2019 **HK$'000**	2018 HK$'000
Cash and bank balances	**23,104**	40,159

As at 31 December 2019, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$13,072,000 (2018: HK$22,854,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and ninety-three days depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE PAYABLES

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

	2019	2018
	HK$'000	HK$'000
Within 1 month	**4,596**	7,337

The trade payables are non-interest-bearing and are normally settled on an average term of 30 days.

27. OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	HK$'000
Lease liability (note 16)	**6,661**	11,359
Other payables	**5,358**	4,941
Interest payables	**2,696**	–
Accruals	**13,240**	10,392
Payable to Substantial Shareholder (note 24)	**31,814**	32,366
	59,769	59,058
Analysed into:		
Non-current portion	**3,062**	6,528
Current portion	**56,707**	52,530
	59,769	59,058

Other payables are non-interest-bearing and are normally settled within one year.

28. OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Finance lease payable	**–**	**–**	**–**	5.00	2019	82
Other loan – unsecured	**6.00**	**2020**	**18,560**	6.00	2019	7,734
Loan from a substantial shareholder – unsecured	**8.00**	**2024**	**8,400**	–	–	–
Loan from a substantial shareholder – unsecured	**8.00**	**2020**	**5,500**	–	–	–
			32,460			7,816
Repayable:						
Within one year on demand			**24,060**			7,816
In the third to fifth years, inclusive			**8,400**			–
			32,460			7,816

Notes:

(a) As at 31 December 2019, other loans of HK$6,975,000 were denominated in United States dollars ("US$").

(b) As at 31 December 2018, other loans of HK$7,734,000 and finance lease payable of HK$82,000 are denominated in US$ and RMB, respectively.

29. BOND PAYABLES

	2019 HK$'000	2018 HK$'000
Unlisted bonds repayable within five years	**219,229**	218,093
Analysed into:		
Non-current portion	**–**	138,131
Current portion	**219,229**	79,962
	219,229	218,093

29. BOND PAYABLES *(continued)*

At the end of the reporting period, particulars of the straight bond issued by the Company are as follows:

Issue date	Maturity from issue date	Coupon rate	Effective interest rate	Principal outstanding	
				2019	2018
				HK$'000	HK$'000
30 October 2017	23 months	8%	7.93%	**80,000***	80,000*
24 January 2018	720 Days	7.5%	8.21%	**95,000**	95,000
14 February 2018	700 Days	7.5%	7.92%	**40,000**	40,000

The bond is unsecured and contains no conversion features.

* The straight bond was issued by the Company to Kapok Spirit Investment Limited ("Kapok Spirit"), an entity indirectly wholly owned by a substantial shareholder of the Company. As at 31 December 2019, the bond is overdue and Kapok Spirit issued a letter of intent to extend the bond maturity date of the bond payable of HK$80,000,000.

30. DEFERRED TAX LIABILITIES

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

	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of subsidiaries	Intangible asset	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	155	2,674	149	2,978
Deferred tax charged to the consolidated statement of profit or loss during the year (note 12)	(111)	–	–	(111)
At 31 December 2018 and 1 January 2019	44	2,674	149	2,867
Deferred tax charged to the consolidated statement of profit or loss during the year (note 12)	(24)	(2,162)	–	(2,186)
At 31 December 2019	20	512	149	681

30. DEFERRED TAX LIABILITIES *(continued)*

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

As at 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$Nil (2018: HK$5,053,000) at 31 December 2019.

As at 31 December 2019, the Group had tax losses arising in Hong Kong (China) of HK$53,859,000 (2018: HK$30,765,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2018, the Group also has tax losses arising in Cambodia of HK$6,861,000 (2018: HK$8,070,000), subject to the agreement by relevant tax authorities, that are available for offsetting against future taxable profits of the respective subsidiaries.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

31. SHARE CAPITAL

Shares

	2019	2018
	HK$'000	HK$'000
Authorised:		
1,000,000,000 (2018: 1,000,000,000) shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
480,000,000 (2018: 480,000,000) shares of HK$0.01 each	**4,800**	4,800

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 81 of the consolidated financial statements.

(a) Capital reserve

The capital reserve represents (i) capital contribution of HK$9,000,000 from shareholders pursuant to a deed of undertaking dated 26 March 2014; and (ii) capital contribution of HK$1,071,000 from shareholders to a subsidiary.

(b) Legal reserve

The legal reserve represents the transfer of the profit generated from a subsidiary incorporated in Macao from retained profits to the legal reserve in accordance with article 377 of the Macao Commercial Code until the legal reserve balance reaches half of the capital of the relevant subsidiary. This legal reserve is not distributable.

(c) Merger reserve

The merger reserve represents the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to a reorganisation in connection with the listing of the Company's shares in the prior years.

33. A PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's non-wholly owned subsidiary, Hunan Huiyin Tianxing, that has material non-controlling interests for the year are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests	**49%**	49%

	2019 **HK$'000**	2018 HK$'000
(Loss)/profit for the year allocated to non-controlling interests	**(14,031)**	2,282
Accumulated balances of non-controlling interests at the reporting date	**7,692**	21,896

33. A PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following table illustrates the summarised financial information of Hunan Huiyin Tianxing. The post-acquisition amounts disclosed are before any inter-company eliminations:

	2019 **HK$'000**	2018 HK$'000
Revenue and other income	**1,050**	15,791
Total expenses	**(30,773)**	(11,134)
(Loss)/profit for the year	**(28,642)**	4,657
Other comprehensive loss for the year	**(352)**	(2,406)
Total comprehensive (loss)/income for the year	**(28,994)**	2,251
Net cash flows used in operating activities	**(10,061)**	(10,379)
Net cash flows generated from/(used in) investing activities	**2,276**	(888)
Net cash flows used in financing activities	**(1,258)**	(1)
Net decrease in cash and cash equivalents	**(9,043)**	(11,268)
Current assets	**44,711**	74,012
Non-current assets	**5,439**	4,529
Current liabilities	**(33,175)**	(33,855)
Non-current liabilities	**(1,283)**	–

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group recognised the right-of-use assets and the corresponding lease liability in respect of the rights and obligations for using the leased premises, with aggregate amounts of HK$1,836,000 (2018: HK$5,605,000) and HK$1,836,000 (2018: HK$5,605,000), respectively.

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

(b) Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Trade finance loans	Finance lease payable	Loans from a third party/ shareholder	Unlisted bonds	Lease liability	Total liabilities from financing activities
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	2,102	168	5,500	80,000	12,019	99,789
Changes from financing cash flows	(2,155)	(87)	1,887	116,730	(6,213)	110,162
Non-cash changes						
– accrued interest	53	6	347	20,211	477	21,094
– new leases entered during the year	–	–	–	–	5,605	5,605
– remeasurement upon early termination of leases	–	–	–	–	(444)	(444)
– foreign exchange movement	–	(5)	–	–	(85)	(90)
– transfer from other payables and accruals	–	–	–	1,152	–	1,152
At 31 December 2018 and 1 January 2019	–	82	7,734	218,093	11,359	237,268
Changes from financing cash flows	–	(84)	24,685	(14,876)	(6,073)	3,652
Non-cash changes						
– accrued interest	–	2	1,149	17,764	320	19,235
– new leases entered during the year	–	–	–	–	1,836	1,836
– remeasurement upon early termination of leases	–	–	–	–	(718)	(718)
– foreign exchange movement	–	–	–	–	(63)	(63)
– transfer to other payables and accruals	–	–	(1,149)	(1,752)	–	(2,901)
– others	–	–	41	–	–	41
At 31 December 2019	–	–	32,460	219,229	6,661	258,350

35. COMMITMENTS

Commitments under operating leases

(a) As lessor

In 2018, the Group sub-leased a property under an operating lease arrangement, with a lease negotiated for a term of two years.

As at the end of the reporting period, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**–**	126

(b) Capital commitments

The Group had the following capital commitment in relation to capital injection of Hunan Guokai at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:	**4,385**	4,461

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties during the year:

	Notes	**2019 HK$'000**	2018 HK$'000
Interest expense payable to Kapok Spirit	(i)	**6,541**	6,388
Interest expense payable to Mr. Lai Leong	(ii)	**212**	124
Interest expense payable to SFund International Investment Fund Management Limited ("SFund Investment Fund")	(iii)	**342**	–
Employee benefit expenses to Mr. Lai Leong		**1,318**	1,318
Referral fee to SFund Investments Fund	(iv)	**2,955**	2,900

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

(i) The interest expense on the bond payable was paid to Kapok Spirit, a company indirectly wholly owned by a substantial shareholder of the Company. Details of which are included in note 29 to the consolidated financial statements.

(ii) The interest expense on a shareholder's loan was paid to Mr. Lai Leong. Details of the shareholder's loan are included in note 28 to the consolidated financial statements.

(iii) The interest expense on a shareholder's loan was paid to Sfund Investment Fund. Details of the shareholder's loan are included in note 28 to the consolidated financial statements.

(iv) The referral fee was paid to SFund Investments Fund, a substantial shareholder of the Company, for referral services rendered during the year. The referral fee was charged based on mutually agreed terms.

The related party transactions in respect of items (i) and (ii) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules for the year ended 31 December 2019.

(b) Compensation of key management personnel of the Group

	2019 **HK$'000**	2018 HK$'000
Short term employee benefits	**5,100**	10,120
Post-employment benefits	**52**	72
Total compensation paid to key management personnel	**5,152**	10,192

Further details of directors' emoluments are included in note 10 to these consolidated financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

31 December 2019

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	HK$'000	HK$'000	HK$'000
Accounts receivable	–	4,229	4,229
Loans receivable	–	113,772	113,772
Financial assets included in prepayments, deposit and other receivables	–	46,048	46,048
Financial assets at fair value through profit or loss	1,102	–	1,102
Cash and cash equivalents	–	23,104	23,104
	1,102	187,153	188,255

31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	HK$'000	HK$'000	HK$'000
Accounts receivable	–	42,139	42,139
Loans receivable	–	131,256	131,256
Financial assets included in prepayments, deposits and other receivables	–	48,216	48,216
Financial assets at fair value through profit or loss	3,509	–	3,509
Cash and cash equivalents	–	40,159	40,159
	3,509	261,770	265,279

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

	Financial liabilities at amortised cost	
	2019	2018
	HK$'000	HK$'000
Trade payables	**4,596**	7,337
Financial liabilities included in other payables and accruals	**58,948**	52,304
Other borrowings	**32,460**	7,816
Bond payables	**219,229**	218,093
	315,233	285,550

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amount and fair value of the Group's financial instrument, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair value	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets at fair value through profit or loss	**1,102**	3,509	**1,102**	3,509

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categories into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2019 and 2018:

At 31 December 2019

	Fair value measurement using: Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total 2019 HK$'000
Description				
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
– Listed equity investment	**1,091**	**–**	**–**	**1,091**

At 31 December 2018

	Fair value measurement using: Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total 2018 HK$'000
Description				
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
– Listed equity investment	1,222	–	–	1,222
– Unlisted equity investments	–	–	2,287	2,287
	1,222	–	2,287	3,509

During the year ended 31 December 2019 and 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

(b) Reconciliation of assets measured at fair value based on level 3:

	2019	2018
	HK$'000	HK$'000
Equity investments at fair value through profit or loss:		
At 1 January	**2,287**	2,713
Redeemed during the year	**(2,270)**	(297)
Exchange realignment	**(6)**	(129)
Others	**(11)**	–
At 31 December	**–**	2,287

The Group did not have any financial liabilities measured at fair values as at the end of the reporting period.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

Management has assessed that the fair values of accounts receivable, loans receivable, the current portion of financial assets included in prepayments, deposits and other receivables, cash and cash equivalents, trade payables, the current portion of financial liabilities included in other payables and accruals and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

(c) (continued)

The fair values of the non-current portion of financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, other borrowing and bond payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for other borrowing and bond payables as at 31 December 2019 was assessed to be insignificant. In the opinion of the directors, their carrying amounts are not significantly different from their respective fair values.

The fair values of listed and unlisted equity investments are based on quoted market price and net asset value, respectively. For wealth management products launched by banks with no quoted prices in active markets, their fair values are determined by valuation techniques whose inputs include quoted prices of underlying investment portfolio which are observable.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

Level 3 fair value measurements

Description	Valuation technique	Significant unobservable inputs	Rate	Sensitivity of fair value to the input	Fair value 2018 *HK$'000*
Financia assets at fair value through profit or loss Unlisted equity investments	Discounted cash flow	Discount rate	4.9%	10% increase in discount rate would result in decrease in fair value by HK$34,000 10% decrease in discount rate would result in increase in fair value by HK$35,000	2,287

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and other borrowings and bond payables. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as financial assets at fair value through profit or loss, accounts receivable, loans receivable, financial assets included in prepayments, deposits and other receivables, trade payables and financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk and equity price risk. The directors review and agree policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group has currency exposure as certain income earned and expenses incurred in Mainland China were denominated in RMB.

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of RMB against US$ may have impact on the operating results of the Group.

The Group has not entered into any hedging arrangement as the foreign currency risk is considered not material. Management has monitored the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

Maximum exposure and year-end staging as at 31 December 2019 and 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019 and 2018. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019	**12-month ECLs**	**Lifetime ECLs**			
	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Simplified approach HK$'000**	**2019 HK$'000**
Trade receivables*	**–**	**–**	**–**	**4,407**	**4,407**
Fund management fees receivables	**–**	**–**	**20,191**	**–**	**20,191**
Loans receivable	**75,000**	**–**	**40,000**	**–**	**115,000**
Financial assets included in prepayments, deposits and other receivables	**45,960**	**–**	**–**	**–**	**45,960**
	120,960	**–**	**60,191**	**4,407**	**185,856**

As at 31 December 2018	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	–	–	–	22,019	22,019
Fund management fees receivables	721	–	20,246	–	20,967
Loans receivable	91,265	–	40,200	–	131,465
Financial assets included in prepayments, deposits and other receivables	48,216	–	–	–	48,216
	140,202	–	60,446	22,019	222,667

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

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

At 31 December 2019

	On demand HK$'000	**Within one year HK$'000**	**Two to five years HK$'000**	**Total HK$'000**
Trade payables	**–**	**4,831**	**–**	**4,831**
Financial liabilities included in other payables and accruals	**–**	**58,666**	**2,836**	**61,502**
Other borrowings	**–**	**25,314**	**9,987**	**35,301**
Bond payables	**80,000**	**140,062**	**–**	**220,062**
	80,000	**228,873**	**12,823**	**321,696**

		2018		
	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	–	7,337	–	7,337
Financial liabilities included in other payables and accruals	–	46,939	5,887	52,826
Interest-bearing bank and other borrowings	–	8,049	–	8,049
Bond payables	–	84,752	150,188	234,940
	–	147,077	156,075	303,152

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual listed equity investment and unlisted investments classified as financial assets at fair value through profit or loss (note 18) as at 31 December 2019. The Group's listed investment is listed on the Stock Exchange and is valued at quoted market prices at the end of the reporting period.

The market equity index for the Stock Exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2019	**High/low 2019**	31 December 2018	High/low 2018
Hong Kong (China)				
– Hang Seng Index	**28,190**	**30,280/24,897**	25,846	33,484/24,541

The following table demonstrates the sensitivity to every 20% change in fair value of investment securities, with all other variables held constant and before any impact on tax, based on their carrying amount at the end of the reporting period.

	Carrying amount of equity investment HK$'000	**Changes in loss before tax** HK$'000
31 December 2019		
Investment listed in Hong Kong (China)	1,091	218
31 December 2018		
Investment listed in Hong Kong (China)	1,222	244
Unlisted investment	2,287	457

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or bond. The Group is required to comply with certain externally imposed capital requirements set out in certain of its banking facility agreements. Additionally, certain subsidiaries engaged in securities dealing and asset management, which are regulated entities under the SFC are required to comply with the respective minimum capital requirements imposed by the SFC. During the year, these subsidiaries complied with the respective minimum capital requirements imposed by the SFC. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital on the basis of a gearing ratio. The ratio is calculated by dividing the total debts by total equity attributable to owners of the Company. Total debts are defined to include all borrowings and payables incurred not in the ordinary course of business. Accordingly, the gearing ratio (being the sum of bonds payables, finance lease payable, other borrowings divided by total equity) was -236% (2018: 4,108.9%) at the end of the reporting period.

40. EVENT AFTER REPORTING PERIOD

On 17 January 2020, the Company, as the borrower, entered into a loan agreement (the 'Loan Agreement") with the lender, a business company incorporated under the laws of the British Virgin Islands (the "Lender") and a third party independent of the Company and its connected person. Pursuant to and subject to the satisfaction of the conditions precedent set out in the Loan Agreement, the Lender agreed to provide a loan in the principal amount of HK$75,000,000 (the "Loan") for a term of one year from the date of the Loan but can be extended to two years subject to the consent of the Lender (at its absolute discretion) upon the request of the Company at the interest rate of 8.5% per annum which will be paid quarterly. The Loan was used for the Company's loan repayment.

Regarding the Group's financial services business, subsequent to the financial year under review, on 31 January 2020, the Group has entered into an agreement to acquire 30% equity interest in 廣俊粵港澳產業投資基金管理(廣州)有限公司 (Guangjun Guangdong-Hong Kong-Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the "GJ Fund Management Company") at a consideration of approximately HK$3 Million. GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC. The Group is optimistic about the prospect of GJ Fund Management Company and believe such acquisition would strengthen the Group's network in the PRC fund industry, which is in line with the expansion plan of the Group.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**4**	4
	4	4
CURRENT ASSETS		
Prepayments and other receivables	**331**	332
Due from subsidiaries	**118,238**	235,814
Cash and cash equivalents	**59**	4,193
	118,628	240,339
CURRENT LIABILITIES		
Other payables and accruals	**18,186**	3,150
Due to a subsidiary	**1,581**	13,694
Bond payables	**219,229**	79,962
	238,996	96,806
Net current (liabilities)/assets	**(120,368)**	143,533
TOTAL ASSETS LESS CURRENT LIABILITIES	**(120,364)**	143,537
NON-CURRENT LIABILITIES		
Bond payables	**–**	138,131
	–	138,131
Net (liabilities)/assets	**(120,364)**	5,406
CAPITAL AND RESERVES		
Issued capital	**4,800**	4,800
Reserves (note)	**(125,164)**	606
Total equity	**(120,364)**	5,406

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	48,873	1,488	(22,976)	27,385
Loss and total comprehensive loss for the year	–	–	(26,779)	(26,779)
At 31 December 2018 and 1 January 2019	**48,873**	**1,488**	**(49,755)**	**606**
Loss and total comprehensive loss for the year	**–**	**–**	**(125,770)**	**(125,770)**
At 31 December 2019	**48,873**	**1,488**	**(175,525)**	**(125,164)**

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2020.