盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 851

ANNUAL REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Yang (Appointed on 31 January 2020)
Mr. Zhou Quan
Mr. Zhao Yun (Re-designated on 25 March 2020)
Mr. Qiu Bin (Resigned on 5 February 2020)

Non-Executive Directors

Mr. Huang Shuanggang (Appointed on 25 March 2020)
Mr. Mu Hao (Resigned on 25 March 2020)

Independent Non-Executive Directors

Mr. Fung Tze Wa
Ms. Fang Fang
Mr. An Dong

AUDIT COMMITTEE

Mr. Fung Tze Wa *(Chairman)*
Ms. Fang Fang
Mr. Huang Shuanggang (Appointed on 25 March 2020)
Mr. An Dong (Resigned on 25 March 2020)

REMUNERATION COMMITTEE

Ms. Fang Fang *(Chairman)*
Mr. Fung Tze Wa
Mr. An Dong

NOMINATION COMMITTEE

Mr. Liu Yang *(Chairman)*
Mr. Fung Tze Wa
Ms. Fang Fang

COMPANY SECRETARY

Ms. Chan Mei Wa, HKICPA (Appointed on 9 March 2020)
Mr. Hung Yuk Miu, HKICPA (Resigned on 9 March 2020)

STOCK CODE

851

WEBSITE

www.shengyuan.hk

SHARE REGISTRAR

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL OFFICE IN HONG KONG

26/F., No. 238 Des Voeux Road Central
Sheung Wan, Hong Kong

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

SOLICITOR

Paul Hastings
21-22 Bank of China Tower
1 Garden Road
Hong Kong

PRINCIPAL BANKER

The Hong Kong & Shanghai Banking
Corporation Limited

MANAGEMENT DISCUSSION AND ANALYSIS

The Company, together with its subsidiaries, is a Hong Kong based institution providing a wide range of financial services. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong since 2 December 1998.

The Group principally conducts businesses in two business segments: Securities Brokerage and Financial Services, and Asset Management. Previously, the Group also conducted businesses in two additional business segments: Proprietary Trading and Product Trading. However, due to the poor prospects and sustained losses incurred, the Group has significantly scaled down operations of these two business segments since 2015, and suspended all activities in relation to these two business segments starting 2016.

MARKET REVIEW

In 2019, the global economy continued to face a more challenging environment due to influences from factors, including continuing global trade tensions and risk of global economic slowdown. Meanwhile, changes in regulatory environment in Hong Kong and social unrest in Hong Kong had also created a challenging business environment for the Group.

As a combined effect of the unfavorable market situation from the aforesaid factors and the economic uncertainties (such as tightened controls on capital outflow by the Government of The People's Republic of China (the "PRC"), the revenue across all the business segments has been substantially decreased. The performance of the Group in 2019 had been adversely affected by the significant drop in total asset under management throughout the year, as well as the sluggish investment sentiment in Hong Kong as a result of the tightened regulatory regime, Hong Kong protests and the persistent global economic uncertainties. The abovementioned factors will continue to affect the Group's future performance.

BUSINESS AND FINANCIAL REVIEW

Financial Summary

For the year, the Group recorded fee and commission income of approximately HK$8.8 million, representing 72% decrease as compared with approximately HK$31.7 million for 2018. Interest income of the Group decreased to approximately HK$0.04 million in 2019, representing 98% decrease as compared with approximately HK$2.4 million for 2018. This is due to decreased income from money lending business. Other income of the Group increased to approximately HK$0.6 million in 2019, representing 193% increase as compared with approximately HK$0.2 million for 2018. Thus, total revenue of the Group substantially decreased to approximately HK$9.5 million in 2019, representing 72% decreases as compared with approximately HK$34.4 million in 2018.

Loss for the year ended 31 December 2019 was approximately HK$77.4 million, as compared with loss of approximately HK$81.6 million of the year ended 31 December 2018. Such decrease in loss is primarily attributable to the decreases in staff costs, the decreases in fair value loss of held for trading investments, the absence of impairment losses on trading rights and the absence of losses on disposal of subsidiaries for the year ended 31 December 2019. Basic loss per share for 2019 is approximately 2.02 cents, compared with 2.28 cents for 2018. Diluted loss per share for 2019 is approximately 2.02 cents, compared with 2.28 cents for 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation and Financial Results of Business Segments

Securities Brokerage and Financial Services

The Group provides securities brokerage and financial services via two of its subsidiaries, Sheng Yuan Securities Limited ("SYS") and Sheng Yuan Capital (Hong Kong) Limited ("SYC").

SYS is licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in future contract), and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance ("SFO"). Through SYS, the Group provides underwriting and placing services in equity and debt capital transactions, securities and future brokerage services for securities, futures and options contracts, margin financing services, and custodian and handling services for client accounts on securities, futures, and options contracts. The fee and comission are based on certain percentage of the total transaction amounts. As at 31 December 2019, SYS had a total number of 5 employees. 2 employees are licensed as responsible officers to conduct Type 1, Type 2, and Type 4 regulated activities. 1 employee is licensed as responsible officers to conduct Type 1 regulated activities and as representative to conduct Type 4 regulated activities. 1 employee is licensed as representative to conduct both Type 1 and Type 4 regulated activities. As at 31 December 2019, SYS maintained 718 client accounts, which is largely unchanged compared to the number of client accounts as at 31 December 2018. There was approximately HK$17.4 million in client trust bank accounts, representing a 62% decrease from HK$45.4 million as at 31 December 2018. Such decrease was mainly due to clients withdrawing funds out of their accounts as a result of the departure of a key senior management team in the securities brokerage and financial services business.

SYC is licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO. SYC provides corporate advisory services, for a fee, to corporate clients for their corporate actions to ensure the client's compliance with the Listing Rules and the Takeovers Code. Such corporate actions include IPO, placing of shares and other securities, mergers and acquisitions, and business restructuring, etc. As at 31 December 2019, SYC had only 1 employee, who is licensed as responsible officer to conduct Type 6 (advising on corporate finance) regulated activity under the SFO. Regulation requires SYC to have a minimum number of 2 responsible officers in order to contact business. The Group has been actively seeking qualified candidates to fill the vacancy.

Revenue from securities brokerage and financial services during the year ended 31 December 2019 decreased significantly by 90% to approximately HK$0.4 million (2018: approximately HK$4.1 million); segment result recorded a loss of approximately HK$12.7 million (2018: loss of approximately HK$7.8 million). Such decrease in revenue and increase in loss were mainly because (i) the Group was unable to provide desired securities margin financing services to its customers and the severe restrictions in acting as the underwriter in equity and debt fund-raising exercises for the year, due to the low liquid capital maintained by SYS; (ii) the departure of two responsible officers and three other licensed representatives in the fourth quarter of 2017 and certain clients which they procured to their new firms; (iii) SYC was not able to conduct business due to insufficient number of responsible officers licensed to conduct type 6 regulated activity as required by SFO due to the departure of a responsible officer in August 2019.

Asset Management

The Group provides asset management services via two of the Group's subsidiaries, Sheng Yuan Asset Management Limited ("SYAM") and Sheng Yuan Sino Asset Management Limited ("SYSAM"). Both SYAM and SYSAM are licensed to conduct Type 4 and Type 9 (asset management) regulated activities under the SFO. Via these two subsidiaries, the Group provides investment recommendations to clients on securities trading or portfolio management as an investment advisor, as well as investment management services for funds or discretionary accounts. The Group would charge a fixed rate management fee calculated based on value of the net assets within the funds or discretionary accounts, as well as a performance fee calculated based on increase in value of the net assets within the funds or discretionary accounts.

As at 31 December 2019, the asset management segment had 6 employees, of which 4 are employed by SYAM and 2 by SYSAM. Among the 4 employees of SYAM, 2 are licensed as responsible officers, and 1 as representative. Both employees of SYSAM are licensed as responsible officers. All responsible officers and representatives at SYAM and SYSAM are licensed to conduct Type 4 and Type 9 regulated activities under SFO.

As at 31 December 2019, SYAM acted as the fund manager or investment adviser for 3 funds and 2 discretionary accounts (2018: 8 funds and 5 discretionary accounts). The total assets under management (the "AUM") of SYAM decreased by nearly 100% to approximately HK$23.8 million for the year ended 31 December 2019 (2018: approximately HK$7.9 billion). During the year ended 31 December 2019, SYAM recorded segment revenue of approximately HK$8.5 million (2018: approximately HK$30.1 million), representing a decrease of approximately 72%; it recorded segment loss of approximately HK$16.3 million (2018: profit of approximately HK$2.8 million). The significant decrease in revenue and profit was mainly due to (i) the significant decrease in management fee and investment advisory fee as a result of the liquidation of some funds upon the completion of their investment projects and (ii) the decrease in the number of discretionary accounts under management due to the departure of key responsible officers, which resulted in a significant drop in total asset under management and thus the management fee income. In addition, due to tremendous uncertainties, some potential customers are awaiting better opportunities and are deferring their investment decision. SYAM and SYSAM know well of the dynamics in the capital market and possesses experienced investment team and unique analysis and advice.

Proprietary Trading

For proprietary trading business, Sheng Yuan Financial Services Group Limited ("SYFS") mainly invests in the listed shares and private funds in Hong Kong market. During the years ended 31 December 2019, the segment loss from proprietary trading business was approximately HK$7.1 million (2018: HK$31.2 million). As the Group has no additional investment in proprietary trading business, such loss was mainly due to decrease in the market value of shares and private funds held by SYFS owing to under-performance of the stock market.

As at 31 December 2019, the fair value of the investments held was HK$26,000, accounting for approximately 0.04% of the Group's total assets. As at 31 December 2018, the fair value of the investment held was approximately HK$5.2 million, accounting for approximately 3.5% of the Group's total assets. For the year ended 31 December 2019, the Group recorded a loss of HK$5.6 million (2018: HK$28.2 million) from the change in fair value of investment.

Product Trading

As the Group focuses on the development of financial services business and the recovery of commodity market remains slow, the Group has continued to suspend its product trading business for the year ended 31 December 2019. The segment loss for product trading business for the year ended 31 December 2019 was approximately HK$2.2 million (2018: segment loss of HK$0.3 million), representing an increase of HK$1.9 million, which was due to the adminstrative cost (such as office rental, business registration fee and employee remunerations). Since the suspension of product trading, the Group has maintained only the basic operation of the office with one staff to look out for appropriate business opportunity to resume the product trading business should such opportunity arise.

PROSPECTS AND FUTURE PLANS

Enterprises in mainland China have contributed tremendously to China's economic growth over the past four decades of economic reform and opening up, nurturing high net worth individuals ("HNWI") and even ultra-high net worth individuals ("UHNWI") in a steady stream, and will continue to assume a significant role in the current round of economic transformation into a new economy driven by innovation and entrepreneurship. However, enterprises are still experiencing difficult times in getting sufficient funding in the onshore market. HNWI and UHNWI in mainland China are still facing limitations on global asset allocation. Meanwhile, Hong Kong, with its unique advantages of having mainland China as hinterland as well as of its extensive global network, is well recognized as the world's premier international finance center. Compared to the mainland China market, Hong Kong market offers more certainty of timing, valuation, and reach to quality assets and investors around the world. The city has been the largest offshore funding center in bond financing and equity financing for enterprises from mainland China, as well as the top destination for Chinese HNWI and UHNWI when it comes to global asset allocation.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward to 2020, the market conditions for Hong Kong remain uncertain and continue to face new challenges. Hong Kong will be exposed to increasing risks and difficulties, mainly from the relentless social unrest campaigns resulted in unfavourable investment sentiment in the local property market and other sectors, weighing on the Hong Kong and mainland China economies, and further deterring investors, changing monetary policies among major economies and economic downturn in emerging markets. Since January 2020, the PRC and many other parts of the world have encountered an outbreak of novel coronavirus ("COVID-19"). As a result, certain measures were undertaken by the governments including but not limited to implementation of business and travel restrictions. The Group will keep continuous attention on the change of situation and make timely responses and adjustments in the future. So far, COVID-19 already resulted in unfavorable investment sentiment, weighing on the Hong Kong and mainland China economies, and further deterring investors, changing monetary policies among major economies and economic downturn in emerging markets. Due to the abovementioned factors, the Directors expect that there are still existences of material uncertainties and adverse effects on the overall business of our Group with the weak economic conditions in Hong Kong and mainland China. To cope with the challenging environments, the Group will continue to evaluate development opportunities to strengthen our competitive advantage through deploy more resources for seizing this market potential and broaden its revenue so as to generate value for Shareholders. The Directors are confident to achieve sustainable growth from 2020 and bring greater returns to our Shareholders.

In such context, the Group has formulated plans to further expand its existing business operations. Licensed by Securities and Futures Commission, the Group provides one-stop financial services to enterprises as well as HNWI and UHNWI from mainland China, including investment banking and asset management. Through our unique network, the Group will be focusing on providing investment banking services to regional financial institutions, investment platform of both provincial and local governments, and regional leading real estate companies, to connect such enterprises with global funds via Hong Kong market, through either bond financing or equity financing. With potential access to HNWI and UHNWI through our partners, the Group will launch various funds in 2020 to address the demand of oversea investment opportunities from mainland China financial institution, as well as to address needs the global asset allocation from HNWI and UHNWI from mainland China.

The Group will step up its efforts in funds management and discretionary accounts management services, establish additional funds of various types, develop more financial products and expand its customer base to keep abreast of the market trends by focusing on high-valued customers and potential professional investor groups. In addition, the Group will continue to expand its financial consultancy businesses including corporate finance advisory services and mergers and acquisitions transactions. Further, management has also taken active steps to obtain additional financial resources to provide sufficient liquid capital to resume the Group's underwriting business and to provide additional capital for future expansion of its underwriting and other businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has also recently implemented measures to significantly reduce its operating expenses by (i) moving to smaller office from 26 August 2019 onwards, which resulted in more than 50% drop in monthly rental expenses and management fees; (ii) reducing the number of non-essential staff, which would result in lower staff expenses, as well as corresponding decrease in electricity expense, cleaning expenses, insurance and telephone expenses; and (iii) adopting strict cost control policies from February 2020, under which various administrative expenses have been substantially reduced.

It is expected that with the successful implementation of these business plans, the Company may be able to generate positive cash flows from operations and significantly improving its operating performance.

ACQUISITION AND DISPOSAL

There was no material acquisition or disposal during the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, cash and bank balances in general accounts maintained by the Group were approximately HK$29.8 million, representing a decrease of approximately 37% from approximately HK$47.3 million as at 31 December 2018. Such cash and bank balances are mainly held in Hong Kong dollars, United States dollars and Reminbi. Balances in trust and segregated accounts were approximately HK$17.4 million (2018: HK$45.4 million). Trade and other receivables and prepayments were approximately HK$4.1 million as at 31 December 2019 (2018: HK$40.1 million), which mainly represented decreased receivables from money lending business and securities brokerage due to the suspension of the money lending business. Trade and other payables and accruals were approximately HK$18.7 million as at 31 December 2019 (2018: HK$54.2 million), as a result of the decrease in client trust accounts value.

The Group's current assets and current liabilities as at 31 December 2019 were approximately HK$52.1 million (2018: HK$140.6 million) and approximately HK$121.2 million (2018: HK$135.1 million) respectively. The borrowings as at 31 December 2019 were approximately HK$100.1 million (2018: HK$80.4 million). The majority of the Group's borrowings are denominated in Hong Kong dollars and at fixed interest rates. The gearing ratio of the Group, measured as total debts to total assets, was approximately 153% as at 31 December 2019 (2018: 54%). The increases wsa primarily due to the increase in borrowings of the Group and a reduction in the assets of the Group due to the reduction in value of client accounts and trade and other receivables and prepayments as mentioned above. As at 31 December 2019, the Group recorded net liabilities of approximately HK$62.8 million (2018: net asset of approximately HK$14.6 million primarily as a result of the continued operating losses recorded by the Group in recent years). During the year ended 31 December 2019, the Group financed its operations with internally generated cash flow and funds from borrowings.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's transactions are mainly denominated in Hong Kong dollars, United States dollars ("USD"), and Renminbi ("RMB"). The Group has not implemented any foreign currencies hedging policies. However, the Group's management will closely monitor exchange rate movement and will take appropriate actions to reduce the risks.

CAPITAL STRUCTURE

The Directors monitor the Group's capital structure by reviewing cash flow requirements, taking into account of its future financial obligations and commitments. The capital structure of the Group comprises of issued share capital and reserves attributable to Shareholders. The Directors review the Group's capital structure regularly. There is no changes in capital structure during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

FUNDING AND TREASURY POLICIES

The Group adopts a conservative approach for cash management and investment on uncommitted funds. We place cash and cash equivalents (which are mostly held in Hong Kong dollars, United States dollars and Reminbi) in short term deposits with authorized institutions in Hong Kong.

CONTINGENT LIABILITIES

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 14 February 2020, Sheng Yuan Asset Management Limited, a wholly-owned subsidiary of the Company, has entered into certain investment advisory agreements with Yuanyin International Limited and Yuanyin Asset Management Limited.

As at 14 February 2020, Yuanyin Holdings Limited held 26.47% of the issued share capital of the Company and is a substantial shareholder. Each of Yuanyin International Limited and Yuanyin Asset Management Limited is a wholly-owned subsidiary of Yuanyin Holdings Limited, and is therefore each a connected person of the Company. Accordingly, the transactions contemplated under each of the investment advisory agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Further detailed terms in relation to the new investment advisory agreements have been set out in the Company's announcement dated 14 February 2020.

DIVIDEND POLICY

The Company has a dividend policy, the objective of which is to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves to sustain the Group's future growth. The declaration, form, frequency and amount of dividend paid by the Company must be in accordance with relevant laws and regulations and subject to the bye-laws of the Company. In deciding whether to declare any dividend, the Board will take into account of a number of factors, including the financial results, the distributable reserves, the operations and liquidity requirements, and the current and future development plans of the Company. The Board will review the dividend policy of the Company as appropriate from time to time.

PLEDGE OF ASSETS

As at 31 December 2019, the Group did not have any pledged assets.

HUMAN RESOURCES

As at 31 December 2019, the Group employed 34 employees. The remuneration policy and package of the Group's employees are maintained at market level and are reviewed annually by management. In addition to basic salary, discretionary bonuses, mandatory pension fund and medical insurance scheme, share options may also be granted to eligible employees at the discretion of the Board and are subject to the performance of the individual employees as well as the Group.

The Group regards our staff as the most important asset and resource and provides regular training courses and a variety of development programs and has developed relevant training policies and procedures to enhance the effectiveness of such training programs.

During the Reporting Period, the Group has organized both internal and external training courses for employees. Such training courses covered topics including but not limited to industrial updates, compliance matters, occupational health and safety, etc.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTOR

Mr. Liu Yang, aged 35, was appointed as an executive Director, Chairman of the Board and chief executive officer ("CEO") of the Company in January 2020. Mr. Liu received his Bachelor of Science degree in Mathematics and Applied Mathematics from Peking University, China. Mr. Liu has extensive experience in investment and management experience. Before joining the Company, Mr. Liu was the executive director of an investment management company. Mr. Liu is also currently an executive director and the CEO of Yuanyin Holdings Limited, a substantial shareholder of the Company.

Mr. Zhou Quan, aged 36, was appointed as an executive Director in May 2019. Mr. Zhou obtained his master degree in accountancy from The George Washington University. Mr. Zhou has extensive experience in finance and accounting field. Currently, Mr. Zhou is the managing director of Yuanyin Finance Limited, a subsidiary of Yuanyin Holdings Limited.

Mr. Zhao Yun, aged 35, was appointed as a non-executive Director in May 2019 and re-designated as an executive Director in March 2020. Mr. Zhao obtained his master degree in Economics from Southwest Jiaotong University. Mr. Zhao had worked as a senior management with various large corporations in mainland China and gain extensive experience in corporate restructuring, IPO listing, business operations management, assets and capital management.

NON-EXECUTIVE DIRECTOR

Mr. Huang Shuanggang, aged 56, had served as the chief financial officer of Henan Zhaoteng Investment Co., Ltd. from 2010 to 2018 and a deputy director of Huajian Certified Public Accountants from 2000 to 2010. He had worked at Henan Guanghua Financial Accounting Co., Ltd. from 1993 to 2000 and the finance department of Zhongyuan Aluminum Plant from 1983 to 1993. Mr. Huang is currently a director of Yuanyin Holdings Limited, a substantial shareholder of the Company. Mr. Huang is a qualified accountant in the PRC. Mr. Huang has extensive experience in financial accounting, corporate management and investment management.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Fung Tze Wa, aged 63, was appointed as an independent non-executive Director in May 2018. Mr. Fung is a certified public accountant and a director of an accounting firm in Hong Kong. Mr. Fung has many years of experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2000. He is a member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The Taxation Institute of Hong Kong and The Society of Chinese Accountants and Auditors. He has been appointed as an independent non-executive Director of Freeman FinTech Corporation Limited (Stock Code: 279) since 2017, Citychamp Watch & Jewellery Group Limited (Stock Code: 256) since 2004 and Imperium Group Global Holdings Limited (Stock Code: 776) since 2012. These companies are listed on the Main Board of the Stock Exchange.

Ms. Fang Fang, aged 41, was appointed as an independent non-executive Director in April 2019. Ms Fang has over 15 years of experience in the field of financial investment and business management. Ms. Fang was a non-executive Director of FDS Networks Group Limited, a company listed on the Singapore Exchange Limited, from May 2009 to January 2013 and she was an executive Director of China Healthwise Holdings Limited (Stock code: 348), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, from May 2013 to March 2017. Ms. Fang holds a bachelor degree in economics from the Fudan University, Shanghai and a master degree in sociology from The Chinese University of Hong Kong. Ms. Fang is currently a licensed person to carry out Type 9 regulated activity under the SFO.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. An Dong, aged 49, was appointed as an independent non-executive Director in November 2019. Mr. An holds a Master's degree in Laws from the China University of Political Science and Law, and has participated in the Private Equity Investment Program of Peking University HSBC Business School. Mr. An holds the Lawyer's License of People's Republic of China, and the Professional Qualifications Certificate (intermediate level) issued by the China General Chamber of Commerce. Mr. An has extensive experience in legal affairs in corporate and banking sector, and he is specialised in asset restructuring, equity transfer, merger and acquisition, share issuance, real estate operation and investment, private equity management, and financial and economic litigation. Mr. An joined Beijing Bairui Law Firm (Shenzhen) as a partner since December 2008 and also served as general manager of Shenzhen Both Coasts Investment management co., Ltd. Mr. An has been appointed as an independent non-executive director of Freeman FinTech Corporation Limited (Stock Code: 279) since 2017.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain high standard of corporate governance standards and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency. The Company has complied with the code on corporate governance practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2019 except the following deviations:

The Code provision A.2.1 stipulates that the roles of the Chairman and the Chief Executive Officer should be separated and should not be performed by the same individual. The Company did not have a Chairman during the year ended 31 December 2019. Mr. Liu Yang was appointed as an Executive Director, CEO and the Chairman with effect from 31 January 2020. All major decisions are made in consultation with the Board members and the senior management of the Company. There are three Independent Non-Executive Directors in the Board. The Board considers that there is sufficient balance of power and safeguards in place, and the current arrangement would not impair the balance of power of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the year ended 31 December 2019.

BOARD OF DIRECTORS

As at 31 December 2019, the Board comprised two Executive Directors, two Non-Executive Directors and three Independent Non- Executive Directors.

The composition of the Board's members during the year ended 31 December 2019 and up to the date of this report is as follows:

Executive Directors

Mr. Liu Yang *(Chairman of the Board and Chief Executive Officer)* (appointed on 31 January 2020)
Mr. Zhou Quan (appointed on 2 May 2019)
Mr. Zhao Yun (appointed on 2 May 2019 as Non-Executive Director and re-designated to Executive Director on 25 March 2020)
Mr. Qiu Bin (resigned on 5 February 2020)
Ms. Cheng Kit Sum, Clara (resigned on 11 November 2019)

Non-Executive Directors

Mr. Huang Shuanggang (appointed on 25 March 2020)
Mr. Mu Hao (appointed on 3 April 2019 and resigned on 25 March 2020)
Mr. Chiu Hau Shun, Simon (resigned on 22 March 2019)
Ms. Tang Lai Shan, Jo Jo (resigned on 22 March 2019)
Mr. Chen Zhong Min (resigned on 1 January 2019)

CORPORATE GOVERNANCE REPORT

Independent Non-Executive Directors
Mr. Fung Tze Wa
Mr. An Dong (appointed on 11 November 2019)
Ms. Fang Fang (appointed on 3 April 2019)
Dr. Huan Guocang (resigned on 11 November 2019)
Mr. Lo Ka Wai (resigned on 11 November 2019)

During the year ended 31 December 2019, sixteen Board meetings were held. Details of the Directors' attendance records were as follows:

Name	Meetings attended/ Eligible to attend
Executive Directors	
Mr. Liu Yang (appointed on 31 January 2020)	0/0
Mr. Zhou Quan (appointed on 2 May 2019)	11/11
Mr. Zhao Yun (appointed on 2 May 2019 as Non-executive Director, re-designated from Non-executive director to Executive Director on 25 March 2020)	8/8
Mr. Qiu Bin (resigned on 5 February 2020)	16/16
Ms. Cheng Kit Sum, Clara (resigned on 11 November 2019)	16/16
Non-executive Directors	
Mr. Huang Shuanggang (appointed on 25 March 2020)	0/0
Mr. Chiu Hau Shun, Simon (resigned on 22 March 2019)	1/2
Ms. Tang Lai Shan, Jo Jo (resigned on 22 March 2019)	1/2
Mr. Mu Hao (appointed on 3 April 2019 and resigned on 25 March 2020)	9/9
Mr. Chen Zhong Min (resigned on 1 January 2019)	0/0
Independent Non-executive Directors	
Mr. Fung Tze Wa	13/13
Dr. Huan Guocang (resigned on 11 November 2019)	12/13
Mr. Lo Ka Wai (resigned on 11 November 2019)	12/13
Ms. Fang Fang (appointed on 3 April 2019)	9/9
Mr. An Dong (appointed on 11 November 2019)	0/0

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, one general meeting was held. Details of the Directors' attendance records were as follows:

Name	Meetings attended/ Eligible to attend
Executive Directors	
Mr. Liu Yang (appointed on 31 January 2020)	0/0
Mr. Zhou Quan (appointed on 2 May 2019)	1/1
Mr. Zhao Yun (appointed on 2 May 2019 as Non-executive Director and re-designated to Executive Director on 25 March 2020)	1/1
Mr. Qiu Bin (resigned 5 February 2020)	1/1
Ms. Cheng Kit Sum, Clara (resigned on 11 November 2019)	1/1
Non-executive Directors	
Mr. Huang Shuanggang (appointed on 25 March 2020)	0/0
Mr. Mu Hao (appointed on 3 April 2019, resigned on 25 March 2020)	1/1
Mr. Chiu Hau Shun, Simon (resigned on 22 March 2019)	0/0
Ms. Tang Lai Shan, Jo Jo (resigned on 22 March 2019)	0/0
Mr. Chen Zhong Min (resigned on 1 January 2019)	0/0
Independent Non-executive Directors	
Mr. Fung Tze Wa	1/1
Mr. An Dong (appointed on 11 November 2019)	0/0
Ms. Fang Fang (appointed on 3 April 2019)	1/1
Dr. Huan Guocang (resigned on 11 November 2019)	0/1
Mr. Lo Ka Wai (resigned on 11 November 2019)	1/1

The Board is responsible for formulation of the Group's strategies and policies, approval of annual budget and business plan, and supervising the management of day-to-day operation of the Group to ensure the business objectives are met. In addition, the Board has also delegated various responsibilities to the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Further details of these committees are set out in this report.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Board has reserved for its decisions all major matters of the Group including:

1. discussion on the Group's strategies and future development;
2. review of the term of appointment of Directors;
3. discussion on and approval of the financial results of the Group and the recommendation of any dividend;
4. approval of the appointment and resignation of Directors;
5. approval of the change of senior management;
6. approval of the change of company secretary and authorized representative;
7. review of the interim results of the Group for the six months ended 30 June 2019;
8. review of internal control system and risk management of the Group;
9. approval of the borrowing of term loans and renewal of the borrowings;
10. Change of address of the principal place of business in Hong Kong;
11. Change of address of principal share registrar and transfer office in Bermuda; and
12. matters as required by laws and ordinance.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged at the expenses of the Company whenever necessary.

The Directors are committed to complying with the Code provision A.6.5 on Directors' training. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided their training records for the financial year ended 31 December 2019 to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has not adopted A.2.1 of the Code by appointing separate individual to take up the roles of the chairman and chief executive officer. In the absence of a chairman, the executive Director will be responsible for the management of the Board and ensure good corporate governance practices will be implemented.

The Non-Executive Directors (including independent Non-Executive Directors) are appointed for a specific term subject to retirement by rotation and re-election as required by the bye-law of the Company (the "Bye-Law").

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with specific written terms of reference which deals clearly with its authority and duties. The principal duties of the Remuneration Committee include:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management;

2. to determine the specific remuneration packages of all Executive Directors and senior management and make recommendations to the Board of the remuneration of Non-Executive Directors;

3. to review and approve performance-based remuneration from time to time;

4. to review and approve the compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and

5. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Currently, the members of the Remuneration Committee are Ms, Fang Fang (Chairman), Mr. Fung Tze Wa and Mr. An Dong. During the year ended 31 December 2019, the Remuneration Committee held three meetings. The attendance of individual members was set out in the following table.

Name	Meetings attended/ Eligible to attend
Ms. Fang Fang (appointed on 3 April 2019)	2/2
Mr. Fung Tze Wa	3/3
Dr. Huan Guocang (resigned on 11 November 2019)	2/3
Mr. Lo Ka Wai (resigned on 11 November 2019)	2/3
Mr. An Dong (appointed on 11 November 2019	0/0

NOMINATION COMMITTEE

The Nomination Committee was established with specific written terms of reference which deals clearly with its authority and duties. The principal duties of the Nomination Committee include:

1. to review the structure, size and composition of the Board and make recommendations for changes as necessary, 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, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the CEO. The Nomination Committee should meet at least once a year and when the need arises.

2. to identify, recruit and evaluate new nominees to the Board and assess the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

CORPORATE GOVERNANCE REPORT

The Board has adopted a Board Diversity Policy (the "Policy") to comply with the Code Provision on board diversity. The Policy aims to set out the approach to achieve diversity in the Board to ensure that the Board has the balance of skills, experience and diversity of perspectives, including but not limited to gender, age, cultural and educational background, professional experience, knowledge and skills. In identifying suitable candidates, the Nomination Committee will consider candidates on merit and against the objective criteria with due regard for the benefits of diversity on the Board.

The Nomination Committee currently consists of three Directors namely Mr. Liu Yang (Chairman), Ms. Fang Fang and Mr. Fung Tze Wa. During the year ended 31 December 2019, the Nomination Committee held three meetings. The attendance of individual members was set out in the following table.

Name	Meetings attended/ Eligible to attend
Mr. Liu Yang (appointed on 31 January 2020)	0/0
Ms. Fang Fang (appointed on 3 April 2019)	2/2
Dr. Huan Guocang (resigned on 11 November 2019)	2/3
Mr. Fung Tze Wa	3/3
Mr. Lo Ka Wai (resigned on 11 November 2019)	2/3
Mr. An Dong *(former chairman of nomination committee)* (appointed on 11 November 2019)	0/0

During the meetings, the Nomination Committee reviewed the composition of the Board member.

AUDIT COMMITTEE

The Company has established the Audit Committee with specific written terms of reference which deals clearly with its authority and duties. The principal duties of the Audit Committee include:

1. to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and review and monitor their independence and objectivity as well as the effectiveness of the audit process;

2. to approve the remuneration and terms of engagement of external auditors, maintain appropriate relationship between the Group and the external auditors and develop policy on the engagement of the external auditors to supply non-audit services;

3. to ensure the integrity of the interim and annual consolidated financial statements and any significant financial reporting judgments contained in them; and review the external auditors' work, including management letter and management's response; and

4. to review the Company's internal control and risk management systems.

Currently, the members of the Audit Committee are Mr. Fung Tze Wa (Chairman), Ms. Fang Fang and Mr. Huang Shuanggang. During the year ended 31 December 2019, the Audit Committee held two meetings and the attendance of individual members was set out in the following table.

Name	Meetings attended/ Eligible to attend
Mr. Fung Tze Wa	2/2
Ms. Fang Fang	1/1
Mr. Lo Ka Wai (resigned on 11 November 2019)	2/2
Dr. Huan Guocang (resigned on 11 November 2019)	2/2
Mr. An Dong (appointed on 11 November 2019, resigned as Audit Committee member on 25 March 2020)	0/0
Mr. Huang Shuanggang (appointed on 25 March 2020)	0/0

During the year ended 31 December 2019, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors.

COMPANY SECRETARY

Ms. Chan Mei Wa, aged 37, joined the Group in March 2020 and was appointed as the Company Secretary of the Group on 9 March 2020. Ms. Chan holds a Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology. Ms. Chan had served as the deputy financial controller of China Asset Management (Hong Kong) Limited from 2015 to 2019 and a senior associate of JPMorgan Chase from 2011 to 2015. Before that, Ms. Chan had worked for the assurance division at Ernst Young. Ms. Chan has over ten years of accounting and auditing experience in the financial services industry, and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. Hung Yuk Miu, aged 39, who resigned as the Company Secretary of the Group on 9 March 2020, joined the Group in July 2019 and was appointed as the Company Secretary in August 2019. Mr. Hung is a full-time employee of the Company and reports to the Board of the Company on corporate governance issues. Before joining the Group, Mr. Hung was the executive Director, chief financial officer and company secretary of ST International Holdings Company Limited, a company listed on the Stock Exchange. He is currently the non-executive Director of ST International Holdings Company Limited. Mr. Hung is a certified practising accountant of the Certified Practising Accountant of CPA Australia Ltd. and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. Hung confirmed that he had taken no less than 15 hours of relevant professional training for the year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the remunerations payable to the auditor of the Company, BDO Limited, are set out as follows:

Name	Services rendered Fee payable HK$'000
Audit services	1,300
Non-audit services	530

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is directly responsible for internal control of the Group and for reviewing its effectiveness. The Board conducts a review on the internal control system of the Group on an annual basis and has the responsibility to maintain an effective internal control system. The Board also reviews and monitors the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

The Group's internal control system is comprised of a system of controlled management wherein various authoritative limits are placed to ensure that the Group is able to supervise, control and assess various functions within Group. The system further permits the Group to safeguard its accounting records to minimize material errors in order to provide as accurate as possible financial information.

During the year under review, the Company engaged an external independent consultant to conduct a review on the internal control system of the Group in order to maintain high standards of corporate governance. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. Based on the above, the Board is of the view that the Company has established a proper internal control system which is effective and adequate.

The Company have formulated an inside information policy providing guideline on handling inside information. The Company regularly reminds the Directors and employees about compliance with all policies adopted by the Company regarding inside information including the Model Code set out in Appendix 10 of the Listing Rules in relation to dealings in securities of the Company.

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The statement of the auditor of the Company, BDO Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the independent auditor's report on pages 47 to 51 of this annual report. Saved as disclosed in the independent auditor's report under the heading "Material Uncertainty Related to Going Concern", the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern as at 31 December 2019.

The Directors wish to make the following statement with regard to the Material Uncertainty Related to Going Concern in the independent auditor's report:

The Group had incurred losses after tax of approximately HK$77 million (2018: losses after tax of approximately HK$82 million) and net operating cash outflows of approximately HK$33 million (2018: net operating cash outflows of approximately HK$14 million) for the year ended 31 December 2019, and as at 31 December 2019, the Group had net current liabilities and net liabilities of approximately HK$69 million (31 December 2018: net current assets of approximately HK$5 million) and HK$63 million (31 December 2018: net assets of approximately HK$15 million), respectively. As at 31 December 2019, the Group's liabilities included borrowings with principal amount of approximately HK$100 million (2018: HK$80 million) from a wholly-owned subsidiary of the Company's substantial shareholder, Yuanyin Holdings Limited, which will be due in October 2020. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above conditions, the financial statements were prepared based on the assumption that the Group can be operated as a going concern after taking into consideration of the following plans and measures:

- Subsequent to 31 December 2019, the Company had entered into supplementary agreement with a wholly-owned subsidiary of its substantial shareholder, Yuanyin Holdings Limited, to extend the repayment date of the existing borrowing with principal amount of approximately HK$100 million as at 31 December 2019 (as disclosed in note 26) to at least twelve months from the date of reporting;

- The substantial shareholder, Yuanyin Holdings Limited, has agreed to provide sufficient working capital to satisfy the Group's working capital and other financing requirement through continual renewal of borrowings or continual provision of additional financing to the Group; and

- The Group is in the process of soliciting potential new customers and shall continue to apply various measures to tighten its operating expenditures in order to improve its financial performance and cash flows.

The Directors are of the view that the Group and the Company will be able to continue as going concern and that the financial statements have been prepared on that basis.

NEW DETAILS OF THE QUALIFIED OPINION

As disclosed in the annual report of the Company for the year ended 31 December 2018, the auditor of the Company has issued a qualified opinion on the Group's share of loss in an associate named Xinhua (Daqing) Merchandise Exchange Company Limited ("XHME") and the loss on disposal of a subsidiary, Joinbo Holdings Limited ("JHL"), which indirectly owned the equity interest in XHME (the "2018 Qualified Opinion"). As advised by the auditor, the qualification was because the auditor was unable to obtain relevant financial and other information of the investee company of XHME (the "Investee Company") to assess the carrying amount of XHME's investment in the Investee Company prior to the disposal of JHL by the Group. In addition, there were insufficient audit evidence relating to the impairment review of the Group's interest in associate as of 31 December 2017 and the auditor was unable to obtain relevant financial and other information of the Investee Company during their course of auditing the Company's consolidated financial statements for the year ended 31 December 2017. The limitations leading to the qualified opinion on the Company's consolidated financial statements for the year ended 31 December 2017 as set out in the auditor's report dated 21 March 2018 remained unresolved during the audit of the Group's consolidated financial statements for the year ended 31 December 2018. As such, the auditor was unable to determine whether (a) the Group's share of associate's loss of HK$1,723,000; and (b) the loss on disposal of subsidiaries of HK$2,919,000 for the year ended 31 December 2018, were fairly stated.

CORPORATE GOVERNANCE REPORT

The limitations leading to the 2018 Qualified Opinion remained unresolved during the audit of the Group's consolidated financial statements for the year ended 31 December 2019. The audit opinion of the auditor on the Group's consolidated financial statements for the year ended 31 December 2019 (the "2019 Qualified Opinion") is also qualified because of the possible effect of this matter on the comparability of the related 2019 figures and the 2018 figures in the consolidated financial statements for the year ended 31 December 2019. However, the Company is of the view that the consequential impact remains insignificant as the items subject to the 2018 Qualified Opinion and the 2019 Qualified Opinion, namely, the Group's share of associate's loss of HK$1,723,000 and the loss on disposal of subsidiaries of HK$2,919,000, only accounted for approximately 2.1% and 3.5% of the total operating expenses (being the aggregate of staff costs, depreciation, finance costs and other expenses which amounted to HK$83,365,000) for the year ended 31 December 2018, respectively. Save for such effects on the comparative figures, there was no consequential impact on the Group's consolidated financial statements for the year ended 31 December 2019 as a result of the 2019 Qualified Opinion.

The Company has discussed with the auditor on the 2019 Qualified Opinion prior to the publication of this annual report. The Board's view is consistent with that of the auditor, and the Board has accepted the 2019 Qualified Opinion. Since the Company had subsequently disposed of the entire issued share capital of JHL on 28 June 2018, the Company no longer held any interest in XHME, and XHME ceased to be recognised as an associate in the consolidated financial statements of the Company since 28 June 2018. Therefore, the Company's ability to resolve the issues leading to the 2018 Qualified Opinion and the 2019 Qualified Opinion is rather limited. In particular, it is unable to obtain the relevant financial and other information of the Investee Company or undertake any other remedial actions. The Audit Committee has reviewed and agreed with the Board's position and views on the 2019 Qualified Opinion based on the afore-mentioned reasons.

Under prevailing auditing standards, when the auditor's report on the prior period, as previously expressed, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification. When the auditor's opinion on the prior period, as previously expressed, was modified, the unresolved matter that gave rise to the modification may not be relevant to the current period figures, but a qualified opinion, a disclaimer of opinion, or an adverse opinion (as applicable) may be required on the current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current and corresponding figures. Therefore, a qualified opinion is not expected to be issued for the next financial year (i.e. the financial year ending 31 December 2020) in connection with the above-mentioned issue because the 2018 comparative figures will no longer be presented for the next financial year.

In view of the above and after discussion with the auditor, the Company expects that the 2019 Qualified Opinion would be removed in the next financial year. Nevertheless, the management, the Board and the Audit Committee would work closely together and would keep monitoring the situation.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board is committed to providing clear and full performance information of the Group to Shareholders through the publication of interim and annual reports. In additional to dispatching circulars, notices, financial reports to Shareholders, addition information is also available to Shareholders from the Group's website. Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The chairman and Directors are available to answer question on the Group's business at the meeting.

Pursuant to the Bye-laws, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general 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 a special general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition.

Pursuant to rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, all the resolutions put to vote at the annual general meeting will be taken by way of poll. The chairman of the annual general meeting will explain the detailed procedure for conducting a poll at the commencement of the annual general meeting.

Shareholders who have enquiries to put to the Board may write to the company secretary of the Company at the principal place of business in Hong Kong at 26/F, No. 238 Des Voeux Road Central, Sheung Wan, Hong Kong. The Company will not normally deal with verbal or anonymous enquiries. For the avoidance of doubt, the Shareholder(s) must provide their full name, contact details and identification in order that the Company can give them a reply.

The Group values feedback from Shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

CONSTITUTIONAL DOCUMENTS OF THE COMPANY

During the year ended 31 December 2019, the Company has not made any changes to the Bye-laws. An updated version of the Bye-laws is available on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

This Environmental, Social and Governance Report (the "ESG Report") summarises the environmental, social and governance ("ESG") initiatives, plans and performances of Sheng Yuan Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "we"), and demonstrates our commitment to sustainable development.

The Group believes sustainability is a key to achieve continuous success, therefore we have integrated this key concept into our business strategy. In order to pursue a successful and sustainable business model, the Group recognises the importance of integrating ESG aspects into our risk management system. We adhere to the ESG management direction in accordance with the concept of sustainable development, and are committed to progressing effectively and responsibly against ESG affairs.

The ESG Governance Structure

The Group has established the ESG taskforce (the "Taskforce"). The Taskforce comprises core members from different departments of the Group and is responsible for collecting relevant information on ESG aspects for the preparation of the ESG Report. The Taskforce reports to the Board of Directors (the "Board") on a regular basis, assists in identifying and assessing the Group's ESG risks, and assesses the effectiveness of the Group's internal control mechanism. The Taskforce also examines and evaluates the performance in different aspects such as environment, labour standards, and product responsibility in the ESG perspectives. The Board sets the general direction of the Group's ESG strategy and ensures the effectiveness of ESG risk management and internal control mechanism.

REPORTING SCOPE

This ESG Report generally covers the Group's business and operational activities in Hong Kong, including the securities brokerage and financial services segment, as well as the asset management services segment, which represent the Group's major sources of revenue. The Group will continue to access the major ESG aspects of different businesses and extend the scope of disclosures when and where applicable.

REPORTING FRAMEWORK

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

Information relating to the Group's corporate governance practices has been set out in the Corporate Governance Report on pages 11 to 21 of this Annual Report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2019 (the "Reporting Period" or "2019").

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback in regards to our businesses and ESG aspects. With the goal to strengthen the sustainability approach and performance of the Group, we put effort in maintaining close communication with our key stakeholders, including but not limited to shareholders and investors, customers, employees, suppliers, government and regulatory bodies, the community, non-governmental organisations ("NGOs") and media. We take stakeholders' expectations into consideration in formulating our businesses and ESG strategies by utilising diversified engagement methods and communication channels, which are shown as below.

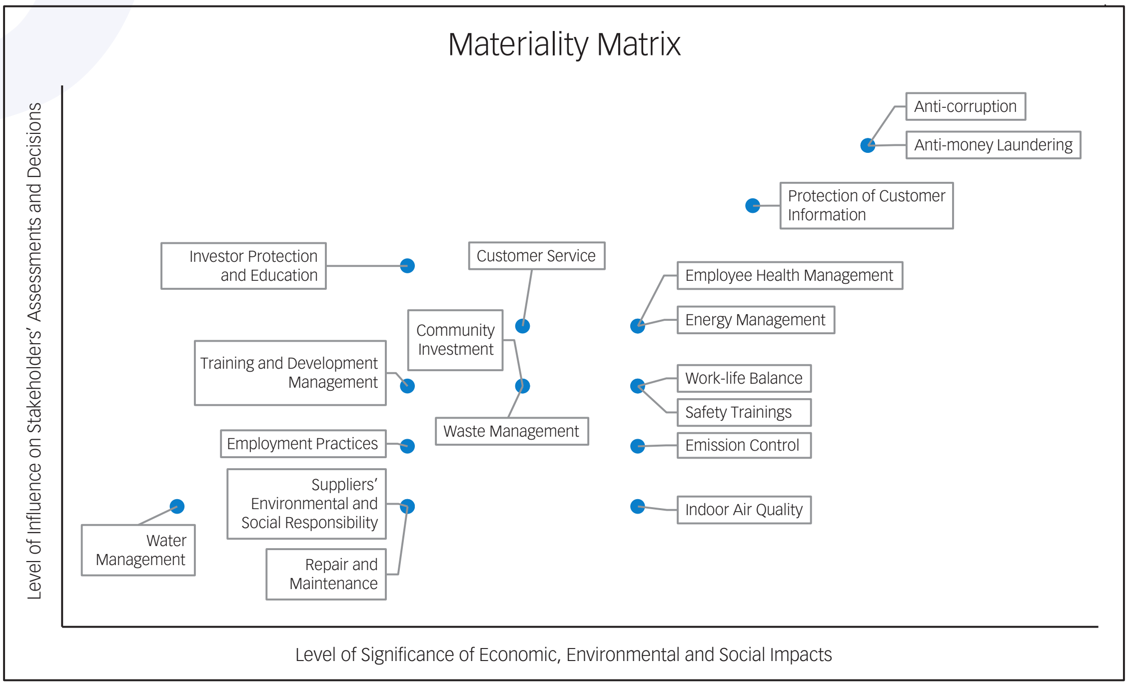
Stakeholders	Expectations and concerns	Communication channels
Shareholders and investors	• Complying with relevant laws and regulations • Disclosing latest information of the corporate in due course • Financial results • Corporate sustainability	• Annual general meeting and other shareholder meetings • Financial reports • Investor meetings • Press releases
Customers	• Product and service responsibility • Customer information and privacy protection	• Emails and customer service hotline • Meetings • Website • Financial reports
Employees	• Health and safety • Equal opportunities • Remuneration and benefits • Career development	• Trainings, seminars, and briefing sessions • Conferences • Emails
Suppliers	• Fair competition • Business ethics and reputation • Cooperation with mutual benefits	• Supplier assessment exercise • Business cooperation
Government and regulatory bodies	• Business ethics • Complying with relevant laws and regulations	• Consultations • Meetings • Emails and website
Community, NGOs and media	• Giving back to society • Environmental protection • Compliant operations	• Public or community events • Community investment programs • ESG reports

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

The Group's management and staff in major functions are involved in the preparation of the ESG Report to assist the Group in reviewing its operations, identifying relevant ESG issues, and assessing the importance of those relevant matters to our business and stakeholders. We have compiled a survey in accordance with the identified material ESG issues to collect information from relevant departments, business units and stakeholders of the Group. The following matrix is a summary of the Group's material ESG issues.



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

CONTACT US

We welcome stakeholders to provide their opinions and suggestions. You are welcome to provide valuable feedback on the ESG Report or our sustainability performance by email at enquiries@shengyuan.hk.

A. ENVIRONMENTAL

A1. Emissions

The Group strives to protect the environment through the implementation of control activities and monitoring measures in our business activities and workplace. We are committed to promoting a green environment by introducing environmentally friendly business practices, educating our employees to raise their awareness on environmental protection and complying with the relevant environmental laws and regulations.

In order to enhance our environmental governance practice and mitigate the environmental impacts brought by the Group's operations, we have adopted and implemented relevant environmental policies and have communicated such policies to our employees. These policies apply the waste management principles of "Reduce, Reuse, Recycle and Replace" as well as emission mitigation principle, with an objective of minimising adverse environmental impacts. These policies also ensure the waste disposed or emission generated is managed in an environmentally responsible manner. Within our policy framework, we continually look for different opportunities to pursue environmentally friendly initiatives and enhance our environmental performance by reducing energy and use of other resources.

During the Reporting Period, the Group was not aware of any material non-compliance with environmental related laws and regulations in relation to exhaust gas and greenhouse gas ("GHG") emissions, water and land discharge, and the generation of hazardous and non-hazardous waste that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Waste Disposal Ordinance, the Air Pollution Control Ordinance, and the Water Pollution Control Ordinance of Hong Kong.

Emission Control

Exhaust Gas Emissions

Due to our business nature, the Group considers the relevant air emissions generated as not significant.

GHG Emissions

The major sources of the Group's GHG emissions are generated from petrol consumed by vehicles (Scope 1) and purchased electricity (Scope 2). We have adopted the following measures to reduce GHG emissions during operation:

- Arrange regular examination for business vehicles on exhaust gas emissions;
- Encourage our staff to utilise teleconferences and video conferences in order to reduce air and carbon emissions related to transportation needed for meetings;
- Conduct vehicle and equipment maintenance on a regular basis to prevent inefficient fuel consumption or abnormal operations;
- Actively adopt environmental protection, energy conservation, and water conservation measures. Corresponding measures will be described in the sections "Energy Management" and "Water Management" under Aspect A2; and
- Actively adopt paper saving measures in office. Corresponding measures will be described in the section "Waste Management" under this Aspect.

Through the implementation of the above measures, the Group's total GHG emissions has decreased by about 10% from approximately 140.93 tCO_2e in 2018 to approximately 127.46 tCO_2e in 2019. The Group's GHG emissions performances were as follows:

Indicator[1]	Unit	Emissions 2019	2018
Direct GHG emissions (Scope 1)	tCO_2e	**17.52**	21.43
Indirect GHG emissions (Scope 2)	tCO_2e	**109.94**	119.50
Total GHG emissions (Scope 1 and 2)	tCO_2e	**127.46**	140.93
Total GHG emissions intensity[2]	tCO_2e/employee	**3.75**	2.71

Note:

1. GHG emission data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report? — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5), and Hong Kong Electric Investments Sustainability Report 2018.

2. As at 31 December 2019, the Group had a total of 34 full-time employees; while as at 31 December 2018, the Group had a total of 52 full-time employees. The data is also used for calculating other intensity data.

Sewage Discharge

The Group does not consume significant volume of water in our daily operation, therefore our business activities did not generate material portion of discharge into water. The majority of the water supply and discharge facilities are provided and managed by the property management company. The data on water consumption will be described in the section "Water Management" under Aspect A2.

Waste Management

Hazardous wastes

Due to the business nature, we did not generate significant amount of hazardous wastes during the Reporting Period. Despite the Group did not generate hazardous wastes, the Group has established guidelines of governing the management and disposal of hazardous wastes. In case if there are any hazardous wastes produced, the Group is required to engage a qualified chemical waste collector to handle such wastes, and comply with relevant environmental regulations and rules.

Non-hazardous wastes

The non-hazardous wastes generated by the Group is mainly paper. With the aim of minimising the environmental impacts from non-hazardous wastes generated from our business operations, the Group upholds the principles of "Reduce, Reuse, Recycle and Replace", and has developed relevant waste reduction policies and guidelines. Our staff and the assigned administrative staff collectively take the responsibilities for waste management in our offices, and have conducted measures such as:

- Organise, maintain and clean the garbage and waste recycling areas;
- Sort recycled wastes into appropriate containers;
- Place appropriate signages on walls and bins, indicating the types of waste to be recycled; and

- Ensure that no garbage is placed on building colonnade areas.

The procurement and disposal of office stationery serve as another focus of our efforts in operating sustainably. The office stationery has a great hidden environmental and social impact across its product lifespan, and the impacts arise from its production to eventual disposal. To minimise such impacts, we have launched the following measures:

- Maximise every stationery lifespan (such as plastic binding ring, paper clip, etc.) by searching opportunities to reuse and refurbish them whenever feasible;

- Purchase reusable stationery whenever possible, such as refillable rollerball pens and correction tapes;

- Avoid single-use disposable items; and

- Use rechargeable batteries where applicable.

At the same time, the Group has adopted the following practices to reduce paper waste at source in order to reduce paper consumption:

- Minimise paper usage at our workplace by recycling used papers regularly and use double-sided printing;

- Encourage our staff to utilise electronic directories, forms, reports and storage when possible;

- Recycle and reuse papers, carton boxes, envelopes and folders; and

- Explore the opportunity of using Forest Stewardship Council certified paper.

With the aim of minimising the environmental impact resulted from the generation of non-hazardous wastes from our business operation, we had recycled approximately 843 kg of paper during the Reporting Period, for which it is equivalent to around 4.04 tCO_2e of GHG emissions reduction. Meanwhile, the Group's total non-hazardous wastes has decreased by about 13% from approximately 0.8 tonnes in 2018 to approximately 0.7 tonnes in 2019. The Group's non-hazardous wastes discharge performances were as follows:

Non-hazardous waste category	Unit	Discharge 2019	Discharge 2018
Paper[3, 4]	tonnes	**0.7**	0.8
Total non-hazardous wastes intensity	tonnes/employee	**0.02**	0.02

Note:

3. Recycled paper has been deducted.

4. Actual paper consumption was approximate to 159,330 pages in 2019 and approximate to 183,976 pages in 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2. Use of Resources

The Group is committed to optimising the use of resources in our business operations. Therefore, we have taken initiatives to introduce resource efficiency and eco-friendly measures to the Group's operations on a continuous basis.

The Group has established relevant policies and procedures in governing the efficient use of resources, including petrol, electricity and office consumables, in accordance with the objectives of achieving higher energy efficiency and reducing the unnecessary use of materials.

Energy Management

The Group aims to minimise the environmental impacts resulted from our operations by identifying and adopting appropriate measures. Energy policies, measures, and practices have been developed to show our commitment on energy efficiency. All employees are required to adopt such measures and practices, including the purchase of energy-efficient products, and assume responsibility for the Group's overall energy efficiency.

The energy consumption of the Group was mainly contributed by the electricity consumed in operation and petrol consumed by vehicles. The Group has introduced various measures and initiatives to achieve the goal of energy saving and efficient consumption. Such measures and initiatives include but not limited to:

- Adopt lighting control based on actual needs;
- Replace energy-inefficient light bulbs to energy efficient LED lightings by phases;
- Utilise higher energy-efficiency office equipment in workplace;
- Place reminders and posters next to power switches and power buttons to encourage our staff to take initiatives in energy saving;
- Encourage employees to turn off idling equipment, computers and lightings when not in use or after working hours;
- Monitor the energy usage on a monthly basis, along with investigating significant variance noted;
- Utilise natural lightings where possible; and
- Adopt power-saving features for office equipment and computers.

Apart from the above measures, the Group has also supported the Energy Saving Charter 2019 organised by the Environmental Bureau and Earth Hour organised by WWF during the Reporting Period. We have also promoted environmental protection messages and green tips to our staff through message board, staff newsletters and emails regularly.

Through the implementation of the above initiatives and participation in energy saving programs, the Group's total energy consumption has decreased by about 12% from approximately 229.14 MWh in 2018 to approximately 201.09 MWh in 2019. The Group's energy consumption performances were as follows:

Energy type	Unit	Consumption 2019	2018
Electricity	MWh	**137.42**	151.27
Petrol[5]	MWh	**63.67**	77.87
Total energy consumption	MWh	**201.09**	229.14
Total energy consumption intensity	MWh/employee	**5.91**	4.41

Note:

5. Actual petrol consumption was approximate to 6,588.27 litres in 2019 and approximate to 8,057.98 litres in 2018.

Water Management

The Group's water use was mainly domestic water in office areas. We have educated and encouraged all employees to develop the habit of water conservation. We have been strengthening our water-saving promotion, posting water saving reminders, and guiding employees to use water reasonably. The following are some measures we have implemented to improve the utilisation efficiency of water resources:

- Fix dripping taps promptly to avoid water leakage and wastage; and
- Strengthen the inspection and maintenance on water tap, water pipelines and water storage.

In addition to the above measures, the Group has also posted green messages and water conservation labels to remind staff to avoid unnecessary water consumption. The Group's water consumption performances were as follows:

Indicator	Unit	Consumption 2019	2018
Freshwater	m^3	**3.00**	N/A
Freshwater consumption intensity	m^3/employee	**0.09**	N/A

Apart from domestic water consumed in office areas, the Group has also consumed distilled water for drinking purposes. During the Reporting Period, we have consumed 6.39 tonnes (2018: 8.75 tonnes) of drinking water.

In view of our operating locations, the Group does not encounter any significant issue in sourcing water that is fit for purpose.

Use of Packaging Material

Due to the Group's business nature, we do not consume significant amount of packaging materials for product packaging as we have no industrial production or any factory facilities.

A3. The Environment and Natural Resources

Although the core business of the Group has remote impact on the environment and natural resources, we recognise the responsibility in minimising the negative environmental impacts of our business operations in order to achieve sustainable development for generating long-term values to our stakeholders and the community as a whole. We regularly assess the environmental risks of our businesses, and adopt preventive measures as necessary to reduce the risks and ensure the compliance of relevant laws and regulations.

Indoor Air Quality

Indoor air quality in our workplace is regularly monitored and measured. We maintain indoor air quality by installing air purification equipment in workplace and cleaning air-conditioning systems regularly to filter pollutants and dust. Green plants are also placed in offices to improve the overall air quality.

Repair and Maintenance

From time to time, our offices may undergo repair and maintenance work. To lessen the disturbance of these activities to our staff and customers, we request our suppliers to use materials or equipment with less emissions and noises when conducting such repair and maintenance work.

B. SOCIAL

B1. Employment

Human resources are the foundation in supporting the development of the Group. The Group treasures employee's talent, and recognises it as the most valuable asset of the Group. We have formulated the Human Resources Management Policy to fulfil our vision on people-oriented management. The captioned policy is formally documented in the Staff Handbook, covering resource planning, recruitment, transfer and promotion, remuneration and benefits, performance evaluations, trainings, etc. We review and update the relevant policies regularly in accordance with the latest laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with employment-related laws and regulations that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Employment Ordinance of Hong Kong.

Employment Practices

Recruitment, Promotion and Dismissal

The Group hires employees through a robust and transparent recruitment process, and we recruit employees based on merit selection in accordance with the standard of "having both ability and integrity", regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The Group offers promotion and development opportunities for outperforming employees through an open and fair assessment system. Employees are subjected to review regularly, and the Group has established objective performance indicators for annual performance evaluation. In facilitating an effective two-way communication, every supervisor has to discuss the work performance with their subordinates regularly. Based on employees' assessment result, we offer career development opportunities in encouraging their continuous improvement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Besides the Group does not tolerate the dismissal of employees under any unreasonable basis. Any termination of employment contract would be based on reasonable, lawful grounds and internal policies. The Group strictly prohibits any kind of unfair or unreasonable dismissals.

Remuneration and Benefits

The Group has established a fair, reasonable and competitive remuneration system to employees. Employees of the Group are remunerated according to their performance and experience. Remuneration packages include holidays, annual leave, medical scheme, dental scheme, group insurance, mandatory provident fund, year-end double pay and discretionary bonus. The Group reviews the remuneration packages annually to ensure it is up-to-date and competitive enough to attract and retain talents.

Communication Channels

To understand the work satisfaction of our employees, we have established various channels to communicate with them, including briefing sessions for new joiners, mailbox for recommendation, and employee satisfaction survey. Survey forms are distributed on a semi-annual basis to collect employees' opinions on work responsibility, working environment, organisation and employee relationship, compensation and benefits, etc. The management reviews the result of the survey and implements corresponding improvement actions.

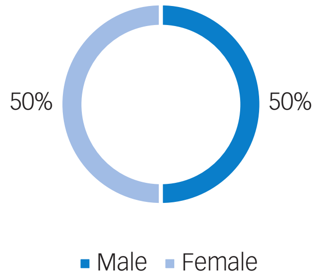
Diversity, Equal Opportunity and Anti-discrimination

We are committed to creating and maintaining an inclusive and collaborative workplace culture in which all can thrive. The Group has Staff Handbook outlining the terms and conditions of employment, expectation for employees' conducts and behaviours as well as employees' rights and benefits. The Group has also established and implemented policies in promoting a harmonious and respectful workplace. We are dedicated to providing equal opportunities in all aspects of employment and maintaining workplace that are free from any forms of discrimination and harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation.

The Group also has zero tolerance in any forms of sexual harassment or abuse at workplace. Any employee who is intimidated, humiliated, bullied or harassed (including sexual harassment) may report to the employee's representative, or file complaints directly to the management representative or the general manager, and we will take serious approaches to resolve these issues upon receiving the said complaints.

As at 31 December 2019, the Group had a total of 34 employees. The following table shows employees' gender diversity of the Group.

Employees' Gender Diversity



Work-life Balance

We value the importance of maintaining a healthy lifestyle and work-life balance of our employees. The Group actively engages employees through social and employee bonding, outing, volunteer works and charity activities. During the Reporting Period, we had organised work-life balancing activities, for example, birthday celebrations and festival celebrations for employees.

B2. Health and Safety

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. To maintain a safe working environment, the Group has established safety policies on the prevention and remediation of safety accidents, and detection on potential safety hazards in workplace. The Group follows the occupational health and safety guidelines recommended by the Labour Department and Occupational Safety and Health Council, and the Human Resources and Administration Department also takes responsibilities for offices' occupational health and safety and relevant promotions and monitoring.

During the Reporting Period, the Group was not aware of any material non-compliance with health and safety-related laws and regulations that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Occupational Safety and Health Ordinance of Hong Kong.

Safety Trainings

The Group offers a diversity of training courses to employees, and employees are required to attend the trainings organised by the Group in relation to occupational safety. We have also established emergency and evacuation procedures to respond to any major safety accidents in a timely and orderly manner. Employees are also free to provide feedbacks on improving the workplace safety.

Employee Health Management

The Group offers comprehensive health care coverage for our employees, including medical benefits and dental benefits. The Group has also continued to organise work-life balancing activities for employees and carry out other activities to promote healthy living practices. We also convey information relating to health and safety to employees in order to raise their awareness on occupational health and safety.

B3. Development and Training

The Group regards our staff as the most important asset and resource. We recognise the valuable contribution our talents made to the continuing success of the Group. We are committed to inspiring our human capital towards delivering excellence and strive to create an intellectually-stimulating environment within which employees do not only develop basic skills and knowledge but also specific talent and ability.

Training and Development Management

The Group provides regular training courses and a variety of development programs, and has developed relevant training policies and procedures to enhance the effectiveness of such training programs. Respective management are responsible to develop training plans based on the requirements of different departments and employees. They are also responsible to examine the effectiveness of training programs and provide improvement plans.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group regularly organises workshops, seminars, and training programs for employees, and aims to improve their level of skills and knowledge while maximising their potentials. In addition, employees are encouraged to enrol in external training opportunities and job-related courses to enrich themselves through acquiring higher professional skills and qualifications. Employees are also granted trainings for acquiring the related licenses such as license of the Securities and Futures Commission ("SFC").

During the Reporting Period, we have organised both internal and external training courses for employees. Such training courses cover topics including but not limited to industrial updates, compliance matters, occupational health and safety, etc.

B4. Labour Standards

Prevention of Child and Forced Labour

Child and forced labour are strictly prohibited during the recruitment process as defined by laws and regulations. The Group strictly complies with local laws and prohibits any child and forced labour employment. The Group's Human Resource and Administration Department is responsible to monitor and ensure compliance of latest and relevant laws and regulations that prohibits child labour and forced labour.

To combat against illegal employment of child labour, underage workers and forced labour, personal data are collected during the recruitment of process to assist the selection of suitable candidates. The Human Resource and Administration Department also ensures identity documents are carefully checked. If violation is involved, it will be dealt with in the light of circumstances.

During the Reporting Period, the Group was not aware of any material non-compliance with any material non-compliance with child and forced labour-related laws and regulations that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Employment Ordinance of Hong Kong.

B5. Supply Chain Management

The Group recognises the importance of green supply chain management in mitigating the indirect environmental and social risks. In view of green supply chain management, we are aware of the environmental and social practices of the suppliers, and strive to engage suppliers with responsible acts to the society.

Suppliers' Environmental and Social Responsibility

We actively share green practices with our suppliers, and propagate the importance of sustainable operations to them. During the supplier selection process, suppliers' environmental and social performances are considered as a selection criterion for establishing long-term relationship. We choose suppliers according to the requirements of the specific business and customers as well as the environmental and social risks. Suppliers should not violate the relevant environmental and labour laws, and substantial violation may incur the termination of supplier relationship. The Group will continue to monitor its supply chain regarding the environmental and social standards.

We have also formulated rules to ensure our suppliers are able to compete in an open and fair mechanism. We do not discriminate against any suppliers, and we do not allow any forms of corruption or bribery. Employees and other individuals with interest with the suppliers will not be allowed to participate in relevant procurement activities. The Group only selects suppliers with good track record in the past and have no serious violations of business ethics.

B6. Product Responsibility

The Group is committed to providing reliable products and services by offering sustainable and responsible platform and services, as well as protecting the interests of clients.

During the Reporting Period, the Group was not aware of any material non-compliance with any laws and regulations concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Personal Data (Privacy) Ordinance, and the Securities and Future (Client Securities) Rules of Hong Kong.

Customer Service

The Group strives to provide excellent services in supporting our customers. Our customer service personnel are required to provide assistance to customers upon the application of services with their professional knowledge. Customers are also free to provide feedback on our service delivery. If customers are dissatisfied with the service quality, they can file complaints to the Group, and we will settle complaints in accordance with the established complaint resolution procedures and logs. Complaints are summarised regularly for management review in designing remedial actions for major deficiency. To understand customer opinions, the Group performs customer satisfaction survey annually.

Protection of Customer Information

Certain subsidiaries of the Company are licensed and regulated under SFC. As a custodian of customers' assets, we strictly comply with relevant laws and regulations in handling and safeguarding customers' assets. We implement necessary controls to ensure customers' assets are managed properly in a prompt manner.

We maintain segregate accounts in keeping customers' assets. Transactions should only be executed when customers' consent is received, or when customers' obligation is fulfilled as stated on agreed contracts. We have adequate records of audit work for investigations in case of suspected violations. Regular compliance reviews and audits are conducted to find out any non-compliance with regulatory requirements. Any irregularities should be immediately reported to management.

The Group strictly adheres to regulatory requirements on data privacy through fulfilling high security and confidentiality of personal data privacy protection. We are committed to maintaining and protecting personal data, and have established internal policy to govern the collection and handling of personal data.

In accordance to our data protection principles, we abide by the Privacy Policy Statement, and ensure our clients to understand our general policies and practices in relation to the collection, holding and usage of individual personal data. Furthermore, we are required to follow the Personal Information Collection Statement when collecting personal identification information from individuals. Unless a written consent is obtained, the Group will not use or provide any personal data to any person for direct marketing. Meanwhile, the Group maintains secure measures to prevent unauthorised use of personal data.

Investor Protection and Education

The Group has established procedures relating to the services and products provided. We conduct the "Know Your Clients" ("KYC") procedures and assessment processes to understand and evaluate clients' financial background, trading experience and risk tolerance level prior to providing clients the type of financial services or products which suit their needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to providing clear and balanced information to clients. We have established a classification system that classifies the capability and intentions of investors. The Group categorises clients into professional investors and retail investors based on the standard of their financial knowledge. We will in particular protect retail investors by conducting risk evaluations, and classify and grade the investors based on the risk tolerance evaluation results.

The Group adopts appropriateness tests for different financial products. We conduct risk assessments for different financial products to evaluate their risk level based on the product information. We have established a matching principle between product and clients' risk tolerance ability to fully reveal the product risks, and ensure appropriate products are recommended to appropriate clients.

Moreover, the Group has set standards for advertising and sales material. Information disclosed in all advertising and sales material must be factual; we also prohibit the use of false, misleading or inaccurate statements in any forms of communication.

B7. Anti-corruption

The Group believes that a corporate culture of high integrity is the key to its continuing success, therefore we value the importance of anti-corruption work and are committed to building an incorruptness and transparent corporate culture.

During the Reporting Period, the Group has strictly complied with all applicable laws and regulations, as well as guidance from various regulatory bodies, including SFC. The Group was not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Prevention of Bribery Ordinance of Hong Kong.

Anti-corruption

The Group strives to achieve high standard of ethics in our business operations and Fraudulent acts such as corruption, bribery, and collusion are strictly prohibited. Employees should comply with the Code of Conduct in performing business activities, and they should consult the management if they suspect any professional misconduct. Our Staff Handbook has a dedicated section on anti-corruption, which defines and restricts the code of conduct of our employees in this regard. Employees should also declare any conflict of interest under their job responsibility which may impair the integrity on work.

The Group has established a whistle-blowing mechanism for reporting any potential fraudulent cases and management is responsible for the investigation and resolution. To further mitigate business frauds, internal audit function is established to continuously evaluate the Group's internal control effectiveness, detecting potential deficiency, and identifying areas of improvement. Internal audit report is distributed to the responsible department for the timely remediation.

We strictly comply with the Prevention of Bribery Ordinance enforced by the Hong Kong Independent Commission Against Corruption ("ICAC"), and prohibit all employees from receiving any benefits for personal gain. This prevents any negative impact or disruption to our business operations. Any report of suspected behaviours would lead to disciplinary action, dismissal or reported to ICAC or relevant agencies.

To further extend employees' awareness in anti-corruption, the Group launches and arranges various programs and seminars to educate employees on anti-corruption. Contents of programs and seminars include law and discipline observation education, compliance and duty competence education, and professional ethics education, etc. These programs and seminars allow employees to understand related laws and disciplines as well as morality and business ethics.

Anti-money Laundering

The Group has formulated policies and procedures in governing KYC and Anti-Money Laundering ("AML"). A robust review program on KYC and AML and compliance department have been put in place to ensure the Group has complied with all the regulatory rules.

A designated staff as the Money Laundering Reporting Officer is appointed to hold responsibility for investigating AML issues and reporting if necessary. Induction trainings as well as annual training are provided to ensure all employees within the Group are well-acquainted with the regulatory updates in respect to KYC and AML. We have also developed a Anti-Money Laundering Guidance Note ("AML Manual") to assist employees in identifying the types of risks and their relevant major characteristics.

The Group has implemented the AML management rules when building business relationship with clients or providing services. Such rules require employees to conduct client identification, file client's identity materials and transactional records, check clients' identity certification documents, register clients' basic information, understand clients and their transaction nature through KYC policy, strengthen clients' adequacy management, identify and evaluate the money laundering risks, as well as improve the prevention, management and control of clients' money laundering risks.

The Group has strengthened the monitoring and reporting of large-amount and suspicious transactions. We began with the characteristics of the securities industry and actual situation of the Group, and had designed a monitoring model for suspicious transactions. We made efforts to improve the identification capability of suspicious transactions, and positively helped clients to prevent money laundering risks.

B8. Community Investment

Community Investment

The Group is committed to emboldening and supporting the public by means of social participation and contribution as part of our strategic development. We strive to nurture the corporate culture and practices of corporate citizen in the daily work life. To fulfill our corporate social responsibility, we focus on inspiring our employees towards social welfare concerns. We encourage our staff to donate to recognised charitable institutions in order to help the underprivileged and those in need. Employees are also encouraged to suggest areas of contribution based on their experiences in the community.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions — Emission Control
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Not applicable — Explained
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 ("comply or explain")	Description of reduction initiatives and results achieved.	Emissions — Emission Control
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Energy Management
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources — Water Management
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Energy Management
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Management
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Not applicable — Explained

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources — Indoor Air Quality, Repair and Maintenance
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
KPI B1.1 ("Recommended Disclosure")	Total workforce by gender, employment type, age group and geographical region	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

DIRECTORS' REPORT

The Directors present their report and audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 42 to the audited financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group's business, can be found in the Management Discussion and Analysis set out on pages 3 to 8.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2019 and the state of affairs of the Group at that date are set out in the audited financial statements on pages 47 to 125.

The Directors did not recommend the payment of any dividend for the year ended 31 December 2019.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last four financial years and the year ended 31 December 2019, as extracted from the audited financial statements and restated as appropriate, is set out on page 126. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 91% of the Group's total turnover and the largest customer accounted for approximately 57% of the Group's total turnover. The Group is a provider of financial services. In the opinion of the Directors, it is therefore of no value to disclose details of the Group's suppliers.

So far as is known to the Directors, other than those disclosed in note 14 to the consolidated financial statements, none of the Directors, their associates or substantial shareholders (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the share capital of the Group's five largest suppliers or customers.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 29 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 24 September 2004 (the "2004 Scheme"). Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 15 October 2014, the Company adopted a new share option scheme (the "2014 Scheme"), the purpose of which is to enable the Group to grant share options to the eligible participants as incentives or rewards for their contribution to the Group. Particulars of the 2004 Scheme and the 2014 Scheme are set out in note 30 to the consolidated financial statements. No further option shall be granted under the 2004 Scheme but the options granted under the 2004 Scheme prior to its expiry shall remain valid and exercisable in accordance with the terms of the respective grants. No share option has been granted under the 2014 Scheme and the movements of the share options granted under the 2004 Scheme during the year ended 31 December 2019 were as follows:

SHARE OPTION

Grantees	Date of grant	Exercise price (HK$)	Vesting period	Exercisable period	Outstanding as at 1 January 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 31 December 2019
Directors									
Mr. Qiu Bin	7/9/2017	0.2400	Nil	7/9/2017–7/9/2020	10,000,000	–	–	–	10,000,000
Ms. Cheng Kit Sum, Clara	7/9/2017	0.2400	Nil	7/9/2017–7/9/2020	12,000,000	–	–	(12,000,000)	–
Dr. Huan Guocang	7/9/2017	0.2400	Nil	7/9/2017–7/9/2020	3,000,000	–	–	(3,000,000)	–
Mr. Lo Ka Wai	7/9/2017	0.2400	Nil	7/9/2017–7/9/2020	3,000,000	–	–	(3,000,000)	–
Employees in aggregate	25/8/2011	0.2800	Nil	25/8/2011–25/8/2021	480,000	–	–	(480,000)	–
	25/8/2011	0.2800	25/8/2011–24/8/2012	25/8/2012–25/8/2021	720,000	–	–	(720,000)	–
	7/9/2017	0.2400	Nil	7/9/2017–7/9/2020	3,000,000	–	–	(3,000,000)	–
	26/3/2018	0.2400	26/3/2018–31/3/2019	1/4/2019–1/4/2022	35,000,000	–	–	(35,000,000)	–
Other grantees	7/9/2017	0.2400	Nil	7/9/2017–7/9/2020	50,000,000	–	–	–	50,000,000
					117,200,000	–	–	(57,200,000)	60,000,000
Total number of shares available for issue at year end date					117,200,000				60,000,000
Total number of shares available for issue as a percentage to issued shares					3.07%				1.57%

Note: Ms. Cheng Kit Sum, Clara, Dr. Huan Guocang and Mr. Lo Ka Wai resigned as the directors of the Company on 11 November 2019.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

RESERVES

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

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2019, no reserves are available for distribution to shareholders.

DIRECTORS AND DIRECTOR'S SERVICE CONTRACTS

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

EXECUTIVE DIRECTORS

Mr. Liu Yang *(Chairman of the Board and Chief Executive Officer)* (appointed on 31 January 2020)
Mr. Zhou Quan (appointed on 2 May 2019)
Mr. Zhao Yun (appointed on 2 May 2019 as Non-Executive Director and Re-designated to Executive Director on 25 March 2020)
Mr. Qiu Bin (resigned on 5 February 2020)
Ms. Cheng Kit Sum, Clara (resigned on 11 November 2019)

NON-EXECUTIVE DIRECTORS

Mr. Huang Shuanggang (Appointed on 25 March 2020)
Mr. Mu Hao (appointed on 3 April 2019 and resigned on 25 March 2020)
Mr. Chiu Hau Shun, Simon (resigned on 22 March 2019)
Ms. Tang Lai Shan, Jo Jo (resigned on 22 March 2019)
Mr. Chen Zhong Min (resigned on 1 January 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Tze Wa
Mr. An Dong (appointed on 11 November 2019)
Ms. Fang Fang (appointed on 3 April 2019)
Dr. Huan Guocang (resigned on 11 November 2019)
Mr. Lo Ka Wai (resigned on 11 November 2019)

DIRECTORS' REPORT

In accordance with Article 86(2) of the Company's Bye-laws, Mr. Huang Shuanggang and Mr. An Dong were appointed as a Director by the Board to fill the casual vacancies, will hold office until the forthcoming annual general meeting and being eligible, offers himself for re-election.

In accordance with Article 87(1) of the Company's Bye-laws, Mr. Liu Yang will retire at the forthcoming annual general meeting and being eligible, offers themselves for re-election.

The Directors being proposed for re-election at the forthcoming annual general meeting do not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of a compensation (other than statutory compensation).

The non-executive Directors (including the independent non-executive Directors) have been appointed for a specific term subject to retirement by rotation as required by the Bye-laws.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year end 31 December 2019.

DIRECTORS' INTERESTS

As at 31 December 2019, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than interest disclosed above in respect of certain Directors and chief executive, the following shareholders had notified the Company of their relevant interests in the shares and underlying shares of the Company.

DIRECTORS' REPORT

LONG POSITION — ORDINARY SHARES OF HK$0.05 EACH OF THE COMPANY

Other than the interests disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no other person as having a notifiable interest or short position in the shares, underlying shares and convertible bonds of the Company as at 31 December 2019.

Name of shareholders	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Mr. Hao Xiaohui *(Note)*	Interest of corporation controlled	1,011,000,000	26.47%
Yuanyin ESOP Limited *(Note)*	Interest of corporation controlled	1,011,000,000	26.47%
Yuanyin Holdings Limited *(Note)*	Beneficial owner	1,011,000,000	26.47%
Zhao Jian Yun	Beneficial owner	357,142,857	9.35%
Meng Hao Xiang	Interest of spouse	357,142,857	9.35%
Shao Yong Chao	Beneficial owner	300,000,000	7.85%
Cao Hai Xia	Interest of spouse	300,000,000	7.85%

Note: Yuanyin Holdings Limited is the beneficial owner of 1,011,000,000 shares in the Company.

Yuanyin ESOP Limited holds 37.04% voting rights in Yuanyin Holdings Limited. As such, Yuanyin ESOP Limited is deemed to be interested in 1,011,000,000 shares which Yuanyin Holdings Limited is interested in.

Mr. Hao Xiaohui owns 100% interest in Yuanyin ESOP Limited. As such, Mr. Hao Xiaohui is deemed to be interested in 1,011,000,000 shares which Yuanyin ESOP Limited is interested in.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Saved as disclosed in note 34 to the consolidated financial statements, the Group has not entered into any other connected transaction or continuing connected transactions for the year ended 31 December 2019 which should be disclosed pursuant to the requirement of Chapter 14A to the Listing Rules.

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

During the year ended 31 December 2019, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company's corporate governance report is set out in pages 11 to 21 of this report.

KEY RELATIONSHIPS

Employees

Employees are one of the valuable assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees and strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to its employees and considers all valuable feedback from its employees for enhancing workplace productivity and harmony.

The Group offers competitive remuneration packages to its employees.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme are set out in note 30 to the consolidated financial statements.

Customers and suppliers

The customers and suppliers of the Group are independent third parties to the Group. The Group is committed to maintain good relationships with its customers and suppliers in the long run by adopting various means to strengthen communication channels with them. During the year ended 31 December 2019, there were no material and significant dispute between the Group and its customers and suppliers.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme as disclosed above, no equity-linked agreements were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the bye-laws of the Company, every Director shall be entitled to be indemnified by the Company out of the assets of the Company against all costs, charges, losses, damages and expenses which he/she may sustain or incur or about the execution and discharge of his duties or in relation thereto. The Company has arranged appropriate Directors' and Officers' liability insurance coverage for the Directors and officers of the Company during the year.

ENVIRONMENTAL POLICIES

The Group is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimise its environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the subsidiaries of the Company in Hong Kong and the PRC while the shares of Company (the "Shares") are listed on the Stock Exchange. The Group's establishment and operations shall comply with relevant laws and regulations in Hong Kong, the PRC and the respective place of incorporation of the Company and its subsidiaries. In addition, the Company is required to comply with the Listing Rules and SFO.

During the year ended 31 December 2019 and up to the date of this report, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

DIRECTORS' REPORT

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive Directors are independent.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2019.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audited results for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee comprises three members namely Mr. Fung Tze Wa (Chairman), Ms. Fang Fang and Mr. Huang Shuanggang. Mr. Fung Tze Wa and Ms. Fang Fang are independent non-executive Directors, and Mr. Huang Shuanggang is a non-executive Director.

REMUNERATION COMMITTEE

The Remuneration Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises three independent non-executive Directors namely, Ms. Fang Fang (Chairman), Mr. Fung Tze Wa and Mr. An Dong.

NOMINATION COMMITTEE

The Nomination Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Nomination Committee comprises the Chairman of the Board and two independent non-executive Directors namely, Mr. Liu Yang (Chairman), Mr. Fung Tze Wa and Ms. Fang Fang.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 were audited by BDO Limited. A resolution will be submitted to the annual general meeting to re-appoint BDO Limited as the auditor of the Company.

On behalf of the Board
Mr. Liu Yang
Chairman

31 March 2020

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF SHENG YUAN HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Sheng Yuan Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 47 to 125, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

The Group had disposed of a subsidiary, Joinbo Holdings Limited ("JHL"), which indirectly owned the equity interest in an associate and had recognised a loss on disposal of subsidiaries of HK$2,919,000 during the year ended 31 December 2018. The Group also recognised its share of associate's loss of HK$1,723,000 for the year ended 31 December 2018 using the equity method of accounting prior to the disposal of JHL. The associate had an investment in a PRC company ("Investee Company") which was included in the Group's interests in an associate under the equity method of accounting during the year ended 31 December 2018.

The Investee Company was not a listed entity in the PRC and we were unable to obtain relevant financial and other information of the Investee Company which we considered necessary and there were no alternative procedures which we could carry out to assess the carrying amount of the associate's investment in the Investee Company prior to the disposal of JHL. As such, we were unable to determine whether the Group's share of associate's loss of HK$1,723,000 and loss on disposal of subsidiaries of HK$2,919,000 for the year ended 31 December 2018 was fairly stated.

Accordingly, our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2018 was qualified. The limitations leading to our qualified opinion remained unresolved during our audit of the Group's consolidated financial statements for the year ended 31 December 2019. Our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2019 is also qualified because of the possible effect of this matter on the comparability of the related 2019 figures and the 2018 figures in the consolidated financial statements for the year ended 31 December 2019.

BASIS FOR QUALIFIED OPINION *(Continued)*

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 3.1 in the consolidated financial statements, which discloses that the Group had incurred loss after tax of approximately HK$77 million and net operating cash outflows of approximately HK$33 million for the year ended 31 December 2019, and as at 31 December 2019, the Group had net current liabilities of approximately HK$69 million and net liabilities of approximately HK$63 million. As stated in note 3.1, these conditions, along with other matters as set forth in note 3.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the "Basis for Qualified Opinion" section and "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Adoption of HKFRS 16 — Leases

HKFRS 16 — Leases ("HKFRS 16") is first effective for the financial year beginning on 1 January 2019 and the Group has elected to use the modified retrospective approach. As at 31 December 2019, the Group has recognised right-of-use assets and lease liabilities of HK$8,612,000 and HK$8,746,000, respectively.

We consider this a key audit matter because of the significance of the amounts of the right-of-use assets and lease liabilities to these financial statements and the measurement of the lease liabilities requires the use of significant judgements and estimates in the assessment of lease terms where the leases contain extension or termination options and in determination of appropriate discount rates.

Refer to note 3.10(a) for accounting policies and note 16 of the accompanying financial statements.

Our response:

Our work included the following procedures:

- understanding the established policies and procedures with respect to the identification and recognition of leases;
- evaluating the appropriateness of the transition approach and accounting policies adopted, including the application of practical expedients and recognition exemptions available under HKFRS 16, compared to the requirements of HKFRS 16;

KEY AUDIT MATTERS *(Continued)*

Adoption of HKFRS 16 — Leases *(Continued)*

- screening the general ledger accounts of other expenses to identify those arrangements that might contain payments to obtain the right to use identified assets, inspecting associated contracts and other relevant information to assess management's conclusion that these contracts do not contain lease with reference to the definition of leases in HKFRS 16;

- assessing the reasonableness of the data and assumptions adopted by management to determine the discount rates based on the length of lease terms, repayment patterns and our knowledge of the Group's available debt financing arrangements;

- re-performing the calculation of the right-of-use assets and lease liabilities on a sample basis, testing the accuracy of the data used in the calculation compared to the associated contracts and other relevant documentation, and assessing the reasonableness of management's judgements and assumptions adopted when determining the length of the lease term where the lease contains extension or termination options or was modified during the financial year compared to our understanding of the Group's business and industry practice; and

- assessing the disclosures in the consolidated financial statements in respect of leases, including transition disclosures.

OTHER INFORMATION IN THE ANNUAL REPORT

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the "Basis for Qualified Opinion" section above, we were unable to obtain sufficient evidence about the Group's share of loss of the associate and loss on disposal of subsidiaries for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate No.: P04434

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Fee and commission income	6	**8,804**	31,699
Interest income	6	**40**	2,447
		8,844	34,146
Other gains and losses	7	**(17,108)**	(33,987)
Other income	8	**618**	211
Staff costs	10	**(25,723)**	(29,524)
Depreciation		**(1,542)**	(237)
Finance costs	9	**(23,294)**	(28,277)
Reversal of provision	27	**–**	4,394
Other expenses	10	**(19,360)**	(25,327)
Share of results of an associate		**–**	(1,723)
Loss before income tax	10	**(77,565)**	(80,324)
Income tax credit/(expense)	11	**201**	(1,330)
Loss for the year		**(77,364)**	(81,654)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences on translating foreign operations			
Exchange differences arising during the year		**14**	(424)
Reclassification adjustments relating to foreign operations disposed of during the year		**–**	6,528
Other comprehensive income for the year		**14**	6,104
Total comprehensive income for the year		**(77,350)**	(75,550)
Loss for the year attributable to:			
— Owners of the Company		**(77,334)**	(81,646)
— Non-controlling interests		**(30)**	(8)
		(77,364)	(81,654)
Total comprehensive income for the year attributable to:			
— Owners of the Company		**(77,320)**	(75,542)
— Non-controlling interests		**(30)**	(8)
		(77,350)	(75,550)

		HK cents	HK cents
Loss per share			
— Basic	13	**(2.02)**	(2.28)
— Diluted		**(2.02)**	(2.28)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	2,911	352
Right-of-use assets	16	8,612	–
Trading rights	17	–	–
Goodwill	18	–	7,000
Other assets	20	1,705	1,730
		13,228	9,082
Current assets			
Trade and other receivables and prepayments	21	4,133	40,145
Held for trading investments	22	26	6,828
Current tax assets		678	938
Trust bank balances held on behalf of clients	23	17,394	45,407
Cash and cash equivalents	24	29,840	47,262
		52,071	140,580
Current liabilities			
Trade and other payables and accruals	25	18,739	54,219
Borrowings	26	100,142	80,421
Lease liabilities	16	1,896	–
Contract liabilities		450	450
		121,227	135,090
Net current (liabilities)/assets		(69,156)	5,490
Non-current liabilities			
Lease liabilities	16	6,850	–
Net (liabilities)/assets		(62,778)	14,572
EQUITY			
Share capital	29	190,985	190,985
Reserves	32	(253,763)	(176,413)
(Capital deficiency)/Equity attributable to owners of the Company		(62,778)	14,572
Non-controlling interests		–	–
(Capital deficiency)/Total equity		(62,778)	14,572

On behalf of the Board

Mr. Liu Yang	**Mr. Zhou Quan**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company									Non-controlling interests			
	Share capital *HK$'000*	Share premium* *HK$'000*	Shareholder's contribution* *HK$'000*	Capital redemption reserve* *HK$'000*	Convertible bond equity reserve* *HK$'000*	Share option reserve* *HK$'000*	Currency translation reserve* *HK$'000*	Accumulated losses* *HK$'000*	Total *HK$'000*	Share of net assets of subsidiaries *HK$'000*	Convertible bond equity reserve of a subsidiary *HK$'000*	Total *HK$'000*	Total equity *HK$'000*
At 1 January 2018	178,128	246,385	7,834	477	13,713	9,723	(7,437)	(454,076)	(5,253)	(3)	17,792	17,789	12,536
Shares issued upon exercise of convertible bonds	12,857	73,985	–	–	(9,267)	–	–	–	77,575	–	–	–	77,575
Transactions with owners	12,857	73,985	–	–	(9,267)	–	–	–	77,575	–	–	–	77,575
Loss for the year	–	–	–	–	–	–	–	(81,646)	(81,646)	(8)	–	(8)	(81,654)
Other comprehensive income													
— Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	–	(424)	–	(424)	–	–	–	(424)
— Reclassification adjustments on disposal of foreign operations	–	–	–	–	–	–	6,528	–	6,528	–	–	–	6,528
Total comprehensive income for the year	–	–	–	–	–	–	6,104	(81,646)	(75,542)	(8)	–	(8)	(75,550)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	11	–	11	11
Settlement of 2014 SYFS Bonds by way of issuing 2018 SYHL Bonds under the deed of settlement	–	–	–	–	9,267	–	–	8,525	17,792	–	(17,792)	(17,792)	–
Transferred to accumulated losses on 2017 SYHL Bonds Maturity Date	–	–	–	–	(13,713)	–	–	13,713	–	–	–	–	–
Forfeiture of share options	–	–	–	–	–	(1,266)	–	1,266	–	–	–	–	–
At 31 December 2018	190,985	320,370	7,834	477	–	8,457	(1,333)	(512,218)	14,572	–	–	–	14,572

	Attributable to owners of the Company									**Non-controlling interests**			
	Share capital ***HK$'000***	**Share premium*** ***HK$'000***	**Shareholder's contribution*** ***HK$'000***	**Capital redemption reserve*** ***HK$'000***	**Convertible bond equity reserve*** ***HK$'000***	**Share option reserve*** ***HK$'000***	**Currency translation reserve*** ***HK$'000***	**Accumulated losses*** ***HK$'000***	**Total** ***HK$'000***	**Share of net assets of subsidiaries** ***HK$'000***	**Convertible bond equity reserve of a subsidiary** ***HK$'000***	**Total** ***HK$'000***	**Total equity** ***HK$'000***
At 1 January 2019	**190,985**	**320,370**	**7,834**	**477**	**–**	**8,457**	**(1,333)**	**(512,218)**	**14,572**	**–**	**–**	**–**	**14,572**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(77,334)**	**(77,334)**	**(30)**	**–**	**(30)**	**(77,364)**
Other comprehensive income													
— Exchange differences on translation of financial statements of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**14**	**–**	**14**	**–**	**–**	**–**	**14**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**14**	**(77,334)**	**(77,320)**	**(30)**	**–**	**(30)**	**(77,350)**
Disposal of partial interest in a subsidiary *(note 42)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(431)**	**(431)**	**701**	**–**	**701**	**270**
Acquisition of partial interest in a subsidiary *(note 42)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**401**	**401**	**(671)**	**–**	**(671)**	**(270)**
Forfeiture of share options	**–**	**–**	**–**	**–**	**–**	**(1,952)**	**–**	**1,952**	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	**190,985**	**320,370**	**7,834**	**477**	**–**	**6,505**	**(1,319)**	**(587,630)**	**(62,778)**	**–**	**–**	**–**	**(62,778)**

* These accounts comprise negative reserves of HK$253,763,000 (2018: HK$176,413,000) in the consolidated statement of financial position at 31 December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Loss for the year		**(77,364)**	(81,654)
Adjustments for:			
Income tax (credit)/expense	*11*	**(201)**	1,330
Depreciation of property, plant and equipment and right-of-use assets		**1,542**	237
Finance costs	*9*	**23,294**	28,277
Impairment losses on trading rights	*7*	**–**	3,322
Impairment losses on goodwill	*7*	**7,000**	–
Loss allowances on trade receivables	*7*	**4,570**	–
Bad debt written off	*10*	**461**	–
Interest income from banks and others	*8*	**(32)**	(211)
(Gain)/loss on disposal of subsidiaries	*7*	**(10)**	2,919
Gain on lease modification	*7*	**(24)**	–
Net gain on disposals of property, plant and equipment	*7*	**(5)**	–
Reversal of provision for settlement of convertible bonds	*27*	**–**	(4,394)
Share of results of an associate		**–**	1,723
Operating loss before working capital changes		**(40,769)**	(48,451)
Decrease in other assets	*20*	**25**	–
Decrease in trade and other receivables and prepayments		**30,975**	28,830
Decrease in held for trading investments		**6,802**	32,788
Decrease in trust bank balances held on behalf of clients		**28,013**	176,174
Decrease in trade and other payables and accruals		**(35,480)**	(191,842)
Increase in contract liabilities		**–**	450
Cash used in operations		**(10,434)**	(2,051)
Interest paid		**(22,942)**	(9,503)
Interest received from banks and others		**32**	211
Income tax refunded/(paid)		**461**	(2,730)
Net cash used in operating activities		**(32,883)**	(14,073)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(2,933)**	(63)
Proceeds from disposals of property, plant and equipment		**10**	–
Proceeds from disposal of subsidiaries	*31*	**10**	3,982
Net cash (used in)/generated from investing activities		**(2,913)**	3,919
Cash flows from financing activities			
Proceeds from loans advanced from a director of the Company and related companies	*24*	**99,800**	160,000
Redemption of convertible bonds	*24*	**–**	(110,000)
Repayments of loans advanced from a director of the Company and a related company	*24*	**(80,000)**	(80,000)
Repayment of lease liabilities	*24*	**(1,446)**	–
Net cash generated from/(used in) financing activities		**18,354**	(30,000)
Net decrease in cash and cash equivalents		**(17,442)**	(40,154)
Cash and cash equivalents at beginning of the year		**47,262**	87,556
Effect of foreign exchange rate changes, on cash held		**20**	(140)
Cash and cash equivalents at end of the year		**29,840**	47,262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

Sheng Yuan Holdings Limited (the "Company") is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is 26th Floor, 238 Des Voeux Road Central, Sheung Wan, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company is an investment holding company. Its subsidiaries are principally engaged in provision of securities brokerage and financial services, asset management services, proprietary trading and trading business.

The consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 31 March 2020.

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

2.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2019

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group. HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA.

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

Except as explained below, the adoption of new or amended HKFRSs has no material impact on the Group's financial statements.

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

2.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2019 *(Continued)*

HKFRS 16 "Leases" ("HKFRS 16")

HKFRS 16 replaces HKAS 17 "Leases" ("HKAS 17") along with three interpretations, HK(IFRIC)-Int 4, "Determining whether an Arrangement contains a Lease" ("HK(IFRIC)-Int 4"), HK(SIC)-Int 15 "Operating Leases - Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". In the current accounting year, the Group had applied HKFRS 16 using the modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application, if any, is recognised in the opening balance of equity as at 1 January 2019. Accordingly, the comparative information have not been restated (i.e. it is presented, as previously reported, under HKAS 17 and related interpretations). HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of HKFRS 16 on the Group's financial statements is described below. Further details of the changes in accounting policies are described in note 3.10 to these financial statements.

Impact of the New Definition of a Lease

The change in definition of a lease mainly relates to the concept of control. HKFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

The Group has made use of the practical expedient available on transition to HKFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with HKAS 17 and HK(IFRIC)-Int 4 continues to be applied to leases entered or modified before 1 January 2019 and the Group applies the definition of a lease and related guidance set out in HKFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of HKFRS 16, the Group assessed that the new definition in HKFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

HKFRS 16 changes how the Group accounts for leases previously classified as operating leases under HKAS 17, which were "off-balance-sheet". Upon application of HKFRS 16, for all leases (except as noted below), the Group (a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments; and (b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.

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

2.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2019 *(Continued)*

HKFRS 16 "Leases" ("HKFRS 16") *(Continued)*

Impact on Lessee Accounting *(Continued)*

Under HKFRS 16, right-of-use assets are tested for impairment in accordance with HKAS 36 "Impairment of Assets". This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by HKFRS 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

Financial Impact on Initial Application of HKFRS 16

On transition to HKFRS 16, the Group applied a practical expedient of accounting for leases previously classified as operating leases under HKAS 17 with a remaining lease term of twelve months or less as at 1 January 2019 as short-term leases and using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As at 31 December 2018, the Group had operating lease commitment of HK$5,905,000 for which the lease term ends within 12 months of the date of initial application and the leases do not include a renewal option. Accordingly, the Group has not recognised any right-of-use assets nor lease liabilities as at 1 January 2019 but to account for payments on these leases as an expense on a straight-line basis over the remaining lease term.

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

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

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty. The interpretation has had no material impact on the Group's consolidated financial statements.

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

2.2 New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The directors of the Company anticipate that these pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]

1 Effective for annual period beginning on or after 1 January 2020

Amendments to HKFRS 3 — Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 — Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements on pages 47 to 125 have been prepared in accordance with HKFRSs issued by the HKICPA. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impact on the Group's financial statements, if any, are disclosed in note 2 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4 to the financial statements.

The Group had incurred losses after tax of approximately HK$77 million (2018: losses after tax of approximately HK$82 million) and net operating cash outflows of approximately HK$33 million (2018: net operating cash outflows of approximately HK$14 million) for the year ended 31 December 2019, and as at 31 December 2019, the Group had net current liabilities and net liabilities of approximately HK$69 million (31 December 2018: net current assets of approximately HK$5 million) and HK$63 million (31 December 2018: net assets of approximately HK$15 million), respectively. As at 31 December 2019, the Group's liabilities included borrowings with principal amount of approximately HK$100 million (2018: HK$80 million) from a wholly-owned subsidiary of the Company's substantial shareholder, Yuanyin Holdings Limited, which will be due in October 2020. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above conditions, the financial statements were prepared based on the assumption that the Group can be operated as a going concern after taking into consideration of the following plans and measures:

- Subsequent to 31 December 2019, the Company had entered into supplementary agreement with a wholly-owned subsidiary of its substantial shareholder, Yuanyin Holdings Limited, to extend the repayment date of the existing borrowing with principal amount of approximately HK$100 million as at 31 December 2019 (as disclosed in note 26) to at least twelve months from the date of reporting;

- The substantial shareholder, Yuanyin Holdings Limited, has agreed to provide sufficient working capital to satisfy the Group's working capital and other financing requirement through continual renewal of borrowings or continual provision of additional financing to the Group; and

- The Group is in the process of soliciting potential new customers and shall continue to apply various measures to tighten its operating expenditures in order to improve its financial performance and cash flows.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Business combination and basis of consolidation

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amount of the acquiree's identifiable net assets. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Acquisition of businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity. Goodwill is recognised initially as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of any acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of any acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain. Subsequent to initial recognition, goodwill is measured at cost less impairment losses.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between the aggregate of the fair value of the consideration received and receivable and the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries

Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights relating to the investee (held by the Group and others) are considered. For a right to be substantive, the Group must have the practical ability to exercise that right. Control is reassessed when facts and circumstances indicate that there are changes to one or more of the elements of control.

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

3.4 Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

In consolidated financial statements, the investments in associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the post-acquisition change in the Group's share of net assets and any impairment losses relating to the investment. The Group's share of the post-acquisition, post-tax results of the investees, including any impairment losses on the investments in associates for the year, are recognised in the consolidated profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income are recognised in other comprehensive income of the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the consolidated profit or loss in the period in which the investment is acquired.

Unrealised profits and losses resulting from transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associates. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Associates *(Continued)*

Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. The difference between the carrying amount of the associate at the date when the equity method was discontinued and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate.

3.5 Foreign currency translation

The financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. All value are rounded to the nearest thousand except when otherwise indicated.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the foreign exchange rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rate at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in currency translation reserve in equity and attributable to non-controlling interests as appropriate. Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in other comprehensive income.

On disposal of a foreign operation involving loss of control over a subsidiary or significant influence over an associate that includes a foreign operation, the cumulative exchange differences relating to that foreign operation accumulated in currency translation reserve are reclassified from equity to profit or loss as part of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Fee and commission income

Fee and commission income is recognised when the Group transfers control of service to a customer and is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, fee and commission income is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

The Group's recognition policies for fee and commission income in relation to the following services are as follows.

(a) Fund and portfolio management and investment advisory services

The Group earns management and investment advisory fees from investment funds and portfolio from managing clients' assets, at a fixed percentage of monthly net asset value or invested capital. The fees are recognised over the period when the related services are performed as customers simultaneously consume and receive benefits when services are rendered. Management and investment advisory fees are a form of variable consideration because the fees the Group entitled to is subject to a broad range of possible outcomes due to market volatility and other factors outside of the Group's control. Fees are billed on a regular basis (typically monthly, quarterly and semi-annually of a calendar year) and are earned to the extent that a significant reversal in future is not highly probable in accordance with specific terms of individual contracts. Generally, fees are not subject to clawback when they are billed. The Group also earns performance and incentive fees based on fund performance during the measurement period (generally over twelve-months), subject to the achievement of high-water marks or hurdle rates, in accordance with the respective terms set out in the investment management agreement. The fees are recognised as revenue when it is highly probable that a significant reversal of such fees will not occur.

(b) Securities and futures brokerage services

The Group earns commissions from execution of client transactions in the trading securities and listed derivatives. The execution of client transactions also included settlement and clearing services, which are provided together and represent a single performance obligation as the services are not separately identifiable from other promises within the context of the contract. Commissions are recognised at a point in time on trade date when the performance obligation is satisfied, that is when the customer obtained the rights to the underlying financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Fee and commission income *(Continued)*

(c) Underwriting and placement services

The Group earns underwriting and placing commissions by providing capital raising services for corporate clients. Underwriting and placing fees are recognised at a point in time on trade date (the date on which the Group purchases the securities from the issuer) for the portion the Group is contracted to buy, at which point of time the performance obligation has been satisfied.

(d) Financial advisory services

The Group earns financial advisory fee income from assignments in connection with mergers, acquisitions and restructuring transactions. The Group's performance obligation is generally satisfied at a point in time upon closing of a transaction, at which point of time the Group has transferred and the customer obtains control of the promised service. Non-refundable deposits and milestone payments are initially recorded as contract liability in the statement of financial position and subsequently recognised in revenue upon completion of the underlying transaction or when the contract is terminated. However, for certain contracts, revenue is recognised over time for advisory arrangements in which the performance obligations are simultaneously provided by the Group and consumed by the customers and the fee from these advisory services are recognised rateably over the service period.

3.7 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

3.8 Trading rights

Trading rights represent the eligibility rights to trade on or through Hong Kong Futures Exchange Limited and the Stock Exchange. Trading rights acquired separately are measured initially at cost. The cost of trading rights acquired in a business combination is its fair value at the acquisition date. After initial recognition, trading rights with indefinite useful lives are carried at cost less any accumulated impairment losses. The useful life of trading rights that is indefinite is reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment.

3.9 Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any impairment losses. 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 costs, such as repairs and maintenance, are charged to profit or loss of the financial period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost less their estimated residual value over their estimated useful lives, using the straight-line method, as follows:

Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	15%–20%
Motor vehicles	20%

The assets' estimated residual value, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss.

3.10 Leases

(a) Accounting policies applied from 1 January 2019

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases; and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements and the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Leases *(Continued)*

(a) *Accounting policies applied from 1 January 2019* *(Continued)*

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability.

Subsequent to the commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the carrying amount of the lease liability (and make a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstance resulting a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

- The lease payments change due to changes in an index or rate or a change in expected payments a guaranteed residual value, in which cases the liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);

- There is lease modification not accounted for as a separate lease, in which the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Leases *(Continued)*

(b) Accounting policies applied prior to 1 January 2019

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

Payments made under operating leases are charged to profit or loss on straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss over the lease terms as an integral part of the aggregate net lease payments made.

3.11 Financial instruments

(a) Financial assets

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Trade receivable without a significant financing component is initially measured at transaction price. All other financial assets are initially measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when, and only when, the contractual rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. On derecognition of a financial asset in its entirety, the difference between the carrying amount of assets derecognised and the sum of the consideration received and receivable is recognised in profit or loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets under a contract whose terms that require delivery of assets within the time frame established generally by regulation or convention in the marketplace concerned.

Classification and measurement

Financial assets of the Group are classified into (i) financial assets measured at amortised cost and (ii) financial assets measured at fair value through profit or loss. The classification is determined by both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, these are measured at amortised cost using the effective interest method. Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. Interest income and any gain or loss on derecognition are recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial instruments *(Continued)*

(a) *Financial assets* *(Continued)*

Classification and measurement *(Continued)*

Financial assets that do not meet the criteria for being measured at amortised cost and that are held within a business model other than "hold to collect and sell" are measured at fair value through profit or loss. Financial assets at fair value through profit or loss are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. Expected credit losses ("ECLs") are a probability-weighted estimate of credit losses, which are measured as the present value of the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive (i.e. expected cash shortfalls). The expected cash shortfalls are discounted at the effective interest rate of the financial assets. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECLs for trade receivables that result from transactions that are within the scope of HKFRS 15. Lifetime ECLs represent the ECLs that will result from all possible default events over the expected life of a financial instrument. The ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other financial assets measured at amortised cost, when the credit risk on a financial instrument has not increased significantly since initial recognition (i.e. stage 1), the Group is required to measure the loss allowance for a financial instrument at an amount equal to 12-month ECLs, which represents the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. When the credit risk on that financial instrument has increased significantly since initial recognition (i.e. stage 2) or when the financial instrument is a credit-impaired financial asset (i.e. stage 3), the Group recognised lifetime ECLs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial instruments *(Continued)*

(a) *Financial assets* *(Continued)*

Impairment of financial assets *(Continued)*

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- significant increases in credit risk on other financial instruments of the same debtor.

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

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group also considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial instruments *(Continued)*

(a) *Financial assets* *(Continued)*

Impairment of financial assets *(Continued)*

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

- significant financial difficulty of the issuer or the borrower;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- a breach of contract, such as a default or past due event.

In addition, the Group considers that an event of default occurs when there is a breach of financial covenants by the counterparty; or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(b) *Financial liabilities*

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial liabilities are recognised initially, they are measured at fair value, less, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial instruments *(Continued)*

(b) *Financial liabilities* *(Continued)*

Financial liabilities are derecognised when, and only when, the obligation under the financial liabilities is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amount is recognised in profit or loss.

Financial liabilities of the Group are classified into financial liabilities measured at amortised cost. Financial liabilities at amortised cost are subsequently measured at amortised cost, using effective interest method. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

(c) *Convertible bonds*

Convertible bonds issued by the Company and subsidiaries that contain both the host liability component, conversion option component and other embedded derivatives components (such as early redemption option) which are not closely related to the host liability component are classified separately into their respective items on initial recognition.

Conversion option that will be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments is classified as an equity instrument. Conversion option that will be settled by the issuer other than exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments is a conversion option derivative. Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contract are not held for trading or designated as at fair value through profit or loss.

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

Convertible bonds (convertible into ordinary shares of the Company) containing liability and equity components and multiple embedded derivatives

Multiple embedded derivatives are generally treated as a single compound derivative. At the date of initial recognition, both the liability and compound derivative components are recognised at fair value. The equity component is determined by deducting the amount of the liability and compound derivative components from the fair value of the convertible bonds and is included in convertible bond equity reserve within equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial instruments *(Continued)*

(c) Convertible bonds *(Continued)*

Convertible bonds (convertible into ordinary shares of the Company) containing liability and equity components and multiple embedded derivatives *(Continued)*

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The compound derivative component is measured at fair value with changes in fair value recognised in profit or loss. The equity component will remain in convertible bond equity reserve until the conversion option is exercised (in which case the amount included in convertible bond equity reserve, the fair value of the embedded derivative component and the carrying value of the liability component at the time of conversion are transferred to share capital and share premium as consideration for the shares of the Company issued). Where the conversion option remains unexercised at the expiry dates, the balance stated in convertible bond equity reserve will be released to the retained profits/accumulated losses and the difference between the redemption amount and the carrying amounts of the liability and the embedded derivative components is recognised in profit or loss.

Convertible bonds (convertible into ordinary shares of the Company) containing liability and equity components

At the date of initial recognition, the liability component is recognised at fair value. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible bonds and is included in convertible bond equity reserve within equity.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component will remain in convertible bond equity reserve until the conversion option is exercised (in which case the amount included in convertible bond equity reserve and the carrying value of the liability component at the time of conversion are transferred to share capital and share premium as consideration for the shares of the Company issued). Where the conversion option remains unexercised at the expiry dates, the balance stated in convertible bond equity reserve will be released to the retained profits/accumulated losses.

Convertible bonds (convertible into ordinary shares of subsidiaries) containing liability and equity components

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds on issuing of the convertible bonds and the fair value assigned to the liability component, representing the option for the holder to convert the bonds into ordinary shares of the subsidiary, is included in non-controlling interests within equity.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the bonds into ordinary shares of the subsidiary, will remain in non-controlling interests. When the conversion option is exercised, the carrying value of the liability component at the time of conversion is transferred to the non-controlling interests as consideration for the shares of the subsidiary issued. Where the conversion option remains unexercised at the expiry dates, the balance stated in the non-controlling interests will be released to the retained profits/accumulated losses. No gain or loss is recognised upon conversion or expiration of the option.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial instruments *(Continued)*

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount are presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(e) Equity instruments

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

3.12 Accounting for income taxes

Income taxes comprise current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply to the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the reporting date.

Current tax and changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Accounting for income taxes *(Continued)*

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

Current tax assets and current tax liabilities are presented in net if, and only if, (a) the Group has a legally enforceable right to set off the recognised amounts; and (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

3.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.14 Employee benefits

Retirement benefits

The Group participates in staff retirement benefit schemes for employees in Hong Kong and the People's Republic of China ("PRC"), comprising a Mandatory Provident Fund Scheme ("MPF Scheme") and a state-managed retirement benefit scheme. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and the relevant group companies. The retirement benefit scheme costs charged to profit or loss represent contributions payable by the Group to the schemes.

The Group contributes to the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vested fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Scheme.

The subsidiaries operating in the PRC are required to participate in the state-managed retirement benefit scheme for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement benefit scheme at a specified percentage of the employees' relevant income and there are no other further obligations to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Employee benefits *(Continued)*

Short-term employee benefits

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the reporting date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the reporting date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.15 Share-based payments

All services received in exchange for the grant of any share options are measured at their fair value. These are indirectly determined by reference to the fair value of share options granted. Their value is appraised at the grant date and excludes the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets).

All services received in exchange for the grant of any share options are ultimately recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve within equity.

If service or non-market performance vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market performance and service conditions are included in assumptions about the number of share options that are expected to vest. At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

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

3.16 Impairment of non-financial assets

Goodwill and trading rights with an indefinite useful life are tested for impairment at least annually and whenever there is any indication that they may be impaired. Property, plant and equipment and right-of-use assets are tested for impairment whenever there are indications that the asset’s carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Impairment of non-financial assets *(Continued)*

Recoverable amount is the higher of fair value, reflecting market conditions 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 time value of money and the risk specific to the asset for which the future cash flow estimates have not been adjusted.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets or group of assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. cash-generating unit, "CGU"). Goodwill is allocated to the relevant CGUs that are expected to benefit from the synergies of the acquisition. As a result, some assets are tested individually for impairment and some are tested at CGU level. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

An impairment loss is recognised as an expense immediately for the amount by which the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment loss recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGUs, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable; and value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased, there has been a favourable change in the estimates used to determine the recoverable amount of the asset or the CGUs and only to the extent that the carrying amount of the asset or the CGUs does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. Reversal of impairment loss is recognised immediately in profit or loss.

3.17 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Related parties

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

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of the Group's parent.

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

- (i) the entity and the Group are members of the same group.
- (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.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close family members of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND OTHER KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. In addition to the critical accounting judgements and other key sources of estimation uncertainty disclosed elsewhere in these financial statements, other key sources of estimation uncertainty at the end of the reporting period and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) ECL of financial assets measured at amortised cost

The measurement of the ECL allowance for financial assets measured at amortised cost is an area that requires the use of significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgments, including determining the criteria for significant increase in credit risk, are also required in applying the accounting requirements for measuring ECLs. Details about the judgements and assumptions used in measuring ECLs is set out in note 3.11(a) to these financial statements. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECLs to be recognised.

(ii) Impairment of trading rights and goodwill

Goodwill and trading rights with an indefinite useful life are tested for impairment at least annually. At each reporting date, the Group also reviews internal and external sources of information to identify indications that any of these assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. The sources utilised to identify indications of impairment are often subjective in nature and the directors of the Company are required to use judgement in applying such information to its business. Their interpretation of such information has a direct impact on whether an impairment assessment is performed as at any given reporting date.

The impairment tests are further subjected to an exercise that requires the Group to estimate the recoverable amount. Depending on the assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable amount, the Group may perform such assessment utilising internal resources or may engage external advisers in making this assessment.

Regardless of the resources utilised, the Group is required to make many assumptions in this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable amount of these assets.

(iii) Current tax and deferred tax

The Group is mainly subjected to income tax in Hong Kong. Significant judgement is required in determining the amount of the provision and the timing of payment. There are many transactions and calculations for which the ultimate tax expense is uncertain during the ordinary course of business. The Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final outcome of these matters is different from the amounts that were originally estimated, such differences will impact the provision for income tax and deferred tax in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND OTHER KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(iii) Current tax and deferred tax *(Continued)*

Deferred tax assets relating to certain deductible temporary differences and tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax expense in the period in which such estimate is changed.

(iv) Determining the lease term

In determining the lease term at the commencement date for leases that include renewal options or early termination options exercisable by the Group, the Group exercises judgement to evaluate the likelihood of exercising the renewal options or early termination options taking into account all relevant facts and circumstances that create economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken, penalties for early termination and the importance of that underlying asset to the Group's operation. Any changes in the lease term would affect the amount of right-of-use assets and lease liabilities recognised in future years. The Group also exercises judgement to determine whether there is a significant event or change in circumstance that is within the Group's control that would require the lease term to be reassessed.

5. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines as follows:

(a) securities brokerage and financial services - provision of discretionary and non-discretionary dealing services for securities and futures contracts, securities placing and underwriting services, margin financing and money lending services, corporate finance advisory and general advisory services;

(b) asset management services - provision of fund management and discretionary portfolio management and investment advisory services;

(c) proprietary trading - investment holding and securities trading; and

(d) trading business - trading of chemical products and energy and minerals products.

No operating segments identified have been aggregated in arriving at the reportable segments of the Group. Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches.

5. SEGMENT INFORMATION *(Continued)*

2019	Securities brokerage and financial services *HK$'000*	Asset management services *HK$'000*	Proprietary trading *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Reportable segment revenue					
External customers					
— Fee and commission income	330	8,474	–	–	8,804
— Interest income	40	–	–	–	40
	370	8,474	–	–	8,844
Inter-segment	–	–	–	–	–
	370	8,474	–	–	8,844
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	330	–	–	–	330
Over time	–	8,474	–	–	8,474
	330	8,474	–	–	8,804
— Geographical region					
Hong Kong	330	8,474	–	–	8,804
Mainland China	–	–	–	–	–
	330	8,474	–	–	8,804
Reportable segment result	(12,746)	(16,321)	(7,059)	(2,240)	(38,366)
Depreciation	21	60	12	–	93
Impairment losses on goodwill	–	7,000	–	–	7,000
Loss allowances on trade receivables	–	4,570	–	–	4,570
Fair value loss on held for trading investments	–	–	5,610	–	5,610
Finance costs	1	–	–	–	1
Reportable segment assets	19,403	1,663	194	64	21,324
Expenditures for additions to non-current segment assets*	–	–	–	–	–
Reportable segment liabilities	17,599	847	40	3	18,489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. SEGMENT INFORMATION *(Continued)*

2018	Securities brokerage and financial services HK$'000	Asset management services HK$'000	Proprietary trading HK$'000	Trading business HK$'000	Total HK$'000
Reportable segment revenue					
External customers					
— Fee and commission income	1,604	30,095	–	–	31,699
— Interest income	2,447	–	–	–	2,447
	4,051	30,095	–	–	34,146
Inter-segment	–	–	–	–	–
	4,051	30,095	–	–	34,146
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	1,604	–	–	–	1,604
Over time	–	30,095	–	–	30,095
	1,604	30,095	–	–	31,699
— Geographical region					
Hong Kong	1,604	29,954	–	–	31,558
Mainland China	–	141	–	–	141
	1,604	30,095	–	–	31,699
Reportable segment result	(7,828)	2,778	(31,238)	(349)	(36,637)
Impairment losses on trading rights	3,322	–	–	–	3,322
Depreciation	56	72	15	–	143
Fair value loss on held for trading investments	–	–	28,155	–	28,155
Finance costs	1	–	–	–	1
Reportable segment assets	54,665	37,181	6,955	56	98,857
Expenditures for additions to non-current segment assets*	–	40	–	–	40
Reportable segment liabilities	47,130	1,351	1,306	49	49,836

5. SEGMENT INFORMATION *(Continued)*

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that other income; directors' emoluments; interest expenses on loans from a director of the Company and related companies; gain or loss on disposal of subsidiaries, share of results of on interests in an associate accounted for using the equity method; income tax expense; and corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segments. Common expenditures are allocated between operating segments based on proportion of segment revenue where necessary. Inter-segment revenue are charged on the expenses incurred by the relevant subsidiary plus certain percentage.

Segment assets include all assets but do not include current tax assets and bank balances of the Group. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters. Segment liabilities include all liabilities but do not include borrowings and current tax liabilities. In addition, corporate liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the financial statements as follows:

	2019 HK$'000	2018 HK$'000
Reportable segment revenue	8,844	34,146
Group's revenue	8,844	34,146
Reportable segment result	(38,366)	(36,637)
Other income	618	211
Finance costs	(23,293)	(28,276)
Gain/(Loss) on disposal of subsidiaries	10	(2,919)
Reversal of provision for settlement of convertible bonds	–	4,394
Share of results of an associate	–	(1,723)
Corporate expenses**	(16,534)	(15,374)
Group's loss before income tax	(77,565)	(80,324)

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5. SEGMENT INFORMATION *(Continued)*

	2019 HK$'000	2018 HK$'000
Reportable segment assets	**21,324**	98,857
Current tax assets	**678**	938
Cash and cash equivalents	**29,840**	47,262
Corporate assets	**13,457**	2,605
Group's assets	**65,299**	149,662
Reportable segment liabilities	**18,489**	49,836
Borrowings	**100,142**	80,421
Corporate liabilities	**9,446**	4,833
Group's liabilities	**128,077**	135,090

	Reportable segment total		Unallocated		Consolidated	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Other material items						
Depreciation and amortisation	**93**	143	**1,449**	94	**1,542**	237
Finance costs	**1**	1	**23,293**	28,276	**23,294**	28,277
Expenditures for additions to non-current assets*	**–**	40	**2,933**	23	**2,933**	63

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's non-current assets*. The geographical location of customers is based on the location at which the subsidiary operates. The geographical location of non-current assets* is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operations to which they are allocated, in the case of trading rights and goodwill.

	Revenue from external customers		Non-current assets*	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Hong Kong (domicile)#	**8,844**	34,005	**11,515**	7,343
Mainland China	**–**	141	**8**	9
	8,844	34,146	**11,523**	7,352

* Non-current assets exclude deferred tax assets and other assets.

** mainly staff costs, including directors' emoluments, minimum lease payments under operating leases in respect of land and buildings and other professional fees

The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities. The Group has the majority of its operations in Hong Kong, and therefore, Hong Kong is considered as the Group's place of domicile for the purpose of disclosures as required by HKFRS 8, Operating Segments.

5. SEGMENT INFORMATION *(Continued)*

The Group's customers include the following with whom transactions have exceeded 10% of the Group's revenue:

	2019 **HK$'000**	2018 HK$'000
Customer A *(note i)*	**5,044**	18,669
Customer B *(note i)*	**1,222**	–

Notes:

i. Revenue from these customers is attributable to asset management services segment

6. FEE AND COMMISSION INCOME, INTEREST INCOME

	2019 **HK$'000**	2018 HK$'000
Fee and commission income		
Securities brokerage and financial services segment:		
— Securities and futures brokerage	**159**	1,270
— Underwriting and placing	**21**	–
— Others	**150**	334
	330	1,604
Asset management services segment:		
— Fund and portfolio management and investment advisory	**8,474**	30,095
	8,804	31,699
Interest income		
— Margin financing and money lending	**40**	2,447
	40	2,447
Total	**8,844**	34,146

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its customer contracts relating to fund and portfolio management and investment advisory services such that the Group had not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less and any estimated amounts of variable consideration that are constrained.

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7. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Changes in fair value of held for trading investments	**(5,610)**	(28,155)
Gains/(Losses) on disposal of subsidiaries	**10**	(2,919)
Impairment losses on goodwill *(note 18)*	**(7,000)**	–
Impairment losses on trading rights	**–**	(3,322)
Loss allowances on trade receivables *(note 21)*	**(4,570)**	–
Net foreign exchange gains	**33**	237
Net gain on disposals of property, plant and equipment	**5**	–
Others	**24**	172
	(17,108)	(33,987)

8. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Interest income from banks and others	**32**	211
Sundry income	**586**	–
	618	211

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Effective interest on liability component of convertible bonds	**–**	27,153
Interest on bank and other borrowings	**1**	2
Interest on loans from a director of the Company and related companies	**22,862**	1,122
Interest on lease liabilities *(note 16)*	**431**	–
	23,294	28,277

10. LOSS BEFORE INCOME TAX

	2019 HK$'000	2018 HK$'000
Loss before income tax is arrived at after charging:		
Staff costs, including directors' emoluments		
— Fees, salaries, allowances and bonuses	**25,593**	29,037
— Retirement benefit scheme contributions*	**130**	487
	25,723	29,524
Other expenses		
— Auditor's remuneration	**1,300**	1,400
— Bad debt written off	**461**	–
— Entertainment and gifts	**471**	992
— Minimum lease payments for leases in respect of land and buildings previously classified as operating leases under HKAS 17	**–**	9,902
— Other professional fees	**2,751**	5,059
— System license and subscriptions	**1,196**	1,162
— Others	**13,181**	6,812
	19,360	25,327

* The amount included forfeited contributions of HK$704,000 (2018: HK$572,000) in respect of employees who left employment prior to such contributions vesting fully in accordance with the rules of the MPF Scheme.

11. INCOME TAX (CREDIT)/EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation are taxed at 8.25%, and profits above HK$2 million are taxed at 16.5%. The profits of corporation not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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

Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime for both current and previous years.

	2019 *HK$'000*	2018 *HK$'000*
Current tax – Hong Kong profits tax		
— Provision for current year	–	1,327
— Over provision in respect of prior years	(201)	(141)
	(201)	1,186
Deferred tax		
— Write-down of deferred tax assets	–	144
Total income tax (credit)/expense	(201)	1,330

Reconciliation between income tax (credit)/ expense and loss before income tax at applicable tax rate is as follows:

	2019 *HK$'000*	2018 *HK$'000*
Loss before income tax	(77,565)	(80,324)
Notional tax at Hong Kong profits tax rate of 16.5% (2018: 16.5%)	(12,798)	(13,253)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(144)	135
Tax effect of concessionary tax rate	–	(165)
Tax effect of revenue not taxable for tax purpose	(839)	(915)
Tax effect of expenses not deductible for tax purpose	2,013	4,106
Tax effect of unused tax losses not recognised as deferred tax asset	11,780	10,953
Tax effect of prior years' unrecognised tax losses utilised this year	–	(4)
Tax effect of temporary differences not recognised	(12)	11
Tax effect of share of results of an associate	–	284
Over provision in respect of prior years	(201)	(141)
Write-down of deferred tax assets	–	144
Other differences	–	175
Income tax (credit)/expense	(201)	1,330

12. DIVIDENDS

No dividend was proposed or paid during the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$77,334,000 (2018: loss of approximately HK$81,646,000) and the weighted average number of 3,819,705,413 (2018: 3,575,243,574) ordinary shares in issue during the year.

Diluted loss per share

The diluted loss per share is the same as the basic loss per share because the calculation of the diluted loss per share does not assume the exercise of the outstanding share options since their exercise would result in decrease in loss per share.

14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
2019				
Executive Directors				
Mr. Qiu Bin *(note (a))*	200	1,560	18	1,778
Ms. Cheng Kit Sum, Clara *(note (b))*	173	1,713	93	1,979
Mr. Zhou Quan *(note (c))*	133	267	26	426
Non-Executive Directors				
Mr. Chen Zhong Min *(note (e))*	–	–	–	–
Mr. Chiu Hau Shun, Simon *(note (f))*	–	–	–	–
Ms. Tang Lai Shan, Jo Jo *(note (f))*	–	–	–	–
Mr. Mu Hao *(note (g))*	143	–	–	143
Mr. Zhao Yun *(note (h))*	127	–	–	127
Independent Non-Executive Directors				
Mr. Fung Tze Wa *(note (l))*	200	–	–	200
Dr. Huan Guocang *(note (i))*	223	–	–	223
Mr. Lo Ka Wai *(note (i))*	223	–	–	223
Ms. Fang Fang *(note (j))*	143	–	–	143
Mr. An Dong *(note (k))*	27	–	–	27
	1,592	3,540	137	5,269

14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Directors' emoluments *(Continued)*

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
2018				
Executive Directors				
Mr. Qiu Bin	200	1,560	18	1,778
Ms. Cheng Kit Sum, Clara	200	1,600	102	1,902
Mr. Wu Siu Lam, William *(note (d))*	82	789	48	919
Non-Executive Directors				
Mr. Chen Zhong Min *(note (e))*	718	–	–	718
Mr. Chiu Hau Shun, Simon *(note (f))*	–	–	–	–
Ms. Tang Lai Shan, Jo Jo *(note (f))*	–	–	–	–
Independent Non-Executive Directors				
Mr. Fung Tze Wa *(note (l))*	119	–	–	119
Dr. Huan Guocang	200	–	–	200
Mr. Lo Ka Wai	200	–	–	200
Mr. Wu Fred Fong *(note (m))*	82	–	–	82
	1,801	3,949	168	5,918

There was no arrangement under which a director waived or agreed to waive any emoluments in respect of the years ended 31 December 2019 and 2018. No emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, nor as compensation for loss of office.

Notes:

(a) Resigned as executive director with effect on 5 February 2020.

(b) Resigned as executive director with effect on 11 November 2019.

(c) Appointed as executive director with effect on 2 May 2019.

(d) Resigned as executive director with effect on 28 May 2018.

(e) Appointed as non-executive director with effect on 2 January 2018 and resigned on 1 January 2019.

(f) Appointed as non-executive director with effect on 24 December 2018 and resigned on 22 March 2019.

(g) Appointed as non-executive director with effect on 3 April 2019 and resigned on 25 March 2020.

(h) Appointed as non-executive director with effect on 2 May 2019 and redesignated as executive director on 25 March 2020.

(i) Resigned as independent non-executive director with effect on 11 November 2019.

(j) Appointed as independent non-executive director with effect on 3 April 2019.

(k) Appointed as independent non-executive director with effect on 11 November 2019.

(l) Appointed as independent non-executive director with effect on 28 May 2018.

(m) Resigned as independent non-executive director with effect on 28 May 2018.

14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Emoluments of five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2018: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	2019	2018
	HK$'000	*HK$'000*
Salaries and allowances	**4,607**	6,490
Retirement benefit scheme contributions	**78**	171
	4,685	6,661

During the years ended 31 December 2019 and 2018, no emolument was paid by the Group to the above remaining three (2018: three) individuals as compensation for loss of office.

The emoluments of these remaining three (2018: three) highest paid individuals fell within the following bands:

	Number of individuals	
	2019	2018
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	–
HK$4,000,001 – HK$4,500,000	**–**	1
	3	3

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15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2018				
Cost	1,698	4,279	1,198	7,175
Accumulated depreciation	(1,646)	(3,887)	(1,115)	(6,648)
Net carrying amount	52	392	83	527
Year ended 31 December 2018				
Opening net carrying amount	52	392	83	527
Additions	–	63	–	63
Disposals	–	–	–	–
Disposal of subsidiaries	–	(1)	–	(1)
Depreciation	(32)	(129)	(76)	(237)
Translation differences	–	–	–	–
Closing net carrying amount	20	325	7	352
At 31 December 2018				
Cost	1,698	4,324	1,189	7,211
Accumulated depreciation	(1,678)	(3,999)	(1,182)	(6,859)
Net carrying amount	20	325	7	352
Year ended 31 December 2019				
Opening net carrying amount	**20**	**325**	**7**	**352**
Additions	**2,581**	**352**	**–**	**2,933**
Disposals	**–**	**(5)**	**–**	**(5)**
Depreciation	**(251)**	**(118)**	**–**	**(369)**
Translation differences	**–**	**–**	**–**	**–**
Closing net carrying amount	**2,350**	**554**	**7**	**2,911**
At 31 December 2019				
Cost	**4,279**	**4,662**	**1,189**	**10,130**
Accumulated depreciation	**(1,929)**	**(4,108)**	**(1,182)**	**(7,219)**
Net carrying amount	**2,350**	**554**	**7**	**2,911**

16. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see note 2.1. The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 3.10.

The Group leases a number of office properties from which it operates. Rental contracts are typically made for a fixed period of 13 months, but may have extension options which is exercisable by the Group to further extend the lease terms for 3 years.

None of the leases contain variable lease payments.

Set out below are the carrying amounts of right-of-use assets and lease liabilities recognised and the movements during the year:

Right-of-use assets

	Land and buildings *HK$'000*
At 1 January 2019	–
Additions	**14,400**
Depreciation	**(1,173)**
Effect of lease modification	**(4,615)**
At 31 December 2019	**8,612**

Lease liabilities

	Land and buildings *HK$'000*
At 1 January 2019	–
Additions	**14,400**
Effect of lease modification	**(4,639)**
Interest expense	**431**
Lease payments	**(1,446)**
At 31 December 2019	**8,746**
Analysed into:	
Current liabilities	1,896
Non-current liabilities	6,850

16. LEASES *(Continued)*

Lease liabilities *(Continued)*

The maturity analysis of lease liabilities is disclosed in note 36(c) to the financial statements.

As at 31 December 2019, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	Minimum lease payments *HK$'000*	Interest *HK$'000*	Present value *HK$'000*
Not later than one year	2,884	(988)	1,896
Later than one year and not later than two years	2,884	(736)	2,148
Later than two year and not later than five years	5,285	(583)	4,702
At 31 December 2019	**11,053**	**(2,307)**	**8,746**

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

	2019 ***HK$'000***
Depreciation expense of right-of-use assets	**1,173**
Interest on lease liabilities *(note 9)*	**431**
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**5,975**

The Group has no expense relating to leases of low-value assets, excluding short-term leases of low-value assets.

The total cash outflow for lease in the year ended 31 December 2019 was HK$1,446,000.

17. TRADING RIGHTS

	2019 HK$'000	2018 HK$'000
Gross carrying amount		
At beginning and end of the year	3,322	3,322
Accumulated impairment		
At beginning of the year	3,322	–
Impairment loss recognised	–	3,322
At end of the year	3,322	3,322
Net carrying amount		
At beginning of the year	–	3,322
At end of the year	–	–

Trading rights represent the eligibility rights to trade on or through Hong Kong Futures Exchange Limited and the Stock Exchange. The trading rights have no foreseeable limit to the period over which the Group can use to generate net cash flows. As a result, the trading rights are considered by the management as having an indefinite useful life. Trading rights will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. The trading rights had been fully impaired in the previous year.

18. GOODWILL

	2019 HK$'000	2018 HK$'000
Gross carrying amount		
At beginning and end of the year	7,000	7,000
Accumulated impairment		
At beginning of the year	–	–
Impairment loss recognised	7,000	–
At end of the year	7,000	–
Net carrying amount		
At beginning of the year	7,000	7,000
At end of the year	–	7,000

18. GOODWILL *(Continued)*

For the purpose of annual impairment testing, goodwill is allocated to the CGU which engaged in the asset management business. Recoverable amount for the CGU was determined based on value-in-use calculation. The calculation use cash flow projections based on financial budgets approved by management covering a one-year period, and discount rate of 30% (2018: 33%). Cash flows beyond the one-year period are extrapolated for four years using a 0% (2018: 10%) growth rate. The growth rate is determined based on management's expectations for the market development and is not expected to exceed the average long-term growth rate for the relevant industry. The discount rate used is pre-tax and reflect specific risks relating to the relevant business. Taking into account of the deteriorating financial performance of the asset management business, the unfavourable change in the capital market and the expectations for the market development, an impairment loss of HK$7,000,000 (2018: HK$ Nil) was recognised in respect of the goodwill.

19. INTERESTS IN AN ASSOCIATE

On 28 June 2018, the Company had entered into an agreement to sell the entire issued share capital of a subsidiary, Joinbo Holdings Limited, which indirectly owns 25% of the equity interest in Xinhua (Daqing) Merchandise Exchange Company Limited ("XHME"). XHME is an entity incorporated in the PRC which is principally operating an electronic merchandise exchange platform for commodity goods trading in the PRC. Following the completion of the disposal on 28 June 2018, the Company no longer held any of the interest in XHME and XHME ceased to be recognised as an associate of the Company.

The following tables illustrate the financial information of XHME not audited by BDO Limited up to the date of disposal on 28 June 2018 as extracted from its management accounts and adjusted to reflect adjustments made by the Group when applying the equity method:

	28 June 2018 *HK$'000*
Current assets	9,914
Non-current assets	874
Current liabilities	(6,262)
Net assets	4,526

	Period ended 28 June 2018 *HK$'000*
Revenue	–
Expenses	(6,890)
Loss from operations and total comprehensive income	(6,890)

No dividend was received from XHME during the year ended 31 December 2018.

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20. OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Admission fee paid to Hong Kong Securities Clearing Company Limited ("HKSCC")	**50**	50
Cash contribution to the Guarantee Fund of HKSCC	**50**	50
Deposit with HKFE Clearing Corporation Limited ("HKCC")	**1,500**	1,500
Deposits with the Stock Exchange		
— Compensation Fund	**50**	50
— Fidelity Fund	**50**	50
— Stamp duty	**5**	30
	1,705	1,730

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Trade receivables	**1,182**	36,716
Other receivables and prepayments	**2,951**	3,429
	4,133	40,145

The analysis of trade receivables is as follows:

	2019 HK$'000	2018 HK$'000
Arising from the business of dealing in securities and futures contracts		
— HKSCC and HKCC	**–**	60
Arising from asset management services	**5,752**	29,415
Arising from money lending services	**–**	7,241
Less: Loss allowances	**(4,570)**	–
	1,182	36,716

The normal settlement terms of trade receivables arising from the business of dealing in securities are one to two business days after the respective trade dates. The normal settlement terms of trade receivables arising from the business of dealing in futures contracts are one business day after the respective trade dates. The amounts due from HKSCC are repayable on demand subsequent to the settlement date and bear interest at Hong Kong Dollar Prime Rate plus a spread of 3% (2018: 3%) per annum. The amounts due from HKCC are repayable on demand except for the required margin deposits for the trading of futures contracts.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

The Group does not provide any credit term to clients for its asset management services. Amount arising from money lending services as at 31 December 2018 represented a term loan which was repayable within one year from 31 December 2018 and bore interest at a fixed rate of 10% per annum and was secured by marketable securities with fair value of HK$30,000,000 at 31 December 2018.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 36(b) to these financial statements.

22. HELD FOR TRADING INVESTMENTS

	2019 HK$'000	2018 HK$'000
Listed equity securities	**26**	5,263
Unlisted investment funds *(note)*	**–**	1,565
	26	6,828

Note:

Pursuant to the subscription agreements, the Group's interests in the above investment funds are in the form of redeemable shares, which are puttable at the holder's option at any time, for an amount equal to the pro rata share of the fund's net assets and entitle the Group to a proportionate stake in the respective funds' net assets. These investment funds are managed by the respective unrelated investment managers who are empowered to manage their daily operations and apply various investment strategies to accomplish their respective investment objectives.

23. TRUST BANK BALANCES HELD ON BEHALF OF CLIENTS

From the Group's ordinary business of dealing in securities and futures contracts, it receives and holds money deposited by clients in the course of conducting its regulated activities. These clients' monies are maintained in one or more segregated bank accounts and earn interest at floating rates based on daily bank deposit rates of 0.100% (2018: 0.125%) per annum. The Group has recognised the corresponding trade payables to respective clients.

24. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Cash and cash equivalents

	2019 HK$'000	2018 HK$'000
Demand deposits and cash on hand	**29,840**	47,262

24. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

Cash and cash equivalents *(Continued)*

Demand deposits earn interest at floating rates based on daily bank deposit rates. The prevailing market interest rates for demand deposits in Hong Kong and in the PRC are 0.100% (2018: 0.125%) per annum and 0.350% (2018: 0.350%) per annum, respectively.

Included in cash and cash equivalents of the Group is RMB of HK$1,718,000 (2018: HK$3,239,000). RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks that are authorised to conduct foreign exchange business.

Other cash flow information

The movement of liabilities arising from financing activities for the year ended 31 December 2018 is as follows:

	Other loan *(note 26)* *HK$'000*	Liability component of 2014 SYFS Bonds *(note 27)* *HK$'000*	Liability component of 2017 SYHL Bonds *(note 27)* *HK$'000*	Liability component of 2018 SYHL Bonds *(note 27)* *HK$'000*
At 1 January 2018	–	45,000	98,517	–
Changes from financing cash flows:				
— Proceeds received	160,000	–	–	–
— Repayments/Redemption	(80,000)	–	(110,000)	–
Other changes:				
— Settlement of 2014 SYFS Bonds by way of issuing 2018 SYHL Bonds under the deed of settlement	–	(45,000)	–	83,581
— Allocated to convertible bond equity reserve	–	–	–	(9,267)
— Effective interest recognised	1,122	–	20,283	6,870
— Interest paid	(701)	–	(8,800)	–
— Exercise of conversion option	–	–	–	(77,575)
— Transfer (note)	–	–	–	(3,609)
At 31 December 2018	80,421	–	–	–

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24. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

Other cash flow information *(Continued)*

The movement of liabilities arising from financing activities for the year ended 31 December 2019 is as follows:

	Lease liabilities *HK$'000* *(note 16)*	Other loan *HK$'000* *(note 26)*
At 1 January 2019	–	80,421
Changes from financing cash flows:		
— Proceeds received	–	99,800
— Repayments	–	(80,000)
— Repayment of lease liabilities	(1,446)	–
Other changes:		
— Increase in lease liabilities from entering into new leases during the year	9,761	–
— Interest on lease liabilities	431	–
— Effective interest recognised	–	22,862
— Interest paid for other loan	–	(22,941)
At 31 December 2019	8,746	100,142

Note:

The 2018 SYHL Bonds bore interest at 8% per annum and the Company shall pay such interest every 6-month from the initial issue date. On 4 December 2018, the Company had entered into agreement with the sole bondholder in which interest payable on 4 December 2018 of HK$3,609,000 could be settled within 3 months from the date of the agreement. On 14 December 2018, the 2018 SYHL Bonds were converted into ordinary shares of the Company and accordingly, the unpaid interest of HK$3,609,000 was transferred to "Other payables and accruals" (note 25) upon conversion. Such interest had been settled on 22 January 2019.

25. TRADE AND OTHER PAYABLES AND ACCRUALS

	2019 **HK$'000**	2018 *HK$'000*
Trade payables arising from the business of dealing in securities and futures contracts		
— HKSCC and HKCC	**10**	–
— Cash clients	**15,431**	44,354
— Margin clients	**783**	1,134
	16,224	45,488
Other payables and accruals	**2,515**	8,731
	18,739	54,219

The normal settlement terms of trade payables arising from the business of dealing in securities are one to two business days after the respective trade dates. The normal settlement terms of trade payables arising from the business of dealing in futures contracts are one business day after the respective trade dates. The amounts payable to cash and margin clients are repayable on demand except for the required margin deposits for the trading of futures contracts. No ageing analysis in respect of trade payables is disclosed as, in the opinion of the directors, the ageing analysis does not give additional value in view of the business nature.

26. BORROWINGS

	2019 **HK$'000**	2018 *HK$'000*
Loans from related companies *(note 34)*		
— Principal amount	**99,800**	80,000
— Interest payables	**342**	421
	100,142	80,421

The loan at 31 December 2018 was secured by a charge of the Company's shares owned by certain substantial shareholders of the Company, interest bearing at 24% per annum and repayable within three months from the end of the reporting period. The loan had been settled on 22 March 2019.

The loan at 31 December 2019 with the principal amount of HK$99,800,000 is secured by a charge of the Company's shares owned by certain substantial shareholders of the Company, interest bearing at 12.5% per annum and repayable within twelve months from 31 December 2019.

27. CONVERTIBLE BONDS AND PROVISION

2014 SYFS Bonds, provision for settlement of 2014 SYFS Bonds and 2018 SYHL Bonds

Pursuant to a subscription agreement entered into by a wholly-owned subsidiary of the Company, Sheng Yuan Financial Services Group Limited ("SYFS") on 9 April 2014, SYFS issued zero coupon convertible bonds with principal amount of HK$45,000,000 on 16 June 2014 ("2014 SYFS Bonds"). The 2014 SYFS Bonds entitled the holders to convert them into ordinary shares of SYFS ("SYFS Conversion Shares") at a conversion price of HK$10,000 with certain profit conditions of SYFS and its subsidiaries ("SYFS Group") as set out in the Company's circular dated 16 May 2014. Any unconverted 2014 SYFS Bonds had to be redeemed by SYFS at 100% of its face value within 30 business days from the third anniversary day.

Based on the terms of the subscription agreement, the 2014 SYFS Bonds contained two components, (i) the liability and (ii) the equity conversion components. On 15 June 2017, the Group received conversion notice from the sole bondholder in respect of the exercise of the conversion rights attached to the 2014 SYFS Bonds in the aggregate amount of HK$45,000,000. As the issuance of the SYFS Conversion Shares was subject to the approval of a regulator, the 2014 SYFS Bonds had not been converted into ordinary shares of SYFS. On 29 December 2017, the Company, SYFS and the sole bondholder entered into a deed of settlement. Subject to the permission from the Stock Exchange, the Company would issue convertible bonds with a principal amount of HK$90,000,000 for a term of 2 years as settlement and release of the SYFS's obligations under the 2014 SYFS Bonds.

On 4 June 2018, convertible bonds in the principal amount of HK$90,000,000 ("2018 SYHL Bonds") were issued to the sole bondholder after the approval from the Stock Exchange has been granted. The 2018 SYHL Bonds entitled the holder to convert them into ordinary shares of the Company at the conversion price of HK$0.35 per share at any time before 24 months from the initial issue date ("2018 SYHL Bonds Maturity Date") and bore interest at 8% per annum. The Company shall have the right to, at any time during the period from the initial issue date and up to the 2018 SYHL Bonds Maturity Date, to redeem the 2018 SYHL Bonds at 100% of the outstanding principal amount, together with accrued interest, if any.

Based on the terms of the deed of settlement, the 2018 SYHL Bonds contain two components, (i) the liability and (ii) the equity conversion components. At the issue date, the fair value of the 2018 SYHL Bonds was determined using the Binomial Option Pricing Model. The fair value of the liability component of 2018 SYHL Bonds upon issuance was calculated at the present value of the estimated coupon interest payments and principal amount. The discount rate used in the calculation is 20%, representing the cost of debt applicable to the Company for a similar bond without conversion option at the issue date. The equity conversion component is determined by deducting the amount of the liability component from the fair value of the 2018 SYHL Bonds. The key inputs used in the Binomial Option Pricing Model were as follows:

Inputs	4 June 2018
Stock price	HK$0.255
Exercise price	HK$0.350
Expected life	2 years
Expected volatility	47.01%
Expected dividend yield	0.00%
Risk-free interest rate	2.38%

27. CONVERTIBLE BONDS AND PROVISION *(Continued)*

2014 SYFS Bonds, provision for settlement of 2014 SYFS Bonds and 2018 SYHL Bonds *(Continued)*

On 14 December 2018, the 2018 SYHL Bonds were converted into ordinary shares of the Company. The movements of the liability components of 2014 SYFS Bonds and 2018 SYHL Bonds during the year ended 31 December 2018 are set out in note 24 to these financial statements. The movement of the provision for settlement of 2014 SYFS Bonds during the year ended 31 December 2018 was as follows:

	HK$'000
At 1 January 2018	33,708
Decrease in provision	(4,394)
Utilised in the year	(29,314)
At 31 December 2018, 1 January 2019 and 31 December 2019	–

2017 SYHL Bonds

Pursuant to subscription agreements entered into by the Company on 17 November 2017, the Company issued convertible bonds with aggregate principal amount of HK$110,000,000 ("2017 SYHL Bonds") on 23 November 2017. The 2017 SYHL Bonds entitled the holders to convert them into ordinary shares of the Company at the conversion price of HK$0.35 per share at any time before 12 months from the initial issue date ("2017 SYHL Bonds Maturity Date") and bore interest at 8% per annum. Unless previously redeemed, converted or cancelled, the Company had to redeem each 2017 SYHL Bonds on the 2017 SYHL Bonds Maturity Date at 100% of the outstanding principal amount, together with accrued interest, if any.

Based on the terms of the subscription agreements, the 2017 SYHL Bonds contain two components, (i) the liability and (ii) the equity conversion components. Since the initial issue date, the 2017 SYHL Bonds has not been converted into ordinary shares of the Company and had been fully redeemed during the year ended 31 December 2018. The movement of the liability component of 2017 SYHL Bonds during year ended 31 December 2018 are set out in note 24 to these financial statements.

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28. DEFERRED TAX

(a) Deferred tax assets recognised

	Excess of depreciation over tax depreciation allowances *HK$'000*
At 1 January 2018	144
Charged to profit or loss	(144)
At 31 December 2018, 1 January 2019 and 31 December 2019	–

(b) Deferred tax assets not recognised

The Group had estimated tax losses of HK$325,991,000 (2018: HK$256,580,000) to carry forward against future taxable profits. Tax losses of HK$318,480,000 (2018: HK$249,153,000) were related to certain subsidiaries operating in Hong Kong and could be carried forward indefinitely under the current tax legislation. In addition, certain subsidiaries operating in the PRC had tax losses of HK$7,511,000 (2018: HK$7,427,000) which were subject to expiry period of five years from the year in which the tax loss arose. No deferred tax asset had been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams against which these unused tax losses could be utilised.

29. SHARE CAPITAL

	Number of ordinary shares of HK$0.05 each	Nominal value *HK$'000*
Authorised:		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	8,000,000,000	400,000
Issued and fully paid:		
At 1 January 2018	3,562,562,556	178,128
Issue of shares upon exercise of convertible bonds	257,142,857	12,857
At 31 December 2018, 1 January 2019 and 31 December 2019	3,819,705,413	190,985

All issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

30. SHARE-BASED PAYMENTS

(a) Pursuant to the general meeting held on 24 September 2004, a share option scheme ("2004 Scheme") was adopted by the Company. The purpose of the 2004 Scheme is to provide incentives or rewards to the eligible participants (including but not limited to employees, directors, suppliers and customers of the Group) ("Qualified Persons") for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

Pursuant to this 10-year term 2004 Scheme, the Company can grant share options to the Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons. The total number of the shares issued and to be issued upon exercise of the share options granted to each Qualified Person (including exercised, cancelled and outstanding share options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 24 April 2014, the Company can grant 161,201,291 share options to the Qualified Persons.

The exercise price in relation to each share option pursuant to the 2004 Scheme shall be not less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the share option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer; or (iii) the nominal value of a share of the Company. There shall be no minimum holding period for the vesting or exercise of the share options under the 2004 Scheme but the share options are exercisable within the option period as determined by the board of directors of the Company.

(b) Pursuant to a special general meeting held on 15 October 2014, a new share option scheme ("2014 Scheme") was approved by the shareholders of the Company in place of the 2004 Scheme. The share options granted for the 2004 Scheme shall continue to be valid and exercisable in accordance with the 2004 Scheme.

The 2014 Scheme is also valid and effective for 10 years, after which no further share options may be issued under the 2014 Scheme but any share options granted thereto shall remain exercisable in accordance with the 2014 Scheme. The purpose of the 2014 Scheme is to enable the Group to grant share options to the Qualified Persons as incentives or rewards for their contribution to the Group.

The maximum number of shares which can be granted under the 2014 Scheme may not exceed 10% of the issued share capital of the Company from time to time. Pursuant to a resolution passed on the annual general meeting of the Company, dated 15 October 2014, the Company can grant 161,201,291 share options to the Qualified Persons, until the next time of refreshment. The maximum number of shares which can be granted under the 2004 Scheme and the 2014 Scheme may not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of shares issuable under the 2004 Scheme and the 2014 Scheme to each Qualified Persons within any 12-month's period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval. At 31 December 2019, the number of shares in respect of which options has been granted and remained outstanding under the 2004 Scheme and 2014 Scheme was 60,000,000 (2018: 117,200,000), representing 1.6% of the Company's shares in issue at that date.

30. SHARE-BASED PAYMENTS *(Continued)*

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any 12-month period, are subject to prior shareholders' approval in a general meeting.

The exercise price in relation to each share option pursuant to the 2014 Scheme shall be not less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the share option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer; or (iii) the nominal value of a share of the Company. There shall be no minimum holding period for the vesting or exercise of the share options under the 2014 Scheme but the share options are exercisable within the option period as determined by the board of directors of the Company.

Movements in share options to subscribe for ordinary shares in the Company under the 2004 Scheme and 2014 Scheme during the year and their weighted average exercise price are as follows:

	Number of share options		Weighted average exercise price	
	2019	2018	**2019**	2018
			HK$	*HK$*
Outstanding at 1 January	**117,200,000**	97,200,000	**0.240**	0.240
Exercised	**–**	–	**N/A**	N/A
Forfeited	**(57,200,000)**	(15,000,000)	**0.240**	0.240
Granted	**–**	35,000,000	**N/A**	0.240
Outstanding at 31 December	**60,000,000**	117,200,000	**0.240**	0.240
Exercisable at 31 December	**60,000,000**	82,200,000	**0.240**	0.240

Note:

The exercise prices and exercisable period of share options under the 2004 Scheme and 2014 Scheme outstanding at the reporting date are as follows:

Exercisable period	Number of share options outstanding as at 31 December			Exercise price	
	2019	2018	*Notes*	**2019**	2018
				HK$	*HK$*
07/09/2017 — 07/09/2020	**60,000,000**	81,000,000	*(a)*	**0.240**	0.240
01/04/2019 — 25/03/2021	**–**	35,000,000	*(b)*	**N/A**	0.240
25/08/2011 — 25/08/2021	**–**	480,000	*(a)*	**N/A**	0.280
25/08/2011 — 25/08/2021	**–**	720,000	*(c)*	**N/A**	0.280
	60,000,000	117,200,000			

30. SHARE-BASED PAYMENTS *(Continued)*

Note: (Continued)

(a) These share options were immediately vest on the date of grant.

(b) These share options were vested on 1 April 2019 and forfeited during the current year upon resignation of grantee.

(c) These share options were vested one year from the date of grant.

(d) The weighted average remaining contractual life of share options outstanding at 31 December 2019 is 0.7 years (2018: 1.7 years).

During the year ended 31 December 2018, the Company granted share options that, subject to certain non-market vesting conditions, entitled the Qualified Persons to subscribe for an aggregate 35,000,000 new shares of HK$0.05 each in the share capital of the Company.

The fair value of services received in return for share options granted is based on the fair value of the share options granted of HK$3,505,000 measured using Binomial Option Pricing Model. The following inputs were used in the measurement of the fair value at grant date:

Inputs	26 March 2018
Grant date share price	HK$0.234
Exercise price	HK$0.240
Expected life	3 years
Expected volatility	71.59%
Expected dividend yield	0.00%
Risk-free interest rate	1.67%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the year ended 31 December 2018, no equity-settled share-based payment expense was recognised in respect of the share options granted during the year as the vesting conditions had not been met.

31. DISPOSAL OF SUBSIDIARIES

On 23 July 2019, a subsidiary of the Company entered into an agreement to sell the entire issued share capital of a subsidiary, Sheng Yuan Finance Limited, for a cash consideration of HK$10,000.

On 20 November 2019, a subsidiary of the Company entered into an agreement to sell the entire issued share capital of a subsidiary, Sheng Yuan Management Limited, for a cash consideration of HK$100.

The net assets disposed of, the resulting gains on disposals and the net cash inflow in respect of the above transactions were as follows:

	Sheng Yuan Finance Limited 2019 *HK$'000*	Sheng Yuan Management Limited 2019 *HK$'000*
Net assets disposed of:		
Cash and cash equivalents	–	–
Gain on disposal:		
Consideration received	10	–
Net assets disposed of	–	–
	10**	–**
Net cash inflow:		
Total consideration	10	–
Less: Cash and cash equivalents disposed of	–	–
	10	–

** *included in "Other gains and losses" in profit or loss*

31. DISPOSAL OF SUBSIDIARIES *(Continued)*

On 28 June 2018, the Company entered into an agreement to sell the entire issued share capital of a subsidiary, Joinbo Holdings Limited, for a cash consideration of HK$4,000,000. The net assets disposed of, the resulting loss on disposal and the net cash inflow in respect of the above transaction were as follows:

	2018 *HK$'000*
Net assets disposed of:	
Property, plant and equipment	1
Interests in an associate	193
Other receivables and prepayments	169
Cash and cash equivalents	18
Other payables and accruals	(1)
	380
Loss on disposal:	
Consideration received	4,000
Net assets disposed of	(380)
Non-controlling interests derecognised	(11)
Cumulative currency translation reserve in respect of the subsidiaries and associate disposed of reclassified from equity to profit or loss on disposal	(6,528)
	(2,919)#
Net cash inflow:	
Total consideration	4,000
Less: Cash and cash equivalents disposed of	(18)
	3,982

included in "Other gains and losses" in profit or loss for the year ended 31 December 2018

32. RESERVES

Share premium

Under the Bermuda Companies Act 1981, the funds in the share premium account of the Company may be credited to a contributed surplus account of the Company. Such contributed surplus, may be distributed when the Company is able to settle its liabilities when they fall due after such payment.

Shareholder's contribution

Shareholder's contribution represents the amount of borrowing due by the Company which was waived by a former shareholder during the year ended 30 April 2008.

32. RESERVES *(Continued)*

Capital redemption reserve

Capital redemption reserve was arising from the repurchase and cancelled of 47,720,000 ordinary shares of HK$0.01 each during the year ended 30 April 2001.

Convertible bond equity reserve

Convertible bond equity reserve represented the equity component of the convertible bonds issued by the Company which had not been converted into ordinary shares of the Company. The amount attributable to 2017 SYHL Bonds was transferred to accumulated losses in the previous year as the conversion option of the relevant amount of convertible bonds remained unexercised at the 2017 SYHL Bonds Maturity Date. The amount attributable to 2018 SYHL Bonds was transferred to share capital and share premium in the previous year upon exercise of the conversion option.

Share option reserve

Share option reserve represents the portion of the grant date fair value of the unexercised share options of the Company.

Currency translation reserve

Currency translation reserve represents all the foreign exchange differences arising from the translation of the financial statements and goodwill through acquisition of foreign operations from their functional currencies to the Group's presentation currency.

33. COMMITMENTS

Operating lease commitments

The Group leases a number of properties under operating leases. The leases run for an initial period of 1 to 3 years. None of the leases include contingent rentals.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, please see note 3.10 and note 16 for further information.

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, were payable as follows:

	2018 *HK$'000*
Within one year	5,905

33. COMMITMENTS *(Continued)*

Other commitments

At the reporting date, the total future minimum service fee payments under non-cancellable service agreements are payable as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**427**	630
In the second to fifth years, inclusive	**262**	–
	689	630

34. RELATED PARTY TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2019	2018
	HK$'000	*HK$'000*
A director of the Company		
Mr. Chen Zhong Min		
— Interest paid *(note (a))*	**–**	8,701
An entity has significant influence over the Company		
Wah Lun International Development Limited		
— Interest expense *(note (b))*	**4,419**	421
A wholly-owned subsidiary of an entity having significant influence over the Company		
Yuanyin Finance Limited		
— Interest expense *(note (c))*	**15,087**	–

Notes:

(a) Interest of HK$8,701,000 paid in the previous year was in connection with 2017 SYHL Bonds held by and loan advanced from the director. The 2017 SYHL Bonds and the loan have a principal amount of HK$100,000,000 and HK$80,000,000, respectively and were fully redeemed/repaid in the previous year. Mr. Chen Zhong Min resigned as non-executive director with effect on 1 January 2019.

(b) Interest expense of HK$4,419,000 (2018: HK$421,000) was in connection with loan advanced from this entity. The loan had a principal amount of HK$80,000,000 and was fully repaid during the current year.

(c) Interest expense of HK$15,087,000 for the current year was in connection with the loan advanced from this entity. The principal amount of the loan was HK$99,800,000 and was included under "Borrowings" (note 26) at 31 December 2019.

34. RELATED PARTY TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS *(Continued)*

Except as disclosed above, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

Compensation of key management personnel

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**5,132**	5,750
Post-employment benefits	**137**	168
	5,269	5,918

35. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

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

	2019 HK$'000	2018 HK$'000
Financial assets		
Fair value through profit or loss		
— Held for trading investments	**26**	6,828
	26	6,828
Amortised cost		
— Other assets	**1,705**	1,730
— Trade receivables	**1,182**	36,716
— Other receivables	**1,342**	2,710
— Trust bank balances held on behalf of clients	**17,394**	45,407
— Cash and cash equivalents	**29,840**	47,262
	51,463	133,825
	51,489	140,653
Financial liabilities		
Amortised cost		
— Trade and other payables and accruals	**18,739**	54,219
— Lease liabilities	**8,746**	–
— Borrowings	**100,142**	80,421
	127,627	134,640

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments are disclosed in note 35. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these risks to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Currency risk

The Group is exposed to currency risk primarily through receivables from and payables to clients from the provision of services and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are RMB and US$.

To manage the currency risk, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. The Group may also uses foreign exchange forward contracts to minimise its currency risk exposure, except for those transactions denominated in US$ which are, or are expected to be, entered into by operations with a functional currency of HK$. No foreign exchange forward contracts are entered for these transactions as the Group considers the risk of changes in exchange rates between HK$ and US$ to be insignificant.

The following table details the Group's financial assets and liabilities denominated in currencies, other than the functional currency of the entities to which they relate, at the end of the reporting period:

	Expressed in HK$			
	2019		2018	
	US$	**RMB**	US$	RMB
	$'000	***$'000***	*$'000*	*$'000*
Trade and other receivables	**267**	**–**	24,823	250
Trust bank balances held on behalf of clients	**556**	**–**	707	–
Cash and cash equivalents	**7,275**	**43**	14,258	24
Trade and other payables and accruals	**(556)**	**–**	(707)	–
Net exposure	**7,542**	**43**	39,081	274

The Group does not expect any significant changes in US$/HK$ exchange rates as US$ is pegged to HK$. No sensitivity analysis in respect of RMB/HK$ exchange rates is disclosed as in the opinion of the directors, such sensitivity analysis does not give additional value in view of insignificant balances that are denominated in RMB at the reporting date.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to amounts arising from borrowings (note 26) and convertible bonds (note 27) issued at fixed rates. The Group is also exposed to cash flow interest rate risk in relation to variable-rate financial assets of amounts due from margin clients (note 21) and bank balances (notes 23 and 24).

To manage the interest rate risk, the Group may use interest rate swaps to achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. At 31 December 2019 and 2018, the Group did not have any outstanding interest rate swaps.

At 31 December 2019, if interest rates had increased by 2% (2018: 2%) while all other variables were held constant, the loss for the year would decrease by approximately HK$944,000 (2018: decrease in loss by approximately HK$1,844,000) and there would be a corresponding change in accumulated losses. If interest rates had decreased by 2% (2018: 2%) while all other variables were held constant, the loss for the year would increase by approximately HK$944,000 (2018: increase in loss by approximately HK$1,844,000) and there would be a corresponding change in accumulated losses. Other components of the consolidated equity would remain unchanged.

The sensitivity analysis has been determined by assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the analysis is prepared by assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Market risk *(Continued)*

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in equity securities and investment funds classified as held for trading investments (note 22). The Group's equity securities are listed on the Stock Exchange while investment funds invest primarily in companies listed in Hong Kong. Decisions to buy and sell are based on daily monitoring of the performance of individual securities and investment funds as well as the liquidity needs.

At 31 December 2019, if relevant equity prices had increased by 10% (2018: 10%) while all other variables were held constant, the loss for the year would decrease by approximately HK$3,000 (2018: decrease in loss by approximately HKHK683,000) and there would be a corresponding change in accumulated losses. If relevant equity prices had decreased by 10% (2018: 10%) while all other variables were held constant, the loss for the year would increase by approximately HK$3,000 (2018: increase in loss by approximately HK$683,000) and there would be a corresponding change in accumulated losses. Other components of the consolidated equity would remain unchanged.

The sensitivity analysis has been determined by assuming that the changes in equity price had occurred at the end of the reporting period and has been applied to those instruments which expose the Group to equity price risk at that date. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

(i) Trade receivables

In order to minimise the credit risk on trade receivables, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The management closely monitors the subsequent settlement of the debts and does not grant long credit period to new customers. In this regard, the directors of the Company consider that the Group's credit risk on trade receivables is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty rather than the geographical area or industry and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual counterparties. At 31 December 2019, the Group had concentration of credit risk on trade receivables as 99% of the balance was due from five largest debtors (2018: 97% was due from five largest debtors).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

(i) Trade receivables *(Continued)*

At 31 December 2018, amount due from HKSCC represents unsettled trade transacted on the last two business days prior to the end of the reporting period and amount due from HKCC represents undrawn deposits at the end of the reporting period. None of the amounts arising from money lending services are past due at the reporting date. The following table provides information about the exposure to credit risk for amounts arising from asset management services:

	2019 HK$'000	2018 HK$'000
Not yet past due	**1,146**	8,903
0 — 30 days past due	**3**	–
31 — 60 days past due	**3**	–
61 — 90 days past due	**3**	4,705
91 — 180 days past due	**1,329**	7,530
181 — 365 days past due	**18**	8,151
Over 365 days past due	**3,250**	126
Less: Loss allowances	**(4,570)**	–
	1,182	29,415

The Group measures loss allowance for amounts arising from asset management services at an amount equal to lifetime ECL. In measuring the ECLs, these receivables have been assessed on a collective basis when they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers. Based on the corresponding historical credit losses and current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding, loss allowance of HK$4,570,000 has been recognised during the current year.

For amounts due from HKSCC and HKCC, these receivables are considered to have low credit risk based their historical trading records. Amounts due from margin clients and arising from money lending services have been grouped based on the shortfall of loan balances over the respective collateral amounts and average default rates are adopted in determining the ECLs.

The Group did not have any amounts due from margin clients and amount arising from money lending services as at 31 December 2019. At 31 December 2018, the Group did not have any amounts due from margin clients and amount arising from money lending services of HK$7,241,000 is secured by marketable securities with fair value of HK$30,000,000. The fair value of marketable securities of each individual receivable is higher than the corresponding outstanding balance and the Group is permitted to sell these collaterals if that client defaults in payments. Accordingly, loss allowance for these receivables is measured at an amount equal to 12-month ECL. No loss allowance was recognised as the amount of ECL for these receivables is insignificant.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

(ii) Other assets and receivables

The balances are considered to have low credit risk as the counterparties have a low risk of default and does not have any past due amounts. Loss allowance for these balances is measured at an amount equal to 12-month ECL. No loss allowance was recognised as the amount of ECL for these balances is insignificant.

(iii) Trust bank balances held on behalf of clients and cash and cash equivalents

The balances are mainly held with banks which are rated at BBB+ to A+, based on international credit ratings agencies. Loss allowance for these balances is measured at an amount equal to 12-month ECL. No loss allowance was recognised as the amount of ECL for these balances is insignificant.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the remaining contractual maturities for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The undiscounted cash flows include both interest and principal payments:

	Carrying amount	Total contractual undiscounted cash flows	On demand or less than 6 months	6 months to 1 year	2 to 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2019					
Trade and other payables and accruals	**18,739**	**18,739**	**18,739**	**–**	**–**
Borrowings	**100,142**	**110,250**	**6,238**	**104,012**	**–**
Lease liabilities	**8,746**	**11,053**	**1,442**	**1,442**	**8,169**
	127,627	**140,042**	**26,419**	**105,454**	**8,169**
At 31 December 2018					
Trade and other payables and accruals	54,219	54,219	54,219	–	–
Borrowings	80,421	85,246	85,246	–	–
	134,640	139,465	139,465	–	–

37. FAIR VALUE MEASUREMENT

Financial instruments measured at fair value

The following table presents the Group's financial instruments measured at fair value on a recurring basis in the consolidated statement of financial position according to the fair value hierarchy. The hierarchy groups financial instruments into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial instruments. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Level 1 *HK$'000* *(note (a))*	Level 2 *HK$'000* *(note (b))*	Level 3 *HK$'000*	Total *HK$'000*
At 31 December 2019				
Financial assets at fair value through profit or loss				
— Listed equity securities	**26**	**–**	**–**	**26**
— Unlisted investment funds	**–**	**–**	**–**	**–**
	26	**–**	**–**	**26**
At 31 December 2018				
Financial assets at fair value through profit or loss				
— Listed equity securities	5,263	–	–	5,263
— Unlisted investment funds	–	1,565	–	1,565
	5,263	1,565	–	6,828

37. FAIR VALUE MEASUREMENT *(Continued)*

Financial instruments measured at fair value *(Continued)*

The levels in the fair value hierarchy within which the financial instruments are categorised in its entirety are based on the lowest level of input that is significant to the fair value measurement. There were no transfers between levels 1 and 2 or transfers into or out of level 3 in the reporting periods. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer.

(a) Financial instruments in Level 1

The fair value of the listed equity securities is based on the quoted market prices at the reporting date. The quoted market price used for the listed equity securities held by the Group is the current bid price.

(b) Financial instruments in Level 2

The fair value was determined with reference to the reported net asset value of the investment funds.

Financial instruments measured at amortised cost

The fair value of the financial assets and financial liabilities at amortised cost under current assets and current liabilities, respectively, is not materially different from their carrying amount as they are all short term in nature.

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group currently has a legally enforceable right to set off the Continuous Net Settlement money obligations receivables and payables with HKSCC and it intends to settle on a net basis as trade receivables from or trade payables to HKSCC. For the net amounts of money obligations receivables or payables (i.e. after set-off) and other receivables and payables (such as deposits included under other assets), they do not meet the criteria for offsetting in the consolidated financial statements since the right to set-off of the recognised amount is only enforceable following an event of default and the Group does not intended to settle the balance on a net basis.

In addition, under the agreements signed between the Group and the clients for its dealing in securities and futures contracts, money obligations receivables and payables with the same client are settled on the net basis. The Group therefore has a legally enforceable right to set off the trade receivables and payables and the Group intended to settle these balances on a net basis.

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38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

The tables below set out the financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar arrangements:

	Amounts due from HKSCC, cash and margin clients	
	2019	2018
	HK$'000	*HK$'000*
Financial assets		
Gross amount of recognised financial assets	**72**	279
Gross amount of recognised financial liabilities offset in the consolidated statement of financial position	**(72)**	(228)
Net amounts of financial assets included in the consolidated statement of financial position	**–**	51
Related amount not set off in the consolidated statement of financial position		
— financial instruments	**–**	–
— financial collaterals	**–**	–
Net amounts	**–**	51

	Amounts due to HKSCC, cash clients and margin clients	
	2019	2018
	HK$'000	*HK$'000*
Financial liabilities		
Gross amount of recognised financial liabilities	**16,296**	45,707
Gross amount of recognised financial assets offset in the consolidated statement of financial position	**(72)**	(228)
Net amounts of financial liabilities included in the consolidated statement of financial position	**16,224**	45,479
Related amount not set off in the consolidated statement of financial position		
— financial instruments	**–**	–
— financial collaterals	**–**	–
Net amounts	**16,224**	45,479

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

The table below reconciles the "Net amounts of financial assets and financial liabilities included in the consolidated statement of financial position" as set out above to line items in the consolidated statement of financial position:

	2019 **HK$'000**	2018 HK$'000
Trade and other receivables and prepayments		
Net amounts of financial assets included in the consolidated statement of financial position	**–**	51
Amount not within the scope of offsetting disclosure	**4,133**	40,085
Trade and other receivables and prepayments presented in the consolidated statement of financial position	**4,133**	40,145
Trade and other payables and accruals		
Net amounts of financial liabilities included in the consolidated statement of financial position	**16,224**	45,479
Amount not within the scope of offsetting disclosure	**2,515**	8,740
Trade and other payables and accruals presented in the consolidated statement of financial position	**18,739**	54,219

39. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of debt, which mainly includes borrowings as disclosed in note 26 and total assets of the Group.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associated with capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the issuance of new shares and the addition of new borrowings.

Certain group entities are regulated by the Hong Kong Securities and Futures Commission and are required to comply with the financial resources requirements according to the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). The Group's regulated entities are subject to minimum paid-up share capital requirements and liquid capital requirements under the SF(FR)R. Management closely monitors, on a daily basis, the liquid capital level of these entities to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Group's regulated entities have complied with the capital requirements imposed by the SF(FR)R throughout the year.

39. CAPITAL MANAGEMENT *(Continued)*

The Group monitors its capital using a gearing ratio, which is total debts divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratio at the reporting dates is as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Borrowings	**100,142**	80,421
Total debts	**100,142**	80,421
Total non-current assets	**13,228**	9,082
Total current assets	**52,071**	140,580
Total assets	**65,299**	149,662
Gearing ratio	**153%**	54%

40. EVENTS AFTER REPORTING PERIOD

(a) On 14 February 2020, Sheng Yuan Asset Management Limited, a wholly-owned subsidiary of the Company, has entered into certain investment advisory agreements with Yuanyin International Limited and Yuanyin Asset Management Limited.

As at 14 February 2020, Yuanyin Holdings held 26.47% of the issued share capital of the Company and is a substantial shareholder. Each of Yuanyin International Limited and Yuanyin Asset Management Limited is a wholly-owned subsidiary of Yuanyin Holdings Limited, and is therefore each a connected person of the Company. Accordingly, the transactions contemplated under each of the investment advisory agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Further detailed terms in relation to the new investment advisory agreements have been set out in the Company's announcement dated 14 February 2020.

(b) The outbreak of novel coronavirus ("COVID-19") since early 2020 has impacted the global business environment. Up to the date of these financial statements, COVID-19 has not caused material impact to the Group. Subject to the development and spread of COVID-19 subsequent to the date of these financial statements, it may have further impact on the Group's financial results, the extent of which could not be estimated as at the date of these financial statements. The Group will keep continuous attention on the change of situation and make timely responses and adjustments in the future.

Saved as disclosed as above or elsewhere in the consolidated financial statements, the Group does not have other significant subsequent events.

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 ***HK$'000***	2018 *HK$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	**29**	27
Right-of-use assets	**8,612**	–
Interests in subsidiaries	**4,323**	108,138
	12,964	108,165
Current assets		
Other receivables and prepayments	**1,897**	1,994
Cash and cash equivalents	**910**	–
	2,807	1,994
Current liabilities		
Other payables and accruals	**638**	4,729
Borrowings	**100,142**	80,421
Lease liabilities	**1,896**	–
Amount due to subsidiaries	**2,000**	25,057
	104,676	110,207
Net current liabilities	**(101,869)**	(108,213)
Non-current liabilities		
Lease liabilities	**6,850**	–
Net liabilities	**(95,755)**	(48)
EQUITY		
Share capital	**190,985**	190,985
Reserves (note)	**(286,740)**	(191,033)
Capital deficiency	**(95,755)**	(48)

On behalf of the Board

Mr. Liu Yang
Director

Mr. Zhou Quan
Director

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41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

	Share premium *HK$'000*	Shareholder's contribution *HK$'000*	Capital redemption reserve *HK$'000*	Convertible bond equity reserve *HK$'000*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2018	246,385	7,834	477	13,713	9,723	(452,285)	(174,153)
Shares issued upon exercise of convertible bonds	73,985	–	–	(9,267)	–	–	64,718
Transactions with owners	73,985	–	–	(9,267)	–	–	64,718
Loss for the year	–	–	–	–	–	(81,598)	(81,598)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	(81,598)	(81,598)
Settlement of 2014 SYFS Bonds by way of issuing 2018 SYHL Bonds under the deed of settlement	–	–	–	9,267	–	(9,267)	–
Transferred to accumulated losses on 2017 SYHL Bonds Maturity Date	–	–	–	(13,713)	–	13,713	–
Forfeiture of share options	–	–	–	–	(1,266)	1,266	–
At 31 December 2018	320,370	7,834	477	–	8,457	(528,171)	(191,033)

	Share premium ***HK$'000***	**Shareholder's contribution** ***HK$'000***	**Capital redemption reserve** ***HK$'000***	**Convertible bond equity reserve** ***HK$'000***	**Share option reserve** ***HK$'000***	**Accumulated losses** ***HK$'000***	**Total** ***HK$'000***
At 1 January 2019	**320,370**	**7,834**	**477**	**–**	**8,457**	**(528,171)**	**(191,033)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(95,707)**	**(95,707)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(95,707)**	**(95,707)**
Forfeiture of share options	**–**	**–**	**–**	**–**	**(1,952)**	**1,952**	**–**
At 31 December 2019	**320,370**	**7,834**	**477**	**–**	**6,505**	**(621,926)**	**(286,740)**

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

The following table lists the particulars of the subsidiaries of the Company as at 31 December 2019 and 31 December 2018 which, in the opinion of the directors, principally affected the results or the assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Country/ Place of incorporation or registration	Particulars of issued/paid-up capital	Proportion of nominal value of issued/paid-up capital/interests Held by the Company	Held by the subsidiaries	Principal activities and place of operations
Kingwell Management Limited^	Hong Kong	Ordinary shares of HK$1,000,000	100%	–	Provision of administrative services to group entities in Hong Kong
Sheng Yuan Asset Management Limited^	Hong Kong	Ordinary shares of HK$20,000,000	–	100%	Provision of investment management and advisory services in Hong Kong
Sheng Yuan Finance Limited	Hong Kong	Ordinary share of HK$1	–	Nil (2018: 100%) *(note 31)*	Provision of money lending services in Hong Kong
Sheng Yuan Financial Holdings (HK) Limited^	Hong Kong	Ordinary share of HK$1	–	100%	Proprietary trading in Hong Kong
Sheng Yuan Financial Services Group Limited	British Virgin Islands	Ordinary shares of US$5,500	100%	–	Proprietary trading in Hong Kong
Sheng Yuan Securities Limited^	Hong Kong	Ordinary shares of HK$65,000,000	–	100%	Securities and futures dealing, margin financing, securities placing and underwriting and investment advisory services in Hong Kong
Sheng Yuan Services Limited^	Hong Kong	Ordinary share of HK$1	100%	–	Provision of administrative services to group entities in Hong Kong
Sheng Yuan Sino Asset Management Limited^	Hong Kong	Ordinary shares of HK$9,350,000	–	100% *(Note)*	Provision of investment management and advisory services in Hong Kong

^ *audited by BDO Limited*

Note:

On 1 April 2019, the Group had entered into a sale and purchase agreement to dispose of 9% of its interest in Sheng Yuan Sino Asset Management Limited ("SYSAM"), reducing its continuing interest to 91%. The transaction was completed on 3 April 2019 upon the receipt in cash proceeds of HK$270,000. An amount of HK$701,000 (being the proportionate share of the carrying amount of the net assets of SYSAM and goodwill arising on acquisition of SYSAM in prior year) had been transferred to non-controlling interests. Since the disposal did not result in any loss of control, such transaction was accounted for an equity transaction. The difference between the increase in non-controlling interests and the consideration received of HK$431,000 has been debited to accumulated losses.

On 2 October 2019, the Group had entered into another sale and purchase agreement to re-purchase the 9% interest in SYSAM, which was previously disposed of during the current year, at a cash consideration of HK$270,000. This transaction was completed on 7 October 2019. The difference between the decrease in the non-controlling interests and the consideration paid of HK$401,000 had been credited to accumulated losses.

FINANCIAL SUMMARY

	Year ended 31 December				
	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	2018 *HK$'000*	**2019** ***HK$'000***
RESULTS					
Revenue	405,678	69,475	63,247	34,146	**8,844**
Loss before taxation	(31,730)	(15,028)	(182,183)	(80,324)	**(77,565)**
Taxation	(2,668)	(1,879)	(2,341)	(1,330)	**201**
Loss for the year	(34,398)	(16,907)	(184,524)	(81,654)	**(77,364)**

	As at 31 December				
	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	2018 *HK$'000*	**2019** ***HK$'000***
ASSETS AND LIABILITIES					
Total assets	671,161	778,251	432,820	149,662	**65,299**
Total liabilities	(492,873)	(611,812)	(420,284)	(135,090)	**(128,077)**
	178,288	166,439	12,536	14,572	**(62,778)**