大中華金融控股有限公司
GREATER CHINA FINANCIAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)
(Stock Code: 431)
website: http://www.irasia.com/listco/hk/greaterchina/index.htm

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

SUMMARY OF RESULTS

The board (the "Board") of directors (the "Directors") of Greater China Financial Holdings Limited (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** **HK$'000**	2017 *HK$'000*
Revenue	*4*	**152,595**	130,652
Cost of sales		**(56,703)**	(62,969)
Gross profit		**95,892**	67,683
Other income, gains and losses	*6*	**30,923**	93,063
Administrative and other operating expenses		**(115,836)**	(99,797)
Finance costs	*7*	**(11,560)**	(16,340)
Share based payments		**(40,313)**	(989)
Provision for financial guarantee		**(1,302)**	–
Impairment losses, net of reversal		**(7,523)**	(2,971)
Impairment loss on goodwill		**(7,143)**	(14,650)
(Loss) profit before taxation		**(56,862)**	25,999
Income tax (expense) credit	*8*	**(1,741)**	43
(Loss) profit for the year	*9*	**(58,603)**	26,042

	NOTE	**2018** HK$'000	2017 HK$'000
Other comprehensive (expense) income, net of tax			
Item that will not be reclassified subsequently to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		**(17,108)**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(23,220)**	14,091
Release of translation reserve upon disposal of subsidiaries		**–**	2
Change in fair value of available-for-sale financial assets		**–**	(16,761)
Other comprehensive expense for the year		**(40,328)**	(2,668)
Total comprehensive (expense) income for the year		**(98,931)**	23,374
(Loss) profit for the year attributable to:			
Owners of the Company		**(58,603)**	26,020
Non-controlling interests		**–**	22
		(58,603)	26,042
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(98,931)**	23,352
Non-controlling interests		**–**	22
		(98,931)	23,374
		HK cents	*HK cents*
(Loss) earnings per share	*11*		
Basic		**(0.85)**	0.43
Diluted		**(0.85)**	0.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018** **HK$'000**	2017 *HK$'000*
Non-current assets			
Property, plant and equipment		**99,266**	111,448
Prepaid lease payments		**22,302**	24,281
Goodwill	*12*	**143,979**	151,122
Intangible assets		**9,249**	10,906
Interests in associates		**–**	–
Available-for-sale financial assets		**–**	25,521
Financial assets at fair value through other comprehensive income		**15,872**	–
Financial assets at fair value through profit or loss	*13*	**37,552**	22,410
Contingent consideration receivable		**4,927**	9,879
Deferred tax assets		**11,368**	12,689
Deposits		**3,505**	3,325
		348,020	371,581
Current assets			
Loans and interests receivables	*14*	**113,952**	189,891
Trade and other receivables	*15*	**59,674**	34,877
Prepaid lease payments		**719**	759
Prepayments and deposits		**65,485**	46,888
Financial assets at fair value through profit or loss	*13*	**40,143**	–
Contingent consideration receivable		**8,759**	–
Tax receivables		**927**	–
Cash held on behalf of clients		**1,263**	2,066
Restricted bank deposits		**2,136**	9,064
Bank balances and cash		**269,578**	410,117
		562,636	693,662
Current liabilities			
Trade payables, other payables and accruals	*16*	**81,659**	60,095
Contract liabilities		**96**	–
Liabilities from financial guarantees		**49,870**	51,753
Deferred consideration		**20,450**	48,807
Borrowings		**8,538**	66,039
Tax payables		**555**	2,526
		161,168	229,220
Net current assets		**401,468**	464,442
Total assets less current liabilities		**749,488**	836,023

	NOTE	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Deferred consideration		**5,175**	22,486
Convertible notes		**–**	5,654
Borrowings		**79,688**	93,054
		84,863	121,194
Net assets		**664,625**	714,829
Capital and reserve			
Share capital	*17*	**6,915**	6,870
Reserves		**657,710**	707,959
Equity attributable to owners of the Company		**664,625**	714,829
Non-controlling interests		**–**	–
Total equity		**664,625**	714,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the Company's registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business in Hong Kong is Suites 3001-11, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The Group is principally engaged in investment holding, industrial property development, general trading of consumable goods, securities brokerage, insurance brokerage, asset management and loan financing operation including loan financing, financial guarantee services, loan referral and consultancy services.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. In addition, the functional currencies of certain group entities that operate outside Hong Kong are determined based on the currency of the primary economic environment in which the group entities operate.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Impairment losses on financial assets were reclassified from "other income, gains and losses" in 2017 to conform to current year's presentation as a result of consequential changes made to HKAS 1 Presentation of Financial Statements. Impairment losses on financial assets that were previously classified as other losses are now presented separately in the consolidated statement of profit or loss and other comprehensive income.

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effects of initially applying this Standard recognised at the date of initial application, i.e. 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated loss and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

– Warehouse storage income from operation of warehouse;

– Trading income from trading of consumable goods;

– Income from provision of financial guarantee, loan referral and consultancy services;

– Interest income from money lending business;

– Commission income from securities brokerage, underwriting and placement;

– Interest income from margin financing;

– Commission income from asset management; and

– Commission income from provision of insurance brokerage and agency services.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no material impact on the Group's accumulated losses at 1 January 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Amounts before adoption of HKFRS 15 *HK$'000*	Adjustment resulted from adoption of HKFRS 15 *HK$'000*	As reported *HK$'000*
Current liabilities			
Other payables and accruals	55,839	(3,175)	52,664
Contract liabilities	–	3,175	3,175
Balance at beginning of the year	55,839	–	55,839

The following table summaries the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Amounts before adoption of HKFRS 15 *HK$'000*	Adjustment resulted from adoption of HKFRS 15 *HK$'000*	As reported *HK$'000*
Current liabilities			
Other payables and accruals	79,953	(96)	79,857
Contract liabilities	–	96	96
Balance at end of the year	79,953	–	79,953

HKFRS 9 Financial Instruments and related amendments

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "*Financial Instruments: Recognition and Measurement*".

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39 except for the impact of ECL.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and other receivables, loans and interests receivables and deposits. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively 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 conditions at the reporting date as well as the forecast of future conditions.

ECL for other financial assets at amortised cost, including cash held on behalf of clients, restricted bank deposits and bank balances and cash, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised at 1 January 2018.

Summary of effects arising from initial application of HKFRS 9

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

	Notes	Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39 *HK$'000*	New carrying amount under HKFRS 9 *HK$'000*
Equity securities	*(a)*	Available-for-sale	FVTOCI – equity instrument	25,521	25,521
Unlisted investment fund	*(b)*	Designated as at FVTPL	Mandatorily at FVTPL	22,410	22,410
Contingent consideration receivables		FVTPL	FVTPL	9,879	9,879
Loans and interest receivables		Loans and receivables	Amortised cost	189,891	189,891
Trade and other receivables		Loans and receivables	Amortised cost	34,877	34,877
Deposits		Loans and receivables	Amortised cost	49,028	49,028
Cash held on behalf of clients		Loans and receivables	Amortised cost	2,066	2,066
Restricted bank deposits		Loans and receivables	Amortised cost	9,064	9,064
Bank balances and cash		Loans and receivables	Amortised cost	410,117	410,117
Total financial assets				752,853	752,853

Notes

(a) These equity securities represent investments that the Group intends to hold for long term strategic purposes. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at fair value through other comprehensive income ("FVTOCI"). Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(b) Under HKAS 39, these equity securities were designated as at fair value through profit or loss ("FVTPL") because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under HKFRS 9.

New and amendments to HKFRSs in issue but not yet effective

At the date of this report, the following new and amendments to HKFRSs are not yet effective. The Group has not early applied these new and amendments to HKFRSs.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019.
[2] Effective for annual periods beginning on or after 1 January 2020.
[3] Effective for annual periods beginning on or after 1 January 2021.
[4] Effective for annual periods beginning on or after a date to be determined.
[5] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Group anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$29,037,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

4. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Sales of goods	**60,043**	64,182
Warehouse storage income	**13,342**	6,518
Income from loan financing business		
– Loan referral and consultancy services fee	**56,731**	37,900
– Interest income from loans receivables	**5,529**	2,811
– Guarantee fee income from financial guarantees	**7,762**	410
Income from securities brokerage business		
– Interest income from margin financing	**332**	560
– Commission income from securities dealing	**378**	2,273
– Commission income from underwriting	**–**	603
Commission income from insurance brokerage	**8,007**	14,072
Commission income from asset management	**471**	1,323
	152,595	130,652

5. SEGMENT INFORMATION

The Group's operations are organised into securities brokerage, asset management, insurance brokerage, loan financing, industrial property development business and general trading. Information reported to the chief operating decision maker ("CODM") for the purpose of resources allocation and assessment of segment performance is prepared on such basis. The Group is organised into the following reportable and operating segments:

– Industrial property development segment represents the operation of warehouse in the People's Republic of China (the "PRC").

– General trading segment includes trading of consumable goods in the PRC.

– Loan financing segment represents the provision of financial guarantee, loan financing, loan referral and consultancy services in Hong Kong and the PRC.

– Securities brokerage segment represents the operation of securities brokerage, margin financing, underwriting and placements in Hong Kong.

– Asset management segment engages in the provision of asset management services in Hong Kong.

– Insurance brokerage segment represents the provision of the insurance brokerage and agency services in Hong Kong.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments.

For the year ended 31 December 2018

	Industrial property development *HK$'000*	General trading *HK$'000*	Loan financing *HK$'000*	Securities brokerage *HK$'000*	Asset management *HK$'000*	Insurance brokerage *HK$'000*	Total *HK$'000*
SEGMENT REVENUE	13,342	60,043	70,022	710	471	8,007	152,595
SEGMENT RESULTS	(6,925)	4,255	54,605	(2,287)	(5,405)	(435)	43,808
Unallocated corporate income							187
Unallocated corporate expenses							(47,660)
Unallocated finance costs							(4,628)
Fair value change on contingent consideration receivables							3,807
Fair value change on financial assets at fair value through profit or loss							(4,858)
Impairment loss on amount due from associates							(9)
Impairment loss on goodwill							(7,143)
Share-based payment expenses							(40,313)
Loss on written off of property, plant and equipment							(8)
Other receivables written off							(590)
Other payables written back							545
Loss before tax							(56,862)
Income tax expenses							(1,741)
Loss for the year							(58,603)

For the year ended 31 December 2017

	Industrial property development HK$'000	General trading HK$'000	Loan financing HK$'000	Securities brokerage HK$'000	Asset management HK$'000	Insurance brokerage HK$'000	Total HK$'000
SEGMENT REVENUE	6,518	64,182	41,121	3,436	1,323	14,072	130,652
SEGMENT RESULTS	(11,905)	1,605	27,755	(545)	(704)	(6)	16,200
Unallocated corporate income							1,854
Unallocated corporate expenses							(48,070)
Unallocated finance costs							(6,497)
Compensation received							20,297
De-recognition of deferred consideration							67,901
Fair value change on contingent consideration receivables							(10,988)
Fair value change on financial assets at fair value through profit or loss							2,409
Net gain on disposal of subsidiaries							945
Share-based payment expenses							(989)
Impairment loss on goodwill							(14,650)
Impairment loss on other receivables							(2,402)
Impairment loss on amounts due from associates							(11)
Profit before tax							25,999
Income tax credit							43
Profit for the year							26,042

All of the segment revenue reported above is from external customers

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

At 31 December 2018

	Industrial property development *HK$'000*	General trading *HK$'000*	Loan financing *HK$'000*	Securities brokerage *HK$'000*	Asset management *HK$'000*	Insurance brokerage *HK$'000*	Total *HK$'000*
ASSETS							
Segment assets	142,297	40,292	476,090	15,839	2,539	2,769	679,826
Unallocated bank balances and cash							11,090
Unallocated property, plant and equipment							5,277
Unallocated other receivables, prepayments and deposits							4,754
Unallocated goodwill							143,979
Unallocated financial assets at fair value through other comprehensive income							14,492
Unallocated financial assets at fair value through profit or loss							37,552
Unallocated contingent consideration receivables							13,686
Consolidated total assets							910,656
LIABILITIES							
Segment liabilities	90,419	22	124,501	1,418	40	443	216,843
Unallocated other payables							3,563
Unallocated deferred consideration							25,625
Consolidated total liabilities							246,031

At 31 December 2017

	Industrial property development HK$'000	General trading HK$'000	Loan financing HK$'000	Securities brokerage HK$'000	Asset management HK$'000	Insurance brokerage HK$'000	Total HK$'000
ASSETS							
Segment assets	175,091	25,591	537,678	19,136	5,578	5,784	768,858
Unallocated bank balances and cash							78,012
Unallocated property, plant and equipment							7,686
Unallocated other receivables, prepayments and deposits							6,697
Unallocated goodwill							151,122
Unallocated available-for-sale financial assets							20,579
Unallocated financial assets at fair value through profit or loss							22,410
Unallocated contingent consideration receivables							9,879
Consolidated total assets							1,065,243
LIABILITIES							
Segment liabilities	100,812	–	163,972	3,915	15	426	269,140
Unallocated other payables							4,327
Unallocated convertible notes							5,654
Unallocated deferred consideration							71,293
Consolidated total liabilities							350,414

6. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Compensation received *(Note a)*	**–**	20,297
De-recognition of deferred consideration *(Note b)*	**–**	67,901
Fair value change on contingent consideration receivables	**3,807**	(10,988)
Fair value change on financial assets at fair value through profit or loss	**1,389**	2,409
Net gain on disposal of subsidiaries	**–**	945
Handling fee income	**55**	267
Impairment loss on amounts due from associates	**(9)**	(11)
Bank interest income	**1,486**	2,032
Entrusted loan interest income	**850**	–
Other loans interest income	**14,885**	8,122
Investment income from financial asset at fair value through profit or loss	**376**	–
Investment income from National Debt Reverse Repurchase products	**1,465**	–
Loss on disposal and written off of property, plant and equipment	**(26)**	(5)
Net foreign exchange (loss) gain	**(22)**	582
Other receivables written off	**(1,888)**	–
Other payables written back	**1,486**	–
Service fee income	**2,192**	–
Management service income	**3,857**	–
Sundry income	**1,020**	1,512
	30,923	93,063

Notes:

(a) Compensation received represented the compensation received from the vendor in respect of the acquisition of 45% of issued capital of Intraday Financial Information Service Limited ("Intraday") according to the terms of Sales and Purchase Agreement dated 15 April 2015 as Intraday was not able to achieve the Performance Target as specified in the Sales and Purchase Agreement.

(b) According to the audited consolidated financial statements of Oriental Credit Holdings Limited and its subsidiaries ("Oriental Credit Group") for the year ended 31 December 2016 issued on 20 March 2017, the Oriental Credit Group made a loss for the financial year ended 31 December 2016. Based on the terms of the sales and purchase agreement for the acquisition, the deferred consideration ceased to become payable and, accordingly, the Group derecognised the deferred consideration at the carrying amount of HK$67,901,000 and it was recognised as other income in the profit or loss for the year.

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Effective interest on convertible notes	**296**	584
Imputed interest on deferred consideration	**4,332**	5,912
Interest on bank loans	**6,072**	6,247
Interest on other loans	**860**	3,597
	11,560	16,340

8. INCOME TAX EXPENSE (CREDIT)

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**858**	3,732
Under (over) provision in prior years:		
PRC Enterprise Income Tax	**193**	(3,775)
Deferred tax:		
Current year	**690**	–
	1,741	(43)

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the years ended 31 December 2018 and 2017. No provision for Hong Kong Profits Tax has been made as its subsidiaries in Hong Kong have no estimated assessable profits for the years ended 31 December 2018 and 2017.

PRC Enterprise Income Tax ("EIT") is calculated at the applicable rates based on estimated taxable income earned by the PRC subsidiaries of the Company with certain tax concession, based on existing legislation, interpretation and practice in respect thereof.

Under the Law of the PRC on Enterprises Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the applicable PRC EIT rate of the Group's PRC subsidiaries is 25% for both years.

9. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging the following items:

	2018	2017
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments	**750**	729
Amortisation of intangible assets (included in administrative and other operating expense)	**1,165**	1,132
Auditor's remuneration		
– audit services	**1,100**	1,000
– other services	**600**	1,130
Cost of inventories recognised as expenses	**56,702**	62,939
Depreciation of property, plant and equipment	**11,358**	10,815
Legal and professional fees	**3,248**	4,631
Rent and rates	**15,096**	12,641
Staff costs including directors' emoluments	**50,626**	32,951

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed since the end of the reporting period (2017: HK$Nil).

11. (LOSS) EARNINGS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	**(58,603)**	26,020
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**–**	–
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(58,603)**	26,020

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**6,894,750**	6,097,717
Effect of dilutive potential ordinary shares:		
– Share options	**–**	24,324
– Convertible notes	**–**	–
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**6,894,750**	6,122,041

The calculation of basic (loss) earnings per share is based on the (loss) profit attributable to owners of the Company, and the weighted average number of shares approximately 6,894,750,000 ordinary shares (2017: 6,097,717,000) in issue.

Diluted loss per share for the year ended 31 December 2018 did not assume the exercise of the share options during the year since the exercise would have an anti-dilutive effect. No adjustment was made in calculating diluted loss per share for the year ended 31 December 2018 as conversion of convertible notes would result in a decrease in loss per share. Accordingly, the diluted loss per share is same as the basic earnings per share.

The Company has dilutive potential ordinary shares on exercise of share options for the year ended 31 December 2017 and adjustment was made in calculating diluted earnings per share. No adjustment was made in calculating diluted earnings per share for the year ended 31 December 2017 as conversion of convertible notes would result in an increase in earnings per share.

12. GOODWILL

	2018 ***HK$'000***	2017 *HK$'000*
Cost		
Balance at beginning of the year	**165,772**	123,612
Arising on acquisition of subsidiaries	**–**	42,160
Balance at end of the year	**165,772**	165,772
Accumulated impairment losses		
Balance at beginning of the year	**14,650**	–
Impairment loss recognised for the year	**7,143**	14,650
Balance at end of the year	**21,793**	14,650
Carrying amount		
Balance at end of the year	**143,979**	151,122

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 *HK$'000*	2017 *HK$'000*
Unlisted investment funds	**77,695**	22,410
Analysed for reporting purposes as:		
Current assets	**40,143**	–
Non-current assets	**37,552**	22,410
	77,695	22,410

The balance of HK$37,552,000 (2017:HK$22,410,000) represents the unlisted investment fund which primary objectives are to provide absolute returns through pursuing different strategies. The fair value of these unlisted investment fund was made with reference to the prices quoted by the fund administrator which reflect the net assets value of the fund.

The balance of HK$40,143,000 (2017:HK$Nil) represents the unlisted investment fund which is privately-offered to subscriber in PRC. The fair value of the privately-offered unlisted investment fund was determined by independent valuer. The fund is primarily an investment in property development project in PRC.

During the year ended 31 December 2018, unrealised gain of HK$1,389,000 arising from fair value changes in unlisted investment funds were recognised in profit or loss.

14. LOANS AND INTERESTS RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Entrusted loan	**10,245**	–
Mortgage loan	**9,500**	81,580
Factoring loan receivables with recourse	**41,512**	41,656
Other loans	**57,968**	129,075
	119,225	252,311
Less: impairment allowance	**(5,273)**	(62,420)
	113,952	189,891

An ageing analysis of the loans and interests receivables that are individually not considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor individually impaired	**103,390**	181,461
Less than 1 month past due	**9,761**	8,430
1 to 3 months past due	**–**	–
3 to 6 months past due	**801**	–
6 months to less than 1 year past due	**–**	–
	113,952	189,891

Loans receivables that were neither past due nor individually impaired relate to a number of diversified borrowers for whom there was no recent history of default.

In respect of the loans which have been past due for less than one month, the amounts mainly represent occasional delay in repayment and are not indication of significant deterioration of credit quality of these loans.

The movements in impairment allowance of loans and interests receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**62,420**	62,420
Amounts recognised during the year	**5,273**	–
Amount written off during the year as uncollectible	**(62,420)**	–
Balance at end of the year	**5,273**	62,420

The amount written off during the year as uncollectible related to the borrower who was wound up in loan financing business in Hong Kong, thus, the loans and interests receivables were not expected to be recoverable.

15. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables from:		
Business of dealing in securities: *(Note a)*		
– Cash clients	**11**	483
– Margin clients	**5,519**	5,900
– Clearing houses and brokers	**125**	–
Loan referral and consultancy services *(Note b)*	**33,810**	3,724
Financial guarantee services *(Note c)*	**1,376**	35
Insurance brokerage business *(Note d)*	**131**	471
Asset management business *(Note e)*	**103**	1,281
	41,075	11,894
Less: Impairment allowance	**(2,007)**	(405)
	39,068	11,489
Other receivables	**20,751**	27,487
Less: Impairment allowance	**(145)**	(4,099)
	20,606	23,388
Total trade and other receivables	**59,674**	34,877

Notes:

(a) For the trade receivables from cash clients, it normally takes two days to settle after trade date of securities transactions. These outstanding unsettled trades due from clients are reported as trade receivables from clients.

Trade receivables from margin clients net of impairment allowance amounting to HK$5,508,000 as at 31 December 2018 (31 December 2017: HK$5,900,000) are secured by clients' pledged securities with fair value of HK$39,827,000 (31 December 2017: HK$9,196,000). Management has assessed the market value of the pledged securities of each individual customer who has margin shortfall as at the year end.

Trade receivables from margin clients arising from the securities brokerage business are repayable on demand subsequent to settlement date.

(b) The normal settlement terms of trade receivables from loan referral and consultancy services are within 30 days upon the contractual obligation is performed.

(c) The normal settlement terms of trade receivables from financial guarantee services are mainly within 60 to 90 days upon contractual obligation is performed.

(d) The normal settlement terms of trade receivables from product issuers arising from the provision of insurance brokerage services are mainly within 45 to 60 days upon the execution of the insurance policies and/or receipt of statements from product issuers.

(e) Credit terms with customers of asset management are within 30 days or a credit period mutually agreed between the contracting parties.

No ageing analysis of margin loans is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of this business.

An ageing analysis of the remaining balance of trade receivables net of impairment loss as at the end of the reporting period, based on the trade date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**14,238**	3,277
31 – 60 days	**5,481**	797
61 – 90 days	**6,017**	958
Over 90 days	**7,824**	557
	33,560	5,589

An ageing analysis of the remaining balance of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**14,700**	4,471
Less than 1 month past due	**5,395**	1,051
1 to 3 months past due	**7,353**	1
3 to 6 months past due	**5,980**	11
6 months to less than 1 year past due	**132**	55
	33,560	5,589

The Group has not fully provided for all trade receivables over 90 days because historical experience indicated that such receivables would be recovered.

The movements in impairment loss on trade receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**405**	377
Amounts recognised during the year	**2,007**	–
Amounts written off during the year as uncollectible	**(384)**	–
Exchange realignment	**(21)**	28
Balance at end of the year	**2,007**	405

The movements in impairment loss on other receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**4,099**	1,049
Amounts recognised during the year	**14**	2,971
Amounts written off during the year as uncollectible	**(3,756)**	–
Exchange realignment	**(212)**	79
Balance at end of the year	**145**	4,099

16. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Trade payables from:		
Business of dealing in securities: *(Note a)*		
– Cash clients	**712**	467
– Margin clients	**654**	1,589
– Clearing house	**–**	1,777
Insurance brokerage business *(Note b)*	**436**	423
Total trade payables	**1,802**	4,256
Accrued expenses	**3,767**	8,758
Deposits received *(Note c)*	**58,741**	23,226
Receipts in advance	**–**	3,175
Other payables	**17,349**	20,680
Total other payables and accruals	**79,857**	55,839
Total trade payables, other payables and accruals	**81,659**	60,095

Notes:

(a) Trade payables to securities brokerage clients represent the monies received from and repayable to brokerage clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not currently have an enforceable right to offset these payables with the deposits placed.

The majority of the trade payables balance are repayable on demand except for certain balances relating to margin deposits received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

The settlement terms of trade payables, except for margin clients, arising from the securities brokerage business are two days after trade date.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of business.

(b) Trade payables to consultants arising from provision of insurance brokerage service, are generally settled within 30 days to 120 days upon receipt of payments from product issuers by the Group.

An ageing analysis of trade payables from insurance brokerage business at the end of reporting period is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**285**	320
31 – 60 days	**120**	101
61 – 90 days	**17**	2
Over 90 days	**14**	–
	436	423

(c) Included in deposit received, amounts of HK$36,540,000 (2017: HK$7,995,000) were received from customers as collateral security for the financial guarantees issued by the Group. These deposits will be refunded to the customers upon expiry of the corresponding guarantee contracts. According to the contract, these deposits are expected to be settled within one year.

17. SHARE CAPITAL

	Number of shares '000	Nominal amount HK$'000
Authorised:		
Ordinary shares of HK$0.001 each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**2,109,890,000**	2,109,890
Preference shares of HK$0.001 each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**110,000**	110
Issued and fully paid:		
Ordinary shares of HK$0.001 each		
At 1 January 2017	**4,380,214**	4,380
Exercise of share options *(Note a)*	**201,896**	202
Issue of shares upon open offer *(Note b)*	**2,287,947**	2,288
At 31 December 2017 and 1 January 2018	**6,870,057**	6,870
Exercise of share options *(Note c)*	**13,170**	13
Conversion of convertible notes *(Note d)*	**31,850**	32
At 31 December 2018	**6,915,077**	6,915

Notes:

(a) On 9 February and 6 March 2017, upon the exercise of the share options at an exercise price of HK$0.232 per share, the Company allotted and issued 195,680,000 new shares of HK$0.001 each.

On 14 November 2017, upon the exercise of the share options at an exercise price of HK$0.187 per share (after adjusted upon open offer), the Company allotted and issued 6,215,753 new shares of HK$0.001 each.

(b) On 21 June 2017, the Company allotted and issued 2,287,947,142 new shares of HK$0.001 each at a subscription price of HK$0.100 per share upon completion of the open offer.

(c) On 17 May and 19 June 2018, upon the exercise of the share options at an exercise price of HK$0.187 per share, the Company allotted and issued 11,670,000 new shares of HK$0.001 each.

On 19 June 2018, upon the exercise of the share options at an exercise price of HK$0.188 per share, the Company allotted and issued 1,500,000 new shares of HK$0.001 each.

(d) On 15 June 2018, upon the exercise of the conversion rights attached to the 2014 Convertible Note and 2015 Convertible Note in an aggregate principal amount of HK$7,644,106 at the conversion price of HK$0.24 per share, the Company allotted and issued 31,850,442 shares in aggregate to the noteholders.

18. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	2018	2017
	HK$'000	*HK$'000*
Property, plant and equipment	**92,416**	102,527
Prepaid lease payments	**23,021**	25,040
	115,437	127,567

19. CONTINGENT ASSETS AND LIABILITIES

The Group had no significant contingent assets or liabilities as at 31 December 2018 and 2017.

20. GUARANTEES ISSUED

At 31 December 2018, the total maximum amount of financial guarantees was RMB492,300,000 (approximately HK$560,434,000). The total maximum amount of financial guarantees issued represent the maximum potential loss amount that would be recognised if counterparties failed completely to perform as contracted.

21. SHARE OPTIONS

On 20 March 2018, the Company granted a total of 457,580,000 share options under the 2011 Share Option Scheme to employees and consultants of the Group. The validity period of the options is 36 months from the date of grant of the options, i.e. from 20 March 2018 to 19 March 2021. The options entitled the grantees to subscribe for a total of 457,580,000 new shares of HK$0.001 each at an exercise price of HK$0.188 per share.

The fair value of the share options granted was recognised as share-based payment expense of HK$40,313,000 during the year ended 31 December 2018.

22. OPERATING LEASES

The Group as lessee

	2018	2017
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases in respect of office properties during the year	**14,175**	11,918

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**13,118**	6,367
In the second to fifth year inclusive	**15,919**	19
	29,037	6,386

Operating lease payments represent rentals payable by the Group for certain of its office properties in Hong Kong and the PRC. Leases are negotiated for an average term of one to three years.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum payments for storage facilities.

	2018	2017
	HK$'000	*HK$'000*
Within one year	**11,455**	3,311
In the second to fifth year inclusive	**3,849**	–
	15,304	3,311

Warehouse storage income earned during the year was HK$13,342,000 (2017: HK$6,518,000).

23. POTENTIAL LITIGATION

The financing guarantee subsidiary of the Group has commenced a litigation as the plaintiff against a P2P platform in Beijing, PRC. The matter is related to the guarantee deposit paid to and withheld by a P2P platform in the course of business of financial guarantee business. The hearing commenced in March 2019 and no judicial decision has been promulgated up to the date of this announcement, the Board of Directors believes that there is no significant financial impact for the Group.

24. EVENTS AFTER THE REPORTING PERIOD

There is no significant event affecting the Company that have occurred since the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

The Group is principally engaged in investment holding, industrial property development, general trading of consumable goods, securities brokerage, insurance brokerage, asset management and loan financing operation includes loan financing, financial guarantee services, loan referral and consultancy services.

Revenue and segment results of the Group for the year of 2018 are stated in the table below:

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Revenue from:		
Industrial property development	**13,342**	6,518
General trading	**60,043**	64,182
Securities brokerage	**710**	3,436
Insurance brokerage	**8,007**	14,072
Asset management	**471**	1,323
Loan financing	**70,022**	41,121
	152,595	130,652
Segment (loss) profit from:		
Industrial property development	**(6,925)**	(11,905)
General trading	**4,255**	1,605
Securities brokerage	**(2,287)**	(545)
Insurance brokerage	**(435)**	(6)
Asset management	**(5,405)**	(704)
Loan financing	**54,605**	27,755
	43,808	16,200

Industrial Property Development

The revenue from industrial property development segment mainly represented the warehouse storage income generated from the warehouse operation. The warehouse of the Group is located in Taicang, Jiangsu Province, the PRC. It is divided into 6 units and the total areas is approximately 48,600 square meters.

Revenue from the warehouse operation recorded an increase of HK$6,824,000 to HK$13,342,000 for the year ended 31 December 2018 (2017: HK$6,518,000) and a segment loss of HK$6,925,000 has resulted (2017: HK$11,905,000). The repair and maintenance works of 2 warehouse units were completed in July 2018. Most of the warehouse units has been fully occupied early in 2018 for storage of raw materials mainly. Although the trade war between China and United States brought negative effect on the general trading and exporting business during the year, as the customers of our warehousing operation mainly focus on local trading business, there is no material effect on the Group's income generated from the warehouse operation.

General Trading

Our co-operation with a major distribution agent of Moutai (i.e. a reputable distilled Chinese liquor) to sell Moutai and other popular Chinese liquors continued in 2018. The revenue generated from the liquors trading amounted to HK$60,043,000 (2017: HK$64,182,000), resulting in segment profit of HK$4,255,000 (2017: HK$1,605,000).

Due to the popularity of Moutai and other popular Chinese wines in the PRC and the limited number of authorized distribution agents, the key to carry out trading is to secure the supply, as the demand of chinese wine products in the PRC far exceeds its supply. It is the normal commercial practice that no credit term is granted from the supplier and to the wholesalers and/or re-sellers and the liquors will only be delivered upon full payment of the liquors ordered. Since the commencement of such co-operation in late 2016, our management has established a strong mutual trust with the supplier which is a reputable wine distributor and is able to obtain stable supply from the wine producers, which is crucial to the long term stable development of our wine trading operation.

In 2018, the strong demand for Moutai continued and the price of Moutai increased radically during the year, and such increase in price is expected to be continued in the Chinese liquors market in general. The increase in price contributed to the increase in profit margin of the segment. However, turnover is reduced compared to last year as there is insufficient supply of Moutai and other popular Chinese liquors allocated to us by our suppliers.

To secure a stable supply of these popular Chinese liquors, we strive to actively negotiate with our business parties to secure a stable supply in 2019. Due to the stable and continued growth in the demand of Chinese liquors, especially Moutai, the Group will continue the operations of this segment and further develop the sales network to increase its volume and profitability gradually.

Securities Brokerage

The securities brokerage operation continues to provide a variety of securities related services including securities brokerage, securities trading, margin financing and placements in Hong Kong. Revenue from the segment was HK$710,000 (2017: HK$3,436,000) and segment loss of HK$2,287,000 (2017: HK$545,000) has resulted.

Revenue from this segment has dropped significantly, mainly caused by the securities brokerage operation undergoing a business restructuring process and operation streamlining during the year. In order to face keen competition in the securities brokerage operation, we established a new sales and operation team to expand our business presence in the securities brokerage sector. At the same time, we are looking into new products including but not limited to funds trading in order to broaden our client base.

Insurance Brokerage

During the year, we continued to provide tailor-made financial solutions to its clients and independent advisory services in connection with insurance products and operate long term (including linked long term) and general insurance business plus MPF.

Revenue from insurance brokerage was approximately HK$8,007,000 with net loss HK$435,000 for the year ended 31 December 2018 compared to 2017 with revenue of HK$14,072,000 and net loss of HK$6,000. The performance of insurance brokerage is still facing challenge of keen marketing competition. According to the Insurance Authority of Hong Kong, the number of authorized insurance brokers in Hong Kong was increased from 757 as at 31 March 2017 to 778 as at 31 March 2018. Thus, the Group will continue to strengthen the existing sales team and to develop various channels in different client segments and foster close relationship with insurance companies and offer diversified products to our customers to achieve a steady growth of the business.

Asset Management

The fund managed by our asset management segment is "Spruce Light Absolute Return Fund" which is a hedge fund. Its net value of assets under our management is approximately US$10 million. Revenue of HK$471,000 and segment loss of HK$5,405,000 were recorded for the year ended 31 December 2018 compared to 2017 with the revenue HK$1,323,000 and segment loss of HK$704,000.

In 2018, China's economy growth had slowed down, following the implementation of "deleveraging" policy and the influence of Sino-US trade disputes. In particular, fixed asset investments increased by 5.9% year-on-year, representing a drop of 1.3% in growth as compared with the last year. The growth for total retail sales of consumer goods eased to 9% year-on-year, representing a drop of 1.2% in growth as compared with the last year. In securities markets, due to the economic growth slow down, the "deleveraging" policy in China and the influence of Sino-US trade disputes, large declines occurred in major Chinese stock indexes at home and abroad. CSI-300 Index slipped 25.3% for the year. At the same time, Hang Seng Index and Hang Seng China Enterprise Index also fell 13.6% and 13.5%, respectively. Nonetheless, the general performance of the fund under management for the year was better than the major market indexes.

Looking ahead in 2019, China's economic policies will be strengthened to improve the domestic economic environment while the uncertainties of Sino-US trade disputes will continue to cause stock market fluctuations. In the long run, Chinese companies with excellent management and good competitive landscape could still achieve outstanding performance growth, thus improving stock price. On the other hand, companies without performance improvements could lose its support in face of continuing challenges from downside risks. The asset management business segment will continue to seek growth in both scale and performance.

Loan Financing

Loan financing segment includes the provision of financing guarantee services, loan financing, financing consultancy and loan referral services in both Hong Kong and the PRC.

The segment revenue generated from loan financing for year ended 31 December 2018 was HK$70,022,000 with segment profit of HK$54,605,000, compared to the segment revenue of HK$41,121,000 and segment profit of HK$27,755,000 for the year ended 31 December 2017. The increase in segment revenue and profit was mainly contributed by the newly acquire PRC financing guarantee and financing consultancy services business.

The State Council published the Measures for the Supervision and Administration of Financing Guarantee Companies (《融資擔保公司監督管理條例》) on 2 August 2017 which clarifies the development direction for financing guarantee business in form of administrative regulation. The financing guarantee business will maintain sustainable, stable and healthy development under the support of the new national regulation. With the synergy between loan referral services and financing guarantee services in PRC, it will bring further business opportunity in relation to supply chain financing services to parallel import car business, as well as factoring business in PRC.

For the risk management prospective, loan financing team in PRC established corresponding credit policy and operation procedures. Due diligent and credit review is routine performed to existing and potential customers. For financing guarantee services, our financing team will require sufficient pledge of assets.

In the government report of the Second Session of the 13th National People's Congress stated that the main focus of the central government in 2019 shall be exerting reform efforts and improving the money and credit supply mechanism, guiding financial institutions to extend credit quota and reducing the cost of loans by utilizing quantitative and pricing monetary policy, such as reserve requirement ratio and interest rates, and releasing funds to support the development of private enterprises, and small and micro enterprises. The management believe that these policies will have a positive impact on the financing and credit market, and will benefit the Group's supply chain finance business and financial advisory services business in Mainland China.

The loan financing operations in Hong Kong primarily involved in mortgage loan operation. To remain competitive while mitigating the overall credit risk, we adopted a stringent credit approval policy and before the loan was approved, we worked closely with reputable professionals for property valuation in valuing the property provided by customers for the mortgage loan application to ensure the loan to value ratio of the relevant properties are maintained at a reasonable level. Credit assessment including full review of credit history and personal TU credit report of the potential customers is performed. In addition, we installed tools to monitor the trend in the property market which will provide alert to our credit team in case of significant fluctuation or irregularity is noted in the mortgage under supervision.

The Group will continue to implement a prudent strategy and maintain its focus on high net worth customers through building closer partnership with our business partners which act as loan referral agents and has established stringent internal loan management system, including credit assessment and risk management as mentioned above. In addition, we cooperate tightly with external professionals for property valuation, credit check and legal counsel.

As at 31 December 2018, the balance of the loans and interest receivables was approximately HK$113,952,000 (2017: HK$189,891,000). Interest rate of the loans ranged from 6% to 30% (2017: 6.6% to 18%) per annum. As at 31 December 2018, the total guarantee issued by our financing guarantee operation was approximately RMB492 million (as at 31 December 2017: RMB349 million).

Non-fulfillment of profit guarantee of Sino Wealth Group and Access China Group

According to the agreements in relation to the acquisition of Sino Wealth Investment Co., Limited (together with its subsidiaries, the "Sino Wealth Group") and Access China Group Limited (together with its subsidiaries, the "Access China Group"), the vendors of each acquisition had guaranteed that the audited net profit after tax of 北京安家世行融資擔保有限公司 (Beijing An Jia Shi Hang Financing Guarantee Company Limited) and 北京信諾微資產管理有限公司 (Beijing Xin Nuo Wei Assets Management Limited) would be not less than RMB20 million and RMB30 million respectively for the year ended 31 December 2018. If the guaranteed profits were not met, a compensation being 1.2 times of the shortfall between the difference of the profit guarantee and the actual audited net profit after tax (the "Shortfall") would be deducted from the partial cash consideration payable to the respective vendors.

Due to the adverse situation in the financial sector in the PRC which resulted in a tighten of funding source, the operation of provision of financing guarantee services of Sino Wealth Group and financing consultancy and loan referral services which were the principal activities of Access China Group had encountered severe challenge in identifying various source of funding to the clients and generating relevant income. As a result, both Sino Wealth Group and Access China Group failed to meet the profit guarantees and the Shortfalls were deducted from the partial cash considerations to be paid.

For Sino Wealth Group, the audited net profit after tax for the year ended 31 December 2018 subject to consideration of profit guarantee was approximately RMB15.5 million and the Shortfall of approximately HK$6.3 million (being 1.2 times of the difference between the audited net profit after tax and the profit guarantee of RMB20 million) would be deducted from the next part payment of the consideration in the sum of HK$11 million to be paid by the Group to the vendor.

For Access China Group, the audited net profit after tax for the year ended 31 December 2018 subject to consideration of profit guarantee was approximately RMB28 million and the Shortfall of approximately HK$2.8 million (being 1.2 times of the difference between the audited net profit after tax and the profit guarantee of RMB30 million) would be deducted from the next part payment of the consideration in the sum of HK$10 million to be paid by the Group to the vendor.

Litigation

PRC

(I) The Company has appointed PRC legal advisers and the applications for arbitration to enforce the variable interest entity contracts (the "VIE Contracts") have been filed and accepted by 上海仲裁委員會 (Shanghai Arbitration Commission, "SAC") in August 2016 (the "Arbitration"). Details of the applications are set out in the announcement dated 18 August 2016. On 22 February 2017, the PRC legal advisers of the Company received three decisions issued by the SAC to suspend the Arbitration as (i) 上海新盛典當有限公司 (Shanghai Xinsheng Pawnshop Limited, "Xinsheng"), 上海快鹿投資(集團)有限 公司 (Shanghai Kuailu Investment Group Company Limited, "Shanghai Kuailu") and 上海中源典當有限公司 (Shanghai Zhongyuan Pawnshop Company Limited, "Zhongyuan") are involved in a criminal investigation conducted by the public security authority of Shanghai City, PRC; and (ii) the shares of Xinsheng and Zhongyuan were frozen by PRC public security authority. As such, it was stated that such circumstances would create obstacles for submitting evidence to SAC, and SAC agreed to suspend the Arbitration with effect from 21 February 2017. As we are not a party of the criminal investigation in relation to Shanghai Kuailu conducted by the public security authority of Shanghai City, PRC, we have no access to the latest status nor the outstanding matters and the expected time of the completion of such investigation. Up to the date of this announcement, the Arbitration was still suspended and the PRC legal advisers of the Company has not received any oral or written updates from SAC on when the Arbitration will be resumed nor the status of the criminal investigation. Since the effective control of the Group over the two subsidiaries was governed by the VIE Contracts, the feasible way to re-gain control of the subsidiaries was to enforce such VIE Contracts through the Arbitration and the PRC legal advisers of the Company will closely monitor the latest development of the cases and would proceed to resume the Arbitration once the criminal investigation is completed. The financial impacts of the de-consolidation resulting from the incident has been fully reflected in the financial year of 2016 and the suspension of the Arbitration claim is not expected to create any adverse impact on the Group as whole.

(II) The financing guarantee subsidiary of the Group has commenced a litigation as the plaintiff against a P2P platform in Beijing, PRC. The matter is related to the guarantee deposit paid to and withheld by a P2P platform in the course of our financial guarantee business. The hearing commenced in March 2019 and no judicial decision has been promulgated up to the date of this announcement. The Board believe that there is no significant financial impact on the Group.

FINANCIAL REVIEW

Administrative and Other Operating Expenses

Administrative and other operating expenses mainly consist of the operating expenses of each of industrial property development, general trading, loan financing, securities brokerage and insurance brokerage as well as the overall administrative expenses including but not limited to the office utilities and administration, legal and professional fee, operating lease payments, employee benefit expenses, depreciation and amortization, etc. Administrative and other operating expenses amounted to approximately HK$115,836,000 during the year under review, which is increased by HK$16,039,000 as compared to last year. The increase mainly resulted from the increase in staff salary and overall expenses as a consequence of the growth in different operations of the Group. The management will continue to act on its stringent measures on costs control to contain the administrative and other expenses at a reasonable level.

Net Impairment Losses on Financial Assets

The Group has recognised a provision for net impairment on the financial assets of approximately HK$7,523,000 in accordance to the new requirement of HKFRS 9 during the year, the amount mainly in relation to the loan receivable, account receivables and interest receivable of certain customers in HK and PRC.

Finance Costs

Finance costs have decreased from approximately HK$16,340,000 in 2017 to approximately HK$11,560,000 in 2018. The decrease in the finance costs was caused by repayment of bank and other loans during the year and decrease in imputed interest on deferred consideration.

Liquidity and Financial Resources

The Group adopts the policy of prudence in managing its working capital. The operation of the Group was primarily financed by internally generated cash flow and external financing. As at 31 December 2018, the shareholders' fund and net current assets of the Group amounted to approximately HK$664,625,000 (31 December 2017: HK$714,829,000) and HK$401,468,000 (31 December 2017: HK$464,442,000) respectively. On the same date, the Group's bank balances and cash amounted to HK$269,578,000 (31 December 2017: HK$410,117,000) which were principally denominated in Hong Kong dollars and Renminbi and the current ratio was 3.49 (31 December 2017: 3.03).

As at 31 December 2018, the Group's total borrowings were denominated in Renminbi at the fixed rate of 6.37% amounted to approximately HK$88,226,000 (31 December 2017: HK$159,093,000) of which approximately HK$8,538,000 is repayable within 1 year, approximately HK$11,384,000 is repayable between 1 to 2 years, approximately HK$36,998,000 is repayable between 2 to 5 years and approximately HK$31,306,000 is repayable over 5 years. The gearing ratio, measured on the basis of total borrowings over net assets, was 13% as at 31 December 2018 (31 December 2017: 22%).

There was no capital commitment in respect of the acquisition and construction of property, plant and equipment as at 31 December 2018(31 December 2017: nil).

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are mainly in Hong Kong dollars & Renminbi. Therefore the Group did not use any financial instruments for hedging purposes.

Actual use of proceeds of 2017 Open Offer

In June 2017, the Company has completed an open offer on the basis of one offer share for every two existing shares of the Company at a subscription price of HK$0.10 per offer shares ("2017 Open Offer") and a net amount of approximately HK$222 million was raised. The intended and actual use of the net proceeds from the 2017 Open Offer is stated as below:

	Amount *(HK$ million)*	**Intended use**	**Actual use**
	25	For expansion of money lending business	Fully utilised as intended
	20	For development of factoring business in the PRC	The amount has not been utilised and is expected to be used as intended within 12 months
	5	For expansion of insurance brokerage business	Fully utilised as intended
	22	For general working capital	Fully utilised as general working capital including but not limited to office and administrative expenses, rent, salary, etc.
	150	For future investment	The amount has been utilised as partial payment to the vendors for the acquisition of Sino Wealth Investment Co. Limited.
Total	**222**		

Assets impairment loss

The impairment loss on goodwill of approximately HK$7,143,000 (the "Impairment") recorded for the year ended 31 December 2018 (2017: HK$14,650,000) was mainly related to the impairment loss on goodwill of the Type 1 & 9 licensed operations (the "Impaired Operations"). The Impaired Operations were acquired by the Group in 2016 with the objective to expand the operations to the potential clients in the PRC as there was increasingly demand for those clients to invest in the securities in the local market. However, despite the efforts spent by the management and the operation team on developing the business, it has failed to meet the growth rate forecast in 2018 as expected and thus the valuation conducted by our external valuer in 2018 has to be adjusted accordingly, resulting in the impairment loss for the year ended 31 December 2018.

Fund Investments

Our investment portfolio is classified according to HKFRS 9. The carrying amounts of the financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss during the year were approximately HK$15,872,000 and HK$77,695,000 respectively as at 31 December 2018 (as at 31 December 2017: available-for-sale investments: HK$25,521,000 and HK$22,410,000). The investment portfolio includes unlisted investment funds, investing primarily in equity of companies listed in PRC and Hong Kong, and investment in property development project in PRC.

Contingent Liabilities

There are no significant contingent liabilities noted as at 31 December 2018.

Capital Structure

In May and June 2018, upon the exercise of the share options at an exercise prices of HK$0.187 and HK$0.188 per share, 13,170,000 new shares were issued. In late December 2018, the Company received 9,000,000 share options exercise request at an exercise prices of HK$0.187 and those shares were issued in January 2019.

On 14 June 2018, the Company received conversion notice from a noteholder in respect of the exercise of the conversion rights attached to the 2014 Convertible Note and 2015 Convertible Note in an aggregate principal amount of HK$7,644,106 at the conversion price of HK$0.24 per share. As a result of the conversion, on 15 June 2018, the Company allotted and issued 31,850,442 shares in aggregate to the noteholders. Details of the change in share capital of the Group are set out in note 17 to this announcement.

Grant of Share Options

On 20 March 2018, the Company granted 457,580,000 share options to certain eligible persons. Share-based payment expenses of approximately HK$40,313,000 was recognised. Such one-off non-cash expenses result in a material negative impact to the financial performance of the Group in 2018.

Charges on Assets

Our warehouse located in Taicang with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Property, plant and equipment (RMB81,181,000)	**92,416**	102,527
Prepaid lease payments (RMB20,223,000)	**23,021**	25,040
	115,437	127,567

Save for the above, the Group had not charged other assets to secure its borrowings.

Foreign currency exposure

As confirmed by the Directors, the Group's present operations are mainly carried out in PRC and HK, and all of the Group's receipts and payments in relation to the operations are basically denominated in Renminbi & HK dollars. The Group does not use derivative financial instruments to hedge its foreign currency risks. The management will continue to monitor its foreign exchange exposure and take appropriate measures if needed.

Employees and Remuneration Policy

As at 31 December 2018, the Group had 138 employees in Hong Kong and PRC (2017: 138 employees). Remuneration is determined by reference to their respective qualifications and experiences and according to the prevailing industry practice. Besides salary payments, our staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme. As required by PRC regulations, the Group makes contributions to mandatory social security funds for the benefit of the Group's PRC employees that provide for pension insurance, medical insurance, unemployment insurance, personal injury insurance, maternity insurance and housing funds. The total staff costs was approximately HK$50,626,000 for the year ended 31 December 2018 (2017: HK$32,951,000).

Future Plans for material investments or capital assets

Up to the announcement date, there was no specific plan for material investments and acquisition of capital assets. However, the Group will continue to seek new business development opportunities especially in developing financial services related business.

Events after the reporting date

Details of the events, if any, after the reporting date of the Group are set out in note 24 to this announcement.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "2019 AGM") is scheduled to be held on Thursday, 6 June 2019. For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order for a Shareholder to be eligible to attend and vote at the 2019 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 31 May 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions (the "Code Provision(s)") as set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange, except for the following deviations:

– Code Provision A.5 stipulates that a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of Directors and succession planning for Director.

  The Company established the nomination committee on 28 August 2018. Prior to the nomination committee was established, the Board was responsible for the appointment of its own members. The chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidate recommended by the chairman and make recommendation of the appointment and re-election of the Directors. Candidates are appointed to the Board on the basis of their skill, competence, diversity of perspectives and experience that they can contribute to the Company.

AUDIT COMMITTEE REVIEW

The audit committee of the Company has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2018.

SCOPE OF WORK OF HLM CPA LIMITED

The work performed by HLM CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLM CPA Limited on the preliminary result announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

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") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2018.

By order of the Board of
Greater China Financial Holdings Limited
Liu Kequan
Chairman

Hong Kong, 26 March 2019

As at the date of this announcement, the Board comprises Mr. Liu Kequan, Mr. Yang Dayong and Mr. Zhang Peidong as executive Directors; Mr. Kwan Kei Chor, Dr. Lyu Ziang and Mr. Zhou Liangyu as independent non-executive Directors.