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(Stock Code: 431)

website: <http://www.irasia.com/listco/hk/greaterchina/index.htm>

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, together with the comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	4	392,320	151,005
Cost of sales		(279,008)	(62,402)
Gross profit		113,312	88,603
Other income, gains and losses	6	37,544	63,476
Administrative and other operating expenses		(126,060)	(141,642)
Share-based payment expenses		(13)	–
Provision for financial guarantees		(122,544)	(84,120)
Impairment loss, net of reversal	7	(147,323)	(18,384)
Impairment loss on goodwill		(32,722)	(111,257)
Impairment loss on intangible assets		(1,618)	(5,722)
Impairment loss on right-of-use assets		(7,607)	–
Finance costs	8	(14,226)	(8,232)
Loss before taxation		(301,257)	(217,278)
Income tax (expense) credit	9	(21,021)	10,883
Loss for the year	10	(322,278)	(206,395)

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other comprehensive income (expense), net of tax			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Change in fair value of financial assets at fair value through other comprehensive income		4,353	(1,961)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of operations outside Hong Kong		36,482	(5,797)
Other comprehensive income (expense) for the year		40,835	(7,758)
Total comprehensive expense for the year		(281,443)	(214,153)
(Loss) profit for the year attributable to:			
Owners of the Company		(335,628)	(206,395)
Non-controlling interests		13,350	–
		(322,278)	(206,395)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		(307,619)	(214,153)
Non-controlling interests		26,176	–
		(281,443)	(214,153)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	<i>12</i>		
Basic		(4.61)	(2.98)
Diluted		(4.61)	(2.98)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment		83,235	86,351
Right-of-use assets		22,515	43,075
Goodwill	13	326,582	32,722
Intangible assets		500	2,277
Interests in associates		–	–
Financial assets at fair value through other comprehensive income		11,175	6,369
Financial assets at fair value through profit or loss		26,309	28,664
Deferred tax assets		17,402	22,555
Deposits	16	255	3,505
		487,973	225,518
Current assets			
Loans and interest receivables	14	359,938	152,449
Trade and other receivables	15	52,297	24,895
Prepayments and deposits	16	72,496	81,487
Loans and interest receivables to a non-controlling interest		56,550	–
Loans and interest receivables to an associate		7,562	–
Financial assets at fair value through profit or loss		35,583	1,596
Contingent consideration receivable		–	39,136
Tax receivables		9	517
Cash held on behalf of clients		1,015	843
Restricted bank deposits		117,430	54,056
Cash and cash equivalents		90,241	205,530
		793,121	560,509
Assets classified as held for sale		5,563	–
		798,684	560,509
Current liabilities			
Trade payables, other payables, deposits received and accruals	17	169,664	133,564
Contract liabilities		141	52
Lease liabilities		7,922	14,536
Liabilities from financial guarantees	18	231,294	94,594
Amount due to non-controlling interests		9,975	–
Deferred consideration		–	5,853
Borrowings	19	73,046	11,186
Tax payables		6,588	100
		498,630	259,885
Liabilities associated with assets classified as held for sale		4,461	–
		503,091	259,885
Net current assets		295,593	300,624
Total assets less current liabilities		783,566	526,142

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		55	7,289
Borrowings	<i>19</i>	59,380	67,116
Convertible notes	<i>20</i>	161,707	–
		<u>221,142</u>	<u>74,405</u>
Net assets		<u>562,424</u>	<u>451,737</u>
Capital and reserve			
Share capital	<i>21</i>	7,775	6,924
Reserves		340,902	444,813
		<u>348,677</u>	<u>451,737</u>
Equity attributable to owners of the Company		213,747	–
Non-controlling interests		<u>213,747</u>	<u>–</u>
Total equity		<u>562,424</u>	<u>451,737</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions.

The application of *the Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKFRS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Sales of goods	17,517	66,002
Warehouse storage income	11,279	13,444
Income from loan financing business		
– Loan referral and consultancy services fee	52,974	32,370
– Interest income from loans receivables	2,427	2,320
– Guarantee fee income from financial guarantees	302,649	27,730
Income from securities brokerage business		
– Interest income from margin financing	6	271
– Commission income from securities dealing	60	125
– Commission income from underwriting	3	9
Commission income from insurance brokerage	4,641	8,596
Commission income from asset management	43	138
Advertising income	721	–
	<u>392,320</u>	<u>151,005</u>

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 a warehouse in the People's Republic of China (the "PRC").
- General trading segment includes trading of consumable goods in the PRC.
- Loan financing (I) segment represents the provision of financial guarantees, loan financing, loan referral and consultancy services in Hong Kong and Beijing.
- Loan financing (II) segment represents the provision of micro-financing, loan referral and consultancy services in Ningbo.
- 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 insurance brokerage and agency services in Hong Kong.
- Others represents advertising income and trading of non-consumable goods in the PRC.

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 2020

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Loan financing (II) <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE									
Recognised at a point in time	-	15,093	35,191	334	63	43	4,641	2,424	57,789
Recognised over time	11,279	-	302,649	17,449	-	-	-	721	332,098
Recognised from other source	-	-	138	2,289	6	-	-	-	2,433
	<u>11,279</u>	<u>15,093</u>	<u>337,978</u>	<u>20,072</u>	<u>69</u>	<u>43</u>	<u>4,641</u>	<u>3,145</u>	<u>392,320</u>
SEGMENT RESULTS									
	<u>(7,372)</u>	<u>(9,451)</u>	<u>(201,289)</u>	<u>(16,649)</u>	<u>(1,434)</u>	<u>(1,183)</u>	<u>34</u>	<u>(1,286)</u>	<u>(238,630)</u>
Impairment loss on goodwill	-	-	(25,955)	-	-	(5,230)	(1,537)	-	(32,722)
Unallocated corporate income									15,220
Unallocated corporate expenses									(41,331)
Unallocated finance costs									(6,250)
Fair value change on contingent consideration receivables									495
Fair value change on financial assets at fair value through profit or loss									6,974
Share-based payment expenses									(13)
Impairment loss on right-of-use assets									(5,000)
Loss before taxation									(301,257)
Income tax expense									(21,021)
Loss for the year									<u>(322,278)</u>

For the year ended 31 December 2019

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE							
Recognised at a point in time	–	66,002	32,370	134	138	8,596	107,240
Recognised over time	13,444	–	27,730	–	–	–	41,174
Recognised from other source	–	–	2,320	271	–	–	2,591
	<u>13,444</u>	<u>66,002</u>	<u>62,420</u>	<u>405</u>	<u>138</u>	<u>8,596</u>	<u>151,005</u>
SEGMENT RESULTS							
	<u>(5,949)</u>	<u>2,872</u>	<u>(82,800)</u>	<u>(2,470)</u>	<u>(2,983)</u>	<u>267</u>	<u>(91,063)</u>
Impairment loss on goodwill	–	–	(108,497)	–	(2,760)	–	(111,257)
Unallocated corporate income							193
Unallocated corporate expenses							(48,135)
Unallocated finance costs							(2,594)
Fair value change on contingent consideration receivables							34,602
Fair value change on financial assets at fair value through profit or loss							986
Impairment loss on amounts due from associates							<u>(10)</u>
Loss before taxation							(217,278)
Income tax credit							<u>10,883</u>
Loss for the year							<u><u>(206,395)</u></u>

All of the segment revenues reported above are 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 2020

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Loan financing (II) <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS									
Segment assets	104,247	27,703	438,017	293,204	7,592	2,781	4,110	2,090	879,744
Goodwill	-	-	-	326,582	-	-	-	-	326,582
Unallocated cash and cash equivalents									7,299
Unallocated property, plant and equipment									177
Unallocated other receivables, prepayments and deposits									4,428
Unallocated financial assets at fair value through other comprehensive income									2,909
Unallocated financial assets at fair value through profit or loss									59,955
Unallocated assets classified as held for sale									5,563
Consolidated total assets									<u>1,286,657</u>
LIABILITIES									
Segment liabilities	72,637	6,092	370,972	87,099	1,101	-	243	2,647	540,791
Unallocated other payables									1,898
Unallocated lease liabilities									5,401
Unallocated amount due to non-controlling interests									9,975
Unallocated convertible notes									161,707
Unallocated liabilities associated with assets classified as held for sale									4,461
Consolidated total liabilities									<u>724,233</u>

At 31 December 2019

	Industrial property development <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Loan financing (I) <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS							
Segment assets	109,082	37,302	491,156	11,864	2,648	2,835	654,887
Goodwill	–	–	25,955	–	5,230	1,537	32,722
Unallocated cash and cash equivalents							4,521
Unallocated property, plant and equipment							2,544
Unallocated other receivables, prepayments and deposits							4,612
Unallocated right-of-use assets							15,257
Unallocated financial assets at fair value through other comprehensive income							3,684
Unallocated financial assets at fair value through profit or loss							28,664
Unallocated contingent consideration receivable							<u>39,136</u>
Consolidated total assets							<u><u>786,027</u></u>
LIABILITIES							
Segment liabilities	80,389	243	230,208	861	–	227	311,928
Unallocated other payables							506
Unallocated deferred consideration							5,853
Unallocated lease liabilities							<u>16,003</u>
Consolidated total liabilities							<u><u>334,290</u></u>

6. OTHER INCOME, GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fair value change on:		
Contingent consideration receivables	495	34,602
Financial assets at fair value through profit or loss	7,052	682
Loss on disposal of financial assets at fair value through profit or loss	(579)	–
Interest income from:		
Bank deposits	279	413
Entrusted loan	–	719
Other loans	13,094	14,561
Loans to a non-controlling interest	7,640	–
Loans to an associate	1,125	–
Investment income from:		
Financial assets at fair value through profit or loss	123	166
National Debt Reverse Repurchase products	7	155
Net foreign exchange gain (loss)	32	(27)
Service fee income	1,076	2,263
Management service income	4,567	7,381
Bad debt recovered	–	1,882
Impairment loss on amounts due from an associate	–	(10)
Sundry income	368	689
Government subsidies	2,265	–
	<u>37,544</u>	<u>63,476</u>

7. IMPAIRMENT LOSS, NET OF REVERSAL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Impairment loss (reversal of impairment loss) recognised on:		
– Trade receivables and other receivables	28,626	4,229
– Loans and interest receivables	113,594	14,100
– Other deposits	9,337	55
– Loans and interest receivables to a non-controlling interest	(7)	–
– Loans and interest receivables to an associate	(4,227)	–
	<u>147,323</u>	<u>18,384</u>

8. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Effective interest on convertible notes	5,389	–
Imputed interest on deferred consideration	147	1,228
Imputed interest on lease liabilities	1,009	1,405
Interest on bank loans	6,212	5,599
Interest on other loans	1,469	–
	<u>14,226</u>	<u>8,232</u>

9. INCOME TAX EXPENSE (CREDIT)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
PRC Enterprise Income Tax	2,706	425
(Over) under provision in prior years:		
PRC Enterprise Income Tax	(2)	76
Deferred tax:		
Current year	18,317	(11,384)
	<u>21,021</u>	<u>(10,883)</u>

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Group's subsidiaries in Hong Kong have no estimated assessable profits for the years ended 31 December 2020 and 2019.

PRC Enterprise Income Tax ("EIT") is calculated at the applicable rates based on estimated taxable income earned by the PRC subsidiaries of the Group 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.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Enterprise Income Tax Policies for Xinjiang Uygur Autonomous Region and Xinjiang Kashgar Autonomous Region (《財政部、國家稅務總局關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》) promulgated by the State Council on 29 November 2011, if a corporate enterprise is newly established within calendar years 2010 to 2020 in two specific regions with business fallen within the scope of the Catalogue of Preferred Enterprise Income Tax for Key Encouraged Industries in Poor Areas of Xinjiang (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》), the corporate enterprise can enjoy a preferential tax treatment, that is 5-year exemption, from the first year when the entity begins to generate revenue.

10. LOSS FOR THE YEAR

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Amortisation of intangible assets (included in administrative and other operating expense)	255	1,113
Auditor's remuneration		
– audit services	1,450	1,300
– other services	400	1,140
Cost of inventories recognised as expenses	16,169	62,399
Depreciation of right-of-use assets	15,112	12,971
Depreciation of property, plant and equipment	11,215	11,494
Lease payments for short-term lease not included in the measurement of lease liabilities	–	2,314
Staff costs (including directors' emoluments)	42,759	48,025
	<u>42,759</u>	<u>48,025</u>

11. DIVIDENDS

No dividend was paid, declared or proposed during the year ended 31 December 2020. The directors of the Company did not recommend the payment of dividend in respect of the year ended 31 December 2020 (2019: nil).

12. LOSS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss and diluted loss per share	<u>(335,628)</u>	<u>(206,395)</u>
	2020 <i>'000</i>	2019 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares	<u>7,281,808</u>	<u>6,923,930</u>

The calculation of basic loss per share is based on the loss attributable to owners of the Company, and the weighted average number of shares of approximately 7,281,808,000 ordinary shares (2019: 6,923,930,000) in issue.

Diluted loss per share for the year ended 31 December 2020 did not assume the exercise of the outstanding share options since this would result in a decrease in loss per share. No adjustment was made in calculating diluted loss per share for the year ended 31 December 2020 as convertible notes had anti-dilutive effect on the basic loss per share. Accordingly, the diluted loss per share is the same as the basic loss per share.

Diluted loss per share for the year ended 31 December 2019 did not assume the exercise of the outstanding share options since this would result in a decrease in loss per share. Accordingly, the diluted loss per share is the same as the basic loss per share.

13. GOODWILL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost		
Balance at beginning of the year	165,772	165,772
Arising on acquisition of subsidiaries (<i>Note 22</i>)	326,582	–
	<hr/>	<hr/>
Balance at end of the year	492,354	165,772
	<hr/>	<hr/>
Accumulated impairment losses		
Balance at beginning of the year	133,050	21,793
Impairment loss recognised for the year	32,722	111,257
	<hr/>	<hr/>
Balance at end of the year	165,772	133,050
	<hr/>	<hr/>
Carrying amount		
Balance at end of the year	326,582	32,722
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14. LOANS AND INTEREST RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Entrusted loan	–	336
Mortgage loan	–	1,700
Other loans (<i>Note a</i>)	513,052	169,695
	<hr/>	<hr/>
	513,052	171,731
Less: Impairment allowance	(153,114)	(19,282)
	<hr/>	<hr/>
	359,938	152,449
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Note:

- (a) Other loans are loans denominated in RMB made to independent third parties, of which approximately HK\$254,510,000 (2019: HK\$136,943,000) are secured and bear interest rates ranging from 5% to 6% (2019: 6%) per annum, and approximately HK\$258,542,000 (2019: HK\$32,752,000) are unsecured and bear interest rates ranging from 6% to 24% (2019: 6% to 9%) per annum.

An ageing analysis of the loans and interest receivables net of impairment allowance as at the end of the reporting period, based on the payment due date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
No past due	289,183	150,722
Less than 1 month past due	415	1,727
1 to 3 months past due	681	–
3 to 6 months past due	41,568	–
6 months to less than 1 year past due	18,586	–
More than 1 year past due	9,505	–
	<u>359,938</u>	<u>152,449</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Balance at beginning of the year	19,282	5,273
Addition through acquisition of subsidiaries	19,050	–
Amounts recognised during the year	114,101	17,523
Amounts reversed during the year	(507)	(3,423)
Exchange realignment	1,188	(91)
	<u>153,114</u>	<u>19,282</u>

15. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables from:		
Business of dealing in securities:		
– Cash clients	–	7
– Margin clients	–	1,246
Loan referral and consultancy services (<i>Note a</i>)	44,574	24,122
Financial guarantee services (<i>Note b</i>)	21,744	3,049
Insurance brokerage business (<i>Note c</i>)	45	35
Asset management business (<i>Note d</i>)	5	75
Advertising business (<i>Note e</i>)	321	–
	<hr/>	<hr/>
	66,689	28,534
Less: Impairment allowance	(26,681)	(6,213)
	<hr/>	<hr/>
	40,008	22,321
	<hr/>	<hr/>
Other receivables	21,378	2,704
Less: Impairment allowance	(9,089)	(130)
	<hr/>	<hr/>
	12,289	2,574
	<hr/>	<hr/>
Total trade and other receivables	<u>52,297</u>	<u>24,895</u>

Notes:

- (a) The normal settlement terms of trade receivables from loan referral and consultancy services are within 30 days upon the contractual obligation being performed.
- (b) The normal settlement terms of trade receivables from financial guarantee services are mainly within 60 to 90 days upon the contractual obligation being performed.
- (c) 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.
- (d) Credit terms granted to customers of asset management business are within 30 days or as mutually agreed between the parties.
- (e) The normal settlement terms of trade receivables from advertising business are mainly within 30 days upon the contractual obligation being performed.

No ageing analysis of trade receivables from margin clients 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 allowance as at the end of the reporting period, based on the invoice date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 30 days	10,560	6,570
31 – 60 days	2,174	1,146
61 – 90 days	1,477	1,195
Over 90 days	25,797	12,167
	40,008	21,078

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Balance at beginning of the year	6,213	2,007
Addition through acquisition of subsidiaries	378	–
Amounts recognised during the year	21,160	6,144
Amounts reversed during the year	(1,479)	(1,903)
Exchange realignment	409	(35)
Balance at end of the year	26,681	6,213

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Balance at beginning of the year	130	145
Addition through acquisition of subsidiaries	6	–
Amounts recognised during the year	9,035	1
Amounts reversed during the year	(90)	(13)
Exchange realignment	8	(3)
Balance at end of the year	9,089	130

16. PREPAYMENTS AND DEPOSITS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Prepayments	3,763	2,422
Rental and utilities deposits	4,492	4,543
Statutory deposits	255	255
Other deposits (<i>Note</i>)	<u>73,876</u>	<u>78,052</u>
	82,386	85,272
Less: Impairment allowance	<u>(9,635)</u>	<u>(280)</u>
Total prepayments and deposits	<u><u>72,751</u></u>	<u><u>84,992</u></u>
Analysed for reporting purposes as:		
Current assets	72,496	81,487
Non-current assets	<u>255</u>	<u>3,505</u>
	<u><u>72,751</u></u>	<u><u>84,992</u></u>

Note:

As at 31 December 2020, other deposits mainly consist of deposits paid to co-operators in relation to the Group's guarantee and trading business, which amounted to HK\$73,718,000 (2019: HK\$77,975,000).

The movements in impairment allowance on other deposits are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Balance at beginning of the year	280	229
Amounts recognised during the year	9,346	272
Amounts reversed during the year	(9)	(217)
Exchange realignment	<u>18</u>	<u>(4)</u>
Balance at end of the year	<u><u>9,635</u></u>	<u><u>280</u></u>

17. TRADE PAYABLES, OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables from:		
Business of dealing in securities: <i>(Note a)</i>		
– Cash clients	432	386
– Margin clients	641	421
– Clearing house	–	47
Insurance brokerage business <i>(Note b)</i>	238	221
	<hr/>	<hr/>
Total trade payables	1,311	1,075
	<hr/>	<hr/>
Accrued expenses	12,510	2,915
Deposits received <i>(Note c)</i>	123,410	110,348
Other payables	32,433	19,226
	<hr/>	<hr/>
Total other payables, deposits received and accruals	168,353	132,489
	<hr/>	<hr/>
Total trade payables, other payables, deposits received and accruals	<u>169,664</u>	<u>133,564</u>

Notes:

- (a) Trade payables to securities brokerage clients represent the monies received from and repayable to brokerage clients in respect of the trust and separate bank balances received and held for clients in the course of the conduct of the Group's regulated activities.

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 the Group's business.

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

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 30 days	118	86
31 – 60 days	1	48
61 – 90 days	12	22
Over 90 days	107	65
	<hr/>	<hr/>
	<u>238</u>	<u>221</u>

- (c) Included in deposits received was an amount of HK\$110,873,000 (2019: HK\$98,426,000) which was 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 contracts, these deposits are expected to be settled within one year.

18. LIABILITIES FROM FINANCIAL GUARANTEES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Deferred income	8	58
Provision for guarantee losses	<u>231,286</u>	<u>94,536</u>
	<u>231,294</u>	<u>94,594</u>

19. BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank loans (<i>Note a</i>)	109,259	78,302
Other loans (<i>Note b</i>)	<u>23,167</u>	<u>–</u>
	<u>132,426</u>	<u>78,302</u>
Carrying amounts repayable:		
Within one year	73,046	11,186
More than one year, but not exceeding two years	11,876	11,186
More than two years, but not more than five years	47,504	44,744
More than five years	<u>–</u>	<u>11,186</u>
	132,426	78,302
Less: Amounts shown under current liabilities	<u>(73,046)</u>	<u>(11,186)</u>
	<u>59,380</u>	<u>67,116</u>

Notes:

- (a) The bank loans of RMB65,000,000 (approximately HK\$77,194,000) are secured by the pledge of the Group's assets as set out in note 23 which carry effective interest rates of 4.95% to 6.37% (2019: 6.37%) per annum. The remaining bank loan of RMB27,000,000 (approximately HK\$32,065,000) provided by an independent third party bearing interest at fixed rate of 7.5% per annum, is guaranteed by the director of a non-wholly-owned subsidiary of the Group and secured by pledge of the Group's property, and is repayable within 12 months.
- (b) The other loans bear interest at fixed rates ranging from 10% to 10.55% per annum, unsecured and is repayable within 12 months.

20. CONVERTIBLE NOTES

Pursuant to the sale and purchase agreement and the supplementary agreement for the acquisition of Xin Yunlian Investment Limited (“Xin Yunlian”) and its subsidiaries and associates (“Xin Yunlian Group”), convertible notes with principal amounts of HK\$200,000,000 at conversion price of HK\$1.00 was issued to the vendor of Xin Yunlian Group on 31 July 2020 (the “Issue Date”). It entitled the noteholder to convert 30% of them into ordinary shares of the Company at any time after the third anniversary of the Issue Date and ending on the maturity date, which is on the fifth anniversary of the Issue Date. On the maturity date, the noteholder has the right to convert the remaining 70% of them in full. The conversion of the convertible notes is subject to a lock-up period until the date which the Company, vendor and vendor guarantor confirm or mutually agreed the principal amount to be reduced by the compensation for the shortfall of guaranteed profit of Xin Yunlian Group for the five years ending 31 December 2024. The principal amount of the convertible notes equals to the guaranteed profit cannot be converted during the lock-up period. If the convertible notes have not been converted, they will be redeemed on the maturity date at the entire principal amount. Further details are set out in the Company’s circular dated 30 June 2020.

The Company shall have the right to redeem the convertible notes at any time after the Issue Date, prior to the fourth anniversary of the Issue Date.

The convertible notes contains three components, liability, equity and the derivative components – redemption option. The equity component represents the value of the conversion option, which is credited directly to equity as convertible notes reserve of the Company. The liability component of the convertible notes is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The effective interest rate of the liability component is 8.22% per annum. The derivative component – redemption option is measured at fair value with change in fair value recognised in profit or loss.

The carrying amounts of above-mentioned convertible notes recognised at the end of the reporting period were calculated as follows:

	Convertible Notes HK\$’000
Equity component	
At the date of issuance	53,452
Liability component	
At the date of issuance	156,318
Effective interest expenses	5,389
At 31 December 2020	161,707
Derivative component – redemption option	
At the date of issuance	(9,770)
Fair value change recognised	(5,610)
At 31 December 2020	(15,380)
Principal amount, at end of the year	200,000

21. SHARE CAPITAL

	Number of shares '000	Nominal amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.001 each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	2,109,890,000	2,109,890
Preference shares of HK\$0.001 each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	110,000	110
Issued and fully paid:		
Ordinary shares of HK\$0.001 each		
At 1 January 2019	6,915,077	6,915
Allotment on exercise of share options	9,000	9
At 31 December 2019 and 1 January 2020	6,924,077	6,924
Issuance of shares upon acquisition of subsidiaries (<i>Note a</i>)	850,000	850
Exercise of share options (<i>Note b</i>)	1,280	1
At 31 December 2020	7,775,357	7,775

Notes:

- (a) Pursuant to the agreements in respect of the acquisition of Xin Yunlian Group, 800,000,000 new shares and 50,000,000 new share of HK\$0.001 each at a issued price of HK\$0.200 per share were issued and allotted to the vendor and the consultant respectively upon completion of the acquisition on 31 July 2020.
- (b) On 9 December 2020, upon the exercise of the share options at an exercise price of HK\$0.188 per share, the Company allotted and issued 1,280,000 new shares of HK\$0.001 each.

All shares issued during the year rank pari passu with the existing shares in all respects.

22. ACQUISITION OF SUBSIDIARIES

On 31 July 2020, a wholly owned subsidiary of the Company (the “Purchaser”) completed the acquisition (the “Acquisition”) of Xin Yunlian Group (the “Completion”). Xin Yunlian Group is principally engaged in provision of financial referral and loan financing services in the PRC.

Pursuant to the sale and purchase agreement dated 16 November 2019 (as supplemented by the supplemental agreement dated 29 June 2020), the assets to be acquired by the Company are the entire issued share capital of Xin Yunlian and shareholder’s loan owing by Xin Yunlian Group to the vendor at the date of Completion.

The aggregate consideration is HK\$360,000,000, which should be satisfied by the Purchaser by issuance of convertible notes with principal amount of HK\$200,000,000 by the Company and 800,000,000 ordinary shares of HK\$0.2 each of the Company with amount of HK\$160,000,000.

As part of the Acquisition, if the aggregate actual audited net profit after tax attributable to the Company of Xin Yunlian Group for five years ending 31 December 2024 (the “Actual Profit”), is less than RMB153,000,000 (the “Guaranteed Profit”), the vendor and vendor guarantor will compensate the Company for the shortfall for an amount equivalent to the difference between the Guaranteed Profit and the Actual Profit multiplied by 1.2 times. For avoidance of doubt, if the Actual Profit is less than or equals to zero, the Actual Profit is deemed at zero. In such event, the Company shall have the right at maturity date to deduct the shortfall from the respective convertible notes.

To incentivize the vendor to contribute in the development of Xin Yunlian Group, the Company agreed to issue the vendor convertible notes to be created and issued by the Company to settle the incentive payment and convertible into shares of the Company, or pay the vendor in cash if the Actual Profit (subject to a cap of RMB612 million) exceeds the Guaranteed Profit.

The Company issued and allotted 50,000,000 ordinary shares of HK\$0.2 each amounting to HK\$10,000,000 in aggregate to the consultant (the “Consultant”) in accordance with the consultancy service agreement entered into by the Company, the Purchaser and the Consultant, who provided consultancy services to the Group, in relation to the Acquisition (the “Consultancy Agreement”). The directors of the Company have engaged an independent valuer to determine the fair value of the consultancy fee with amount HK\$4,446,000 as at 31 July 2020. The Consultant undertook that if the Actual Profit falls short of the Guaranteed Profit, the Consultant irrevocably assigns the Company to sell the 50,000,000 ordinary shares, and the sale proceeds will be applied to compensate the Company for the shortfall. The Consultant has irrevocably undertaken to the Company that the Consultant will not sell, transfer or dispose of the 50,000,000 ordinary shares (i) within five years after the issue of the 50,000,000 ordinary shares; or (ii) until the profit guarantee requirement as stipulated under the consultancy agreement is satisfied, whichever is later.

Further details are set out in the Company’s announcement dated 31 July 2020 and circular dated 30 June 2020.

The following table summarises the fair value of assets and liabilities of Xin Yunlian Group recognised at 31 July 2020:

	<i>HK\$'000</i>
Non-current assets	
Property, plant and equipment	3,183
Right-of-use assets	497
Intangible assets	–
Interest in associates	–
Deferred tax assets	10,718
Current assets	
Trade and other receivables	26,521
Loans and interest receivables	147,997
Prepayment and deposits	3,415
Financial assets at fair value through profit or loss	1,825
Loans and interest receivables to non-controlling interests	59,612
Loans and interest receivables to an associate	17,768
Cash and cash equivalents	31,912
Assets classified as held for sale	5,211
	<u>308,659</u>
Current liabilities	
Accruals and other payables	(16,280)
Amount due to a shareholder	(59,620)
Amount due to non-controlling interests	(9,332)
Amount due to group companies	(7,240)
Lease liabilities	(382)
Liabilities from financial guarantees	(7,835)
Borrowings	(77,503)
Tax payables	(3,499)
Liabilities associated with assets classified as held for sale	(4,145)
Non-current liabilities	
Lease liabilities	(171)
	<u>(171)</u>
Net identifiable assets at fair value	122,652
Less: Non-controlling interests	(187,571)
Shareholders' loan assigned to the Group	59,620
Goodwill arising from the Acquisition (<i>Note 13</i>)	326,582
	<u>321,283</u>
Total fair value consideration	<u><u>321,283</u></u>
Consideration satisfied by:	
Consideration shares	146,408
Convertible notes	200,000
Less: Financial assets at fair value through profit or loss – profit guarantee and incentive payment	(25,125)
	<u>321,283</u>
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired of	<u><u>31,912</u></u>

The directors of the Company have engaged an independent valuer to determine the fair value of the consideration for the Acquisition, net tangible assets and intangible assets of Xin Yunlian Group, in accordance with HKFRS 13.

Goodwill arising from the Acquisition represents the excess of the fair value of the considerations to be paid/payable by the Group over the fair value of net identifiable assets acquired.

23. PLEDGE OF ASSETS

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Property, plant and equipment	79,087	82,650
Right-of-use assets – leasehold lands in PRC	22,515	21,914
	101,602	104,564

24. GUARANTEE ISSUED

At 31 December 2020, the total maximum amount of financial guarantees issued was RMB2,305,928,000 (approximately HK\$2,738,521,000) (2019: RMB875,709,000 (approximately HK\$979,568,000)). The total maximum amount of financial guarantees issued represents the maximum potential loss amount that would be recognised if counterparties failed completely to perform as contracted.

25. CONTINGENT ASSETS AND LIABILITIES

The Group had no significant contingent assets or liabilities as at 31 December 2020 and 2019 other than those described in Note 24.

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 including loan financing, financial guarantee services, loan referral and consultancy services.

Revenue and segment results of the Group for the year ended 31 December 2020 (“FY2020”) are stated in the table below:

	For the year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Revenue from:		
Industrial property development	11,279	13,444
General trading	15,093	66,002
Securities brokerage	69	405
Insurance brokerage	4,641	8,596
Asset management	43	138
Loan financing I (<i>Note 1</i>)	337,978	62,420
Loan financing II (<i>Note 2</i>)	20,072	–
Others	3,145	–
	<u>392,320</u>	<u>151,005</u>
Segment (loss) profit from:		
Industrial property development	(7,372)	(5,949)
General trading	(9,451)	2,872
Securities brokerage	(1,434)	(2,470)
Insurance brokerage	34	267
Asset management	(1,183)	(2,983)
Loan financing I (<i>Note 1</i>)	(201,289)	(82,800)
Loan financing II (<i>Note 2</i>)	(16,649)	–
Others	(1,286)	–
	<u>(238,630)</u>	<u>(91,063)</u>

Note 1: Loan financing I represents the provision of loan financing, financial guarantee services, loan referral and consultancy services in Hong Kong and Beijing.

Note 2: Loan financing II represents the provision of micro-financing, loan referral and consultancy services in Ningbo.

Industrial Property Development

Revenue from the segment mainly represents warehouse storage income generated from warehouse operation. The Group's warehouse is located in Taicang, Jiangsu Province, the PRC. It is divided into 6 units and the total area is approximately 48,600 square meters. Revenue from warehouse operation recorded a decrease of HK\$2,165,000 from approximately HK\$13,444,000 for the year ended 31 December 2019 ("FY2019") to approximately HK\$11,279,000 for FY2020, resulted in a segment loss of approximately HK\$7,372,000 for FY2020 (FY2019: segment loss of approximately HK\$5,949,000). The average occupancy rate of the Group's warehouse during FY2020 was over 74% and primarily used as storage of household appliances, motor vehicle spare parts and textile products.

As affected by the outbreak of a respiratory disease caused by the novel coronavirus (the "COVID-19 epidemic") in the PRC, the Group's warehouse operation was restrained as instructed by the local government in February 2020 after the Chinese New Year holiday. Due to the rigorous quarantine measures, the process of renewal of the Group's warehouse storage services was suspended in the first quarter of 2020 and resumed in the second quarter of 2020. The occupancy rate slowly recovered and reached over 90% in the last quarter of 2020. Management of the Company expects the average occupancy rate will maintain at over 90% in 2021 and will continue to identify new customers as tenants for the Group's warehouse operation.

General Trading

The Group continued to co-operate with a major distribution agent of Moutai, a reputable distilled Chinese liquor brand, to sell Moutai and other popular Chinese liquors in 2020. Revenue generated from liquors trading for FY2020 amounted to approximately HK\$15,903,000 (FY2019: approximately HK\$66,002,000), resulted in a segment loss of approximately HK\$9,451,000 (FY2019: segment profit of approximately HK\$2,872,000).

The significant decrease in revenue and the segment loss recorded in FY2020 was mainly due to the outbreak of the COVID-19 epidemic since January 2020. The imposing of quarantine orders on certain residents, heightened hygiene and epidemic prevention measures in factories and offices, and the extended social distancing measures implemented by the PRC government had adverse impact on customer demand for Chinese liquors. Management of the Company anticipates that the market demand for Chinese liquors will gradually return to normal as China recovers from the COVID-19 epidemic. The Group will continue its liquors trading business and further develop its sales network to increase sales volume and profitability in 2021.

Securities Brokerage

The Group's securities brokerage business in Hong Kong comprises securities brokerage, securities trading and margin financing. Revenue from the segment for FY2020 was approximately HK\$69,000 (FY2019: approximately HK\$405,000), resulted in a segment loss of approximately HK\$1,434,000 (FY2019: segment loss of approximately HK\$2,470,000). Investor confidence was significantly affected by the COVID-19 epidemic in 2020. The Group's operation is facing keen competition in the industry with low profit margin on regular securities trading business. In addition, the Hong Kong government will increase the stamp duty on stock trading by both buyers and sellers to 0.13 per cent in August 2021 which will inevitably hit the trading volume in the short run. In order to tackle the challenges, the Group will continue to strengthen cost control measures to reduce unnecessary expenditure.

Insurance Brokerage

During FY2020, the Group's insurance brokerage business in Hong Kong continued to provide tailor-made financial solutions and independent advisory services in connection with insurance products to its clients, operated long-term (including linked long-term) insurance and general insurance business and offered Mandatory Provident Fund products.

Revenue from the segment for FY2020 was approximately HK\$4,641,000 (FY2019: approximately HK\$8,596,000), resulted in a segment profit of approximately HK\$34,000 (FY2019: segment profit of approximately HK\$267,000). The decrease in revenue and profit from the insurance brokerage business was mainly due to the continued restrictions on cross border travel in 2020 as a result of the outbreak of the COVID-19 epidemic. According to the provisional statistics of Hong Kong insurance industry in 2020 issued by the Insurance Authority of Hong Kong, long term business policies premium contributed by Mainland visitors decreased by 84.3% from HK\$43.3 billion in 2019 to HK\$6.8 billion in 2020. Despite the challenges caused by the COVID-19 epidemic, the Group's sales team continued to discover new products and new customers, together with the stringent cost control measures, the Group's insurance brokerage business recorded profit in such adverse environment. Looking forward, the Group will continue to strengthen its existing sales team and to develop different clientele and foster close relationship with insurance companies and offer diversified products to customers in order to stay competitive in the market until the COVID-19 epidemic is under control.

Asset Management

The Group's asset management segment manages a hedge fund established in the Cayman Islands, "Spruce Light Absolute Return Fund" (the "Fund"). The Fund primarily invests in equity and equity related instruments of companies listed in Hong Kong and the PRC and its net value of assets under management as at 31 December 2020 was approximately US\$3.7 million. Revenue from the segment for FY2020 was approximately HK\$43,000 (FY2019: approximately HK\$138,000), resulted in a segment loss of approximately HK\$1,183,000 (FY2019: segment loss of approximately HK\$2,983,000). Due to the redemption made by certain fund investors during FY2020, the size of the Fund decreased by approximately 32% in 2020. As a result, the management fee income for the asset management segment decreased significantly.

Looking forward to 2021, it is expected that the COVID-19 epidemic will continue to lay negative impact on the global economy. The relationship between the two major economies of China and the United States may be subject to potential new impacts after the election of United States president in 2020. The world's economy shows great uncertainty. Due to China's huge domestic demand, strong government policy support and relatively low dependence on other countries, the domestic economy is still recovering continuously, experiencing twists and turns but not lacking opportunities. Therefore, in the long run, Chinese enterprises with excellent management and competitive pattern will still achieve excellent performance growth. On the other hand, companies that cannot keep up with the development and changes of the market may not be able to cope with the continuous challenges. The Group's asset management team strives to create new investment strategies and continues to seek opportunities to promote the steady development of scale and performance.

Loan Financing I

The Group's loan financing I services comprise the provision of loan financing, financing guarantee services, loan referral and consultancy services in Hong Kong and Beijing. Revenue from the segment for FY2020 was approximately HK\$337,978,000 (FY2019: approximately HK\$62,420,000), resulted in a segment loss of approximately HK\$201,289,000 (FY2019: segment loss of approximately HK\$82,800,000). The increase in segment revenue was mainly due to the new business opportunity with new asset and fund partners including but not limited to individual customers from personal electronic consumer platform. The segment loss was mainly due to the increase in provision against the outstanding guarantee issued and impairment loss on loans and interest receivable as the Group's customers were affected by the COVID-19 epidemic. The provision for financial guarantees increased from approximately HK\$84,120,000 during FY2019 to approximately HK\$121,453,000 during FY2020. The impairment loss on loans and interest receivable for FY2020 was approximately HK\$110,574,000 (FY2019: approximately HK\$14,100,000).

Loan Financing Business in Beijing

During 2020, the COVID-19 epidemic swept across the world and the overall economy slowed down. All kinds of enterprises were squeezed by income reduction and cost rigidity. The vulnerability of micro, small and medium-sized enterprises became more prominent, mainly due to shortage of funds and liquidity crisis. Micro, small and medium-sized enterprises and individuals are the main customer groups in the financing guarantee industry. On the one hand, the COVID-19 epidemic has brought pressure on financing guarantee companies such as the increase of non-performing rate, and on the other hand, it has also brought new development opportunities. It is a pressing issue for financing guarantee companies to solve how to seize the opportunities of reshuffling companies within the industry, improve industry supervision and increasing customer capital demand, continuously optimize iterative products, upgrade risk control strategies and tools, and provide better services for customers.

Loan Financing Business in Hong Kong

The Group's loan financing operations in Hong Kong is mainly the provision of mortgage loan. To remain competitive while mitigating the overall credit risk, the Group adopted a stringent credit approval policy and worked closely with external property valuation professionals in valuing the subject property to ensure the loan to value ratio of the relevant properties are maintained at a reasonable level. In addition, the Group installed tools to monitor the trend in the property market, which will alert its credit team in case of significant fluctuation or irregularity in respect of the mortgage under supervision. Credit assessment includes full review of credit history and credit report of the potential customers issued by a third party credit rating institution, TransUnion. The Group will continue to implement a prudent strategy with stringent internal loan management system, including credit assessment and risk management, and cooperate closely with external professionals for property valuation, credit check and legal counsel and maintain the Group's focus on high net worth customers through its partnership with business partners such as loan referral agents. As at 31 December 2020, all the outstanding loans were repaid and there was no new loan drawdown.

Loan Financing II

The Group's loan financing II services comprise the provision of micro-financing, loan referral and consultancy services in Ningbo, PRC. Revenue from the segment for FY2020 was approximately HK\$20,072,000, resulted in a segment loss of approximately HK\$16,649,000. The provision for financial guarantees issued was approximately HK\$1,091,000 for FY2020.

The acquisition of Xin Yunlian Group was completed on 31 July 2020. The major activities of Xin Yunlian Group are the operation of an e-commerce platform and the provision of financial services (including micro-financing and financing referral operations) and advertising business. All operations are targeted to the 5.6 million tobacco retailers in the PRC. Currently, there are approximately 4.4 million tobacco retailers registered on the e-commerce platform of Xin Yunlian Group. The Company's management believes that the above acquisition will achieve synergies, where the Group can leverage its knowledge, know-how, experience in the loan financing business in the PRC and financial resources to lead and empower Xin Yunlian Group in developing new loan financing business. The combined network of client base and financial institutions covered by the Group is expected to form a stronger platform for cross-selling and growth in the loan referral business and the small and micro enterprises finance business. In addition, the profit guarantee of not less than RMB153 million (equivalent to approximately HK\$168 million) for the five years ending 31 December 2024 will also provide a positive impact on the financial position of the Group as a whole in the years ahead.

Further details in respect of the acquisition of Xin Yunlian Group are set out in the Company's announcements dated 16 November 2019, 29 June 2020, 22 July 2020 and 31 July 2020, and the circular dated 30 June 2020.

Business Model

網新新雲聯金融信息服務(浙江)有限公司(Wangxin Xin Yunlian Financial Information Service (Zhejiang) Company Limited*, "Xin Yunlian Financial") is the exclusive financial service provider of 中煙新商盟電子商務有限公司(Zhongyan Xin Shangmeng E-commerce Limited*, "Zhongyan E-commerce"). Xin Yunlian Financial is a wholly-owned subsidiary of 浙江新雲聯雲科技有限公司(Zhejiang Xin Yunlian Cloud Technology Company Limited*), which is indirectly controlled by Xin Yunlian. Zhongyan E-commerce is owned as to 49% by 浙江新雲聯數字科技有限公司(Zhejiang Xin Yunlian Digital Technology Company Limited*), which is owned as to 51% by Xin Yunlian. Xin Yunlian Financial offers promotion on e-commerce platform, official accounts and other new media platforms as well as through tobacco monopoly administration at province and city levels. With the authorization of registered users of the e-commerce platform, Xin Yunlian Financial can access the readily available customer database. The Group also provides financial service to qualified tobacco retailer customers in need that are identified through telephone marketing or site visiting.

The services provided by Xin Yunlian Financial include the referral of potential borrowers for loan services to financial institutions with a focus on retailers licensed to distribute tobacco products in the PRC. Considering the financial needs of tobacco retailers in making tobacco orders, store improvement and other operating matters, Xin Yunlian Financial has launched a tobacco credit loan service, which can be applied on-line with tobacco retail license. Target clients can directly contact Xin Yunlian Financial through the e-commerce platform, or to inquire about loan services through the Xin Yunlian Financial mobile application.

After a review of the funding needs of potential borrowers and a preliminary assessment of their credit profile, Xin Yunlian Financial will refer the potential borrowers to appropriate banks for suitable financial products. The banks in cooperation with Xin Yunlian Financial will, based on their respective concerns, mitigate credit risks in further by assessing such potential borrowers. For the customers passing risk assessment, those banks will remit loans to the account designated by the borrowers. Since credit risk is the main risk inherent in the financial services business, with the support of the e-commerce platform, Xin Yunlian Financial has the ability to effectively manage and supervise the credit risk of potential borrowers to be referred by Xin Yunlian Financial to financial institutions.

In terms of loan transactions through referral, Xin Yunlian Financial, as an intermediary agency, will charge referral fees.

In 2020, Xin Yunlian Financial co-operated with regional banks in the PRC to provide funding to the potential borrowers. The loan products include both credit loan with semi-annual terms and repayment of principal and interest in a lump sum at maturity and customized loan products with a term of one year and repayment of principal and interest by installment. The interest rate ranges from 7.5% to 24% per annum depending on the credit assessment of each individual borrower. A referral fee of approximately 3% is charged by Xin Yunlian Financial depending on the terms of the banks.

From a regional perspective, the top ten provinces with the largest business scale are Guangdong Province, Sichuan Province, Hunan Province, Guizhou Province, Henan Province, Shaanxi Province, Yunnan Province, Guangxi Zhuang Autonomous Region, Hubei Province and Shandong Province.

Policy

In 2020, in order to implement the decisions and arrangements of the CPC Central Committee and the State Council for expanding domestic demand, stabilizing employment, and benefiting people's livelihood, strengthen the fundamental role of consumption in economic development, and drive the diversified and innovative development of the economy, seven national departments, including the Ministry of Commerce and the Ministry of Finance jointly issued the "Notice of Launching the Action for Advancing the Small-store Economy" (《關於開展小店經濟推進行動的通知》). It is stressed in "IV. Safeguard Measures" that the current policies to support small and micro enterprises, self-employed individuals, including tax reduction and fee reduction, financial support, and optimization of the business environment, shall be implemented in all localities. Support is offered to financial institutions in their cooperating with core enterprises in the supply chain and e-commerce platforms; financial institutions are also supported in, according to laws and regulations, providing small stores with credit loans and supply chain financial products such as orders, warehouse receipts, and accounts receivable financing, based on the credit relationship between enterprises. Financial institutions are encouraged to optimise the evaluation methods and incentive mechanisms for small stores' credit support, further improve the quality and efficiency of financial services for small stores, reduce their overall finance costs, and develop inclusive financial products for them in line with their asset-light attribute.

Leveraging on this opportunity, Xin Yunlian Financial will continuously commit to the fields of technology and finance, and in 2021, it will also provide more diversified financial products and services by co-operating with various banks. Xin Yunlian Financial endeavors to build an inclusive financial technology enterprise that provides comprehensive internet financial services covering loans, supply chain finance, insurance, etc., with serving tobacco retailers as its feature.

For the micro-financing operation, as at 31 December 2020, loans and interest receivables of the Group was approximately HK\$359,938,000 (2019: approximately HK\$152,449,000), with interest rates ranging from 5% to 24% (2019: 5% to 20.4%) per annum.

Other Segment

Other segment comprise of provision of advertising services and trading of non-consumable goods activities which were acquired in the acquisition of Xin Yunlian Group in 2020. As the nature of these two business activities are different from the main business of the Group and the income generated only accounts for a very small percentage, management of the Company designated this part of the business as other segment. Revenue from the segment for FY2020 was approximately HK\$3,145,000, resulted in segment loss of approximately HK\$1,286,000.

Litigation

PRC

- (I) The Company has engaged PRC legal advisers in respect of the applications for arbitration in enforcing the variable interest entity contracts (the “VIE Contracts”), which 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 Company’s announcement dated 18 August 2016. On 22 February 2017, the Company’s PRC legal advisers 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, the PRC; and (ii) the shares of Xinsheng and Zhongyuan were frozen by such public security authority. Hence, the Arbitration has been suspended since 21 February 2017.

In respect of the case against Shanghai Kuailu, the Company’s PRC legal advisers understood from SAC that SAC received a court decision in respect of the criminal case against Shanghai Kuailu, its chairman and the certain parties, pursuant to which they are convicted of fraud, in late 2019. Subsequently, SAC provided the Company’s PRC legal advisers copies of the court decisions. As at the date of this announcement, SAC has yet to provide any direction on the resumption of the Arbitration. In respect of the case against Xinsheng and Zhongyuan, the Company’s PRC legal advisers has not received any oral or written updates from SAC on the Arbitration nor the criminal investigation.

Based on the information publicly available, Shanghai Kuailu does not have sufficient financial resources to settle all penalties on their conviction while Xinsheng and Zhongyuan have been suspended for business for over a year and the financial positions are unknown. In view of this, the Company’s management considered that the cost to be incurred in resuming the Arbitration is expected to be significantly above the benefits the Group could be obtained and thus decided that the Arbitration would not be proceeded.

The financial impacts of the de-consolidation resulting from the incident has been fully reflected in the financial year ended 31 December 2016 and the suspension of the Arbitration is not expected to create any adverse impact on the Group as whole.

- (II) In May 2020, a PRC subsidiary of the Company, which primarily engages in the financing guarantee business, was notified that it was one of the defendants in certain legal cases in the PRC. The cases were involved with loans borrowed by the clients via a P2P platform in Beijing, the PRC, which was claimed to be currently owned by the plaintiff through certain loan transfer agreements. The Company considered that the legality of the loan transfer agreements was in question and the timing of the hearing in the PRC was not yet confirmed up to present. It does not expect the cases will have a significant financial impact on the Group as a whole.

FINANCIAL REVIEW

Administrative and Other Operating Expenses

Administrative expenses include office utilities and administration, legal and professional fee, employee benefit expenses, depreciation of right-of-use assets and property, plant and equipment and amortization. Other operating expenses mainly consist of operating expenses of industrial property development, general trading, loan financing, securities brokerage and insurance brokerage. Administrative and other operating expenses amounted to approximately HK\$126,060,000 during FY2020, representing a decreased of HK\$15,582,000 as compared to approximately HK\$141,642,000 during FY2019. Although the Group acquired Xin Yunlian Group during the year, the administrative and other operating expenses decreased mainly due to the optimization of relevant business flows and implementation of reform measures to lower cost and to enhance efficiency. The Company's management will continue to act on its stringent measures on costs control to maintain the administrative and other operating expenses at a reasonable level.

Finance Costs

Finance costs increased from approximately HK\$8,232,000 during FY2019 to approximately HK\$14,226,000 during FY2020. The increase in the finance costs was mainly caused by the effective interest on the convertible notes issued in connection with the acquisition of Xin Yunlian Group and the interest paid on other loans from such newly acquired group.

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 2020, the shareholders' fund and net current assets of the Group amounted to approximately HK\$348,677,000 (2019: approximately HK\$451,737,000) and approximately HK\$295,593,000 (2019: approximately HK\$300,624,000) respectively. As at 31 December 2020, the Group's cash and cash equivalents amounted to approximately HK\$90,241,000 (2019: approximately HK\$205,530,000) which were principally denominated in Hong Kong dollars and Renminbi and the current ratio was 1.59 (2019: 2.16). The main reason for the decrease in bank balances was the increase in restricted bank deposits paid for the loan financing business and the increase in loans receivable during FY2020.

As at 31 December 2020, the Group's total borrowings amounted to approximately HK\$132,426,000 (2019: approximately HK\$78,302,000) of which approximately HK\$73,046,000 is repayable within 1 year, approximately HK\$11,876,000 is repayable between 1 to 2 years, and approximately HK\$47,504,000 is repayable between 2 to 5 years. The Group's borrowings were denominated in RMB at interest rates ranging between 4.95% to 10.55%. The gearing ratio, measured on the basis of total borrowings over net assets, was 23.5% as at 31 December 2020 (2019: 17.3%). The increase in borrowings was mainly attributable to the newly acquired Xin Yunlian Group which had approximately HK\$55,232,000 of borrowings as at 31 December 2020. There was no capital commitment in respect of the acquisition and construction of property, plant and equipment as at 31 December 2020 (2019: nil).

Impairment loss on Goodwill

The Group recorded impairment loss on goodwill of approximately HK\$32,722,000 (the “Impairment”) for FY2020 in respect of its cash generating units (“CGU”), including the insurance brokerage CGU, asset management CGU, financing referral CGU and the financial guarantee CGU, which provides insurance brokerage, asset management, financial referral and financial guarantee operations (the “Impaired Operations”). The insurance brokerage and asset management operations in Hong Kong were acquired by the Group in late 2015 and 2016 respectively. The financing referral and financial guarantee operations in PRC were acquired by the Group in 2016 and 2017 with the objective to expand into the PRC’s financial services sector. Due to the ongoing Sino-US trade war in 2020 and the COVID-19 epidemic which has led to the economic slowdown in Hong Kong and the PRC, the Impaired Operations were unable to achieve the expected growth rate for FY2020. Therefore, the valuation conducted by the Company’s external independent valuer was adjusted and resulted in the impairment loss on goodwill for the Impaired Operations.

Impairment loss of Trades and Other Receivables and Loans and Interest receivable

During FY2020, because of the adverse impact of the COVID-19 epidemic on the Group’s customers, the expected credit loss rate on loans and interest receivables increased significantly. The impairment loss of trade and other receivables and loans and interest receivables for FY2020 was approximately HK\$28,626,000 and HK\$113,594,000 respectively (FY2019: approximately HK\$4,229,000 and HK\$14,100,000). The expected credit loss rate was based on historical observed default rates, forward looking information that is available without undue cost or effort as well as the fair value of the collateral pledged by the customers.

The Group will closely monitor the financial position and the operation of its customers and will continue to communicate actively with the customers in terms of repayment schedule and progress. At the same time, the Group will also work closely with its legal advisor to explore solutions to enforce the repayment of the customers and legal actions will be taken if necessary in order to minimize the potential risk of the Group.

Fund Investments

The Group’s 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 of the investment portfolio were approximately HK\$11,175,000 and HK\$20,203,000 respectively as at 31 December 2020 (2019: approximately HK\$6,369,000 and HK\$30,260,000). The investment portfolio includes (i) unlisted investment funds, which primarily invests in listed equity in the PRC and Hong Kong; (ii) listed equity in the PRC and Hong Kong; and (iii) unlisted investment fund, which primarily represents an investment in 20% equity interest in the registered capital of an unlisted company incorporated in the PRC which is engaged in property development project in the PRC.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed in this announcement, the Group had no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures as at 31 December 2020.

Future Plans for Material Investments or Capital Assets

As at 31 December 2020, the Group did not have immediate plans for material investments or capital assets.

Contingent Liabilities

There are no significant contingent liabilities noted as at 31 December 2020 other than the financial guarantees issued.

Guarantee Issued

For FY2020, the Group's total financial guarantees issued was approximately RMB2,305,928,000 (equivalent to approximately HK\$2,738,521,000) (FY2019: approximately RMB875,709,000 (equivalent to approximately HK\$979,568,000)).

Capital Structure

As at 31 December 2020, the total number of issued ordinary shares of the Company were 7,775,357,621 (31 December 2019: 6,924,077,621) at HK\$0.001 each.

Charges on Assets

The Group's warehouse located in Taicang, the PRC with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	For the year ended	
	31 December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	79,087	82,650
Right-of-use assets – leasehold lands	22,515	21,914
	101,602	104,564

Save for the above, the Group did not charge other assets to secure its borrowings as at 31 December 2020.

Foreign currency exposure

As confirmed by the Directors, the Group's present operations are mainly carried out in the PRC and Hong Kong, and all of the Group's receipts and payments in relation to the operations are basically denominated in RMB and Hong Kong dollars. The Group does not anticipate any material foreign exchange exposure and therefore no derivative financial instruments were used to hedge its foreign currency risks as at 31 December 2020. Management of the Company will continue to monitor its foreign exchange exposure and take appropriate measures if needed.

Employees and Remuneration Policies

As at 31 December 2020, the Group had 188 employees (31 December 2019: 174 employees). Remuneration is determined by reference to their respective qualifications and experiences and according to the prevailing industry practice. In addition to salary payments, the Group's staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme. As required by the regulations in the PRC, the Group makes contributions to mandatory social security funds for the benefit of the Group's employees in the PRC, including pension insurance, medical insurance, unemployment insurance, personal injury insurance, maternity insurance and housing funds.

DIVIDEND

The Board did not recommend the payment of any final dividend for FY2020 (FY2019: nil).

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, the Group did not have any other significant event subsequent to 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company (the "2021 AGM") is scheduled to be held on Thursday, 10 June 2021. For determining the entitlement of shareholders of the Company to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Monday, 7 June 2021 to Thursday, 10 June 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2021 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 at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 4 June 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules throughout FY2020.

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 consolidated financial statements of the Group for FY2020.

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. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for FY2020 as set out in this preliminary announcement have been agreed by the Group's auditor, HLM CPA Limited.

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. Having made specific enquiry, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout FY2020.

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

Hong Kong, 30 March 2021

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.

* *for identification purposes only*