Capital Finance Holdings Limited
首都金融控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8239)

Annual Report

2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "**Directors**") of Capital Finance Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD

Executive Directors
Mr. Zhang Wei *(Chairman and Chief Executive Officer)*
Mr. Yang Bo *(Chief Operating Officer)*

Non-Executive Director
Mr. Zang Wei

Independent Non-Executive Directors
Mr. Chen Yihua
Mr. Du Hui
Dr. Wong Wing Kuen, Albert

BOARD COMMITTEES

Audit Committee
Dr. Wong Wing Kuen, Albert *(Chairman)*
Mr. Chen Yihua
Mr. Du Hui

Remuneration Committee
Mr. Du Hui *(Chairman)*
Mr. Chen Yihua
Dr. Wong Wing Kuen, Albert

Nomination Committee
Mr. Chen Yihua *(Chairman)*
Mr. Zhang Wei
Mr. Du Hui
Dr. Wong Wing Kuen, Albert

COMPLIANCE OFFICER

Mr. Yang Bo

COMPANY SECRETARY

Ms. Kwok Ka Huen

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2613A, 26/F.
Mira Place Tower A
132 Nathan Road, Tsimshatsui
Kowloon, Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
The Bank of East Asia, Limited

AUDITOR

Moore Stephens CPA Limited
801-806 Silvercord, Tower 1
30 Canton Road
Tsimshatsui, Kowloon
Hong Kong

COMPANY WEBSITE

http://www.capitalfinance.hk

STOCK CODE

8239

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I am pleased to present the annual report of Capital Finance Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018.

In 2018, China's economy remained at an important stage of structural adjustment and economic transformation, resulting in a slowing growth. As a result, the effective financing needs has decreased in Beijing, the People's Republic of China (the "**PRC**"). Despite such challenging market conditions, our Group has nevertheless actively maintained a stable business performance in 2018. The Group is dedicated to providing practical and flexible short term financing solutions to small-and-medium-sized enterprises (the "**SMEs**"), local entrepreneurial individuals, microenterprises and individual borrowers in the PRC, which include the provision of pawn loans, micro-financing, entrust loans and financial consultancy services, to address their funding and capital needs, and support their continued development. The Group continued to adopt a prudent approach when granting loans, as well as to diversify its loan portfolio, so that it can obtain satisfactory operating results. During year 2018, the Group's pawn loan business, micro-financing business and entrusted loans business remained stable while the financial consultancy services business recorded a growth.

Looking ahead, despite the complicated international and domestic environments, a further deepening reform and opening-up policy will be crucial to China in 2019. In this regard, the development of the financial industry in China will be a deciding factor of the development of Chinese economy in 2019. SMEs in the PRC will maintain a stable development in line with the overall national economic growth. Our Group will continue to be benefit from the strong demand for short term financing services by SMEs, and tighten control over financing activities of PRC banks. As a short term financing services providers in Beijing, the PRC, we can resolve the predicament of demanding and costly financing problem for SMEs. Going forward to 2019, while maintaining consistent availability of liquidity for the money lending business, the Group will closely monitor its cash position and at the same time will continue to look for opportunities to broaden and diversify our income stream so as to improve the overall operational performance of the Group and maximum the value of shareholders.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude and appreciation to my fellow Directors for their support and wise counsel, and to thank all of our staff for their dedication and contribution. I would also like to thank to our shareholders, customers, and business partners for their unwavering confidence and continuous support over the year.

Zhang Wei
Chairman

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

During the year ended 31 December 2018, the Group is principally engaged in short-term financing services in the PRC and Hong Kong.

The Group recorded total revenue for the year ended 31 December 2018 of approximately Hong Kong dollar ("**HK$**") 85,721,000 (2017: approximately HK$74,833,000), representing an increase of approximately HK$10,888,000 as compared with last year. The revenue increment for the year ended 31 December 2018 was mainly attributable to the significant increase in the financial consultancy income of approximately HK$9,674,000, as the Group has provided a consultancy service in relation to acquisition of equity interest in an independent third party and received a fee of Renminbi ("**RMB**")10,000,000, in which constituted a discloseable transaction and disclosed in the Company's announcement dated 25 June 2018.

The administrative and other expenses for the year ended 31 December 2018 has slightly increased from approximately HK$36,305,000 in the year 2017 to approximately HK$37,882,000.

The loss attributable to the owners of the Company for the year ended 31 December 2018 was approximately HK$29,625,000 (2017: approximately HK$14,735,000). The increase in loss attributable to the owners of the Company was mainly attributable to the significant increase in allowance for expected credit losses on loans to customers from approximately HK$1,534,000 for the year ended 31 December 2017 to approximately HK41,069,000 for the year ended 31 December 2018 due to the first-time adoption of Hong Kong Financial Reporting Standards 9 Financial Instruments ("HKFRS9"). The Group applies HKFRS 9 in 2018 for the first time, while the comparative figures in the previous year is reported under HKAS 39 and is not comparable to the information presented for the year ended 31 December 2018. Difference arising from the adoption of HKFRS 9 have been recognised directly in the reserves as of 1 January 2018.

Short-term Financing Services

During the year ended 31 December 2018, the revenue of short-term financing services was approximately HK$85,721,000 (2017: approximately HK$74,833,000). The operating results of the short-term financing services recorded a profit before income tax of approximately HK$30,411,000 (2017: approximately HK$51,569,000). The significant decrease in segment profit for the year ended 31 December 2018 when compared with last year was the mainly attributable to the significant increase in allowance for expected credit losses on loans to customers for the year 31 December 2018 which has been discussed above.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking ahead, despite the complicated international and domestic environments, a further deepening reform and opening-up policy will be crucial to China in 2019. The Board believes that the development of the financial sector will play an important role to the economy of China in 2019. The Board is of the view that SMEs will maintain a stable development in line with the overall national economic growth in China. The Group will continue to benefit from the strong demand for short term financing services by SMEs, and tighten control over financing activities of PRC banks. The Group being a financing services providers in Beijing, the PRC, provides resolution for the predicament of demanding and costly financing problem for SMEs. Going forward to 2019, while maintaining consistent availability of liquidity for the money lending business, the Group will closely monitor its cash position and at the same time will continue to look for opportunities to broaden and diversify our income stream so as to improve the overall operational performance of the Group and maximum the value of shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had other debts comprising promissory notes and liability component of convertible bonds of approximately HK$593,715,000 (2017: approximately HK$548,910,000). The Group will try to obtain future financing, and whenever possible and appropriate, raise fund via equity funding activities in order to further reduce the financing cost.

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$193,406,000 (2017: approximately HK$55,893,000) which were mainly denominated in HK$ and RMB. To manage liquidity risk, management monitors forecasts of the Group's liability position and cash and cash equivalent position on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations.

As at 31 December 2018, the gearing ratio for the Group was approximately negative 6.6 due to the Company's negative equity position (2017: approximately positive 23.0), calculated based on the total debts of approximately HK$593,715,000 (2017: approximately HK$548,910,000) over shareholder's equity of approximately negative HK$89,479,000 (2017: approximately positive HK$23,882,000). The debt ratio was approximately 1.14 (2017: approximately 0.93), calculated as total liabilities over total assets of the Group.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders of the Company (the "**Shareholders**"), issue new shares or sell assets to reduce debt.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The capital structure of the Group as at 31 December 2018 is summarised as follows:

(i) Bank Borrowings

There were no bank borrowings outstanding as at 31 December 2018 (2017: Nil).

(ii) Promissory Notes

As at 31 December 2018, the Company had promissory notes issued as part of consideration for the acquisition of the Prima Finance Holdings Limited and its subsidiaries (collectively referred to as the "**Prima Finance Group**") outstanding. Summary of the promissory notes is as follows. Further details are set out in Note 22 to the consolidated financial statements.

Date of issue	Principal amount as at 1 January 2018 (HK$)	Interest rate per annum	Principal repayment due date	Redeemed principal amount (HK$)	Outstanding principal amount as at 31 December 2018 (HK$)
6 February 2015	20,000,000	8%	6 February 2020	—	20,000,000

(iii) Convertible Bonds

As at 31 December 2018, the Company had 2 series of non-interest bearing convertible bonds issued as part of consideration of the acquisition of the Prima Finance Group outstanding. Summary of the convertible bonds is as follows.

Date of issue	Principal amount as at 1 January 2018 (HK$)	Maturity Date	Conversion Price per share	Amount converted into shares during the year (HK$)	Outstanding principal amount as at 31 December 2018 (HK$)	Number of Shares to be issued upon full conversion as at 31 December 2018
25 June 2014	387,200,000	24 June 2019	HK$0.35	—	387,200,000	1,106,285,714
6 February 2015	194,000,000	5 February 2020	HK$0.35	—	194,000,000	554,285,714

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 12 April 2018, 拉薩嘉德財務顧問有限公司(Lhasa Jiade Financial Consultant Company Limited*), an indirect wholly-owned subsidiary of the Company, subscribed for the investment product issued by 北京首御投資有限公司(Beijing Shouyu Investment Limited Company*), a limited liability company established in the PRC, and registered with 銀川產權交易中心(有限公司)(Yinchuan Property Rights Trading Center*), a legal entity approved by the Yinchuan Municipal Government and established under the laws of the PRC, in an aggregate amount of RMB20,000,000 (equivalent to approximately HK$22,788,000), which was subsequently redeemed on 29 December 2018.

As the relevant applicable percentage ratios (as defined under Rule 19.07 of the GEM Listing Rules) of the Subscription exceed 5% but are less than 25%, the Subscription constitutes a disclosable transaction of the Company under Chapter 19 of the GEM Listing Rules.

Details of the abovementioned Subscription are set out in the Company's announcement dated 12 April 2018.

During the year ended 31 December 2018, save as disclosed above, the Group did not process any other significant investment, acquisition or disposal of subsidiaries or associated companies.

CHARGE OF GROUP ASSETS

As at 31 December 2018, the Group did not have any assets under charge (2017: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC denominated in RMB. As at 31 December 2018, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currency, i.e. RMB, used by the respective group entities.

As RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. As at 31 December 2018, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

As at 31 December 2018, the Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedging or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions.

* *English name is for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liability (2017: Nil).

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 77 employees (2017: 78). The salaries and benefits of the Group's employees are maintained at a competitive level and employees are rewarded on a discretionary performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Year-end bonuses based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme and medical scheme to our employees. Staff costs, excluding Directors' emoluments, for the year ended 31 December 2018 amounted to approximately HK$18,061,000 (2017: approximately HK$15,973,000).

The Company adopted the share option scheme where options to subscribe for shares of the Company may be granted to the eligible participants of the Group. No share options have been granted to the eligible participants under the share option scheme during the year ended 31 December 2018.

EVENTS AFTER REPORTING PERIOD

Connected Transaction in relation to the Proposed Extension of Maturity Date of Convertible Bonds

On 20 February 2019, the Company executed the amendment deeds, to extend the maturity date of the 2014 Convertible Bonds (as defined in the Company's announcement dated 20 February 2019) by 3 years from 24 June 2019 to 24 June 2022, and the 2015 Convertible Bonds (as defined in the Company's announcement dated 20 February 2019) by 3 years from 5 February 2020 to 5 February 2023 (i.e. the Alteration). Save for the proposed Alteration, all other terms and conditions of the 2014 Convertible Bonds and the 2015 Convertible Bonds shall remain unchanged.

The amendment deeds and transactions contemplated thereunder are considered to be connected transactions of the Company which are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. Pursuant to Rule 34.05 of the GEM Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. The Company will make an application for the approval of the proposed Alteration.

A circular is expected to be despatched to the Shareholders in accordance with the GEM Listing Rules on 30 March 2019 ("**Circular**"). Details of the proposed Alteration are set out in the Company's announcement dated 20 February 2019 and the Circular.

Save as disclosed above, there is no material subsequent event undertaken by the Group after 31 December 2018 and up to the date of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT ("ESG")

ABOUT THIS REPORT

This report is prepared in accordance with the requirements set forth in the ESG Reporting Guide under Appendix 20 of the GEM Listing Rules, it presents our major ESG policies, initiatives and performance of the Group for the year ended 31 December 2018.

This report was approved by the Company's Board of Directors and aims to provide a balanced representation of the Group's effort on the corporate social responsibility in the Marketplace, Workplace, Community and Environment which cover the Group's operations for the year ended 31 December 2018.

Scope of report

The Group has it major operations in PRC and Hong Kong. The report content is focused on the Group's current operation related to short-term financing in PRC offices and Hong Kong office.

Materiality Assessment

Following the discussion with our senior management and operational staff, we have identified the ESG issues relevant to the Group. The identified ESG issues have been assessed by considering their importance to our stakeholders as well as the Group.

Corporate Social Responsibility ("*CSR*") Vision, Policy and Strategy

The Group adopted the CSR Policy in order to commit to the highest standards of corporate governance, and aims to integrate CSR into the Group's business strategy and management approach.

CSR is viewed as a business philosophy that creates shared sustainable value with its stakeholders in the economic, social and environmental dimensions. The Group's CSR Vision and CSR Policy guide the Group's business and operational decisions to take into account its responsibility to the CSR cornerstones with pragmatic objectives providing guidance on the application of these principles in its daily operations. The Group's CSR Policy describes our long-term approach to specific issues in the four cornerstones: Marketplace, Workplace, Community and Environment, which is instrumental in enabling our business to operate in a sustainable manner. Within each of the cornerstones, core principles and pragmatic objectives provide guidance on practicing CSR in our daily operations.

Environmental, Social and Governance Working Group

To demonstrate our commitment to transparency and accountability, the Company has established an ESG working group, which has clear terms of reference that set out the powers delegated to it by the Board.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT ("ESG")

MARKETPLACE

The Group aims at achieving the status of the most sustainable short-term financing company, for which, it strives to cultivate in a justifiable and environment-friendly manner. To further the cause of sustainability, the Group has instigated web-based services and customer services hotline in PRC. Such initiations have been effective in boosting the working efficiency, heightening service experiences and developing a harmonious association with the patrons. As evident, the Group enacts a crucial role in stimulating sustainable practices in the marketplace.

Supply Chain Management

The Group has recognised the significance of suppliers in affecting the sustainability of all the business operations. Not only the suppliers play a crucial role in influencing the overall performance but also imprint the Group's reputation among the societies where the Group operates. Responsible behaviour, equality and sensitivity towards dynamic needs of stakeholders are the top entities that are addressed when conducting the business. For this purpose, it is ensured that all the supply chain partners are treated in a fair and just manner during the related business activities.

During the year, the Group has not aware that any key suppliers had any significant negative impact on business ethics, environmental protection and labour practice. The Group has not received any complaint from suppliers during the year ended 31 December 2018.

Services Responsibility

All the employees, customers and associated professionals are ensured privacy pertaining to their personal data. The Personal Data (Privacy) Ordinance and guidelines that are announced by the Office of the Privacy Commissioner for Personal Data in Hong Kong and the provisions of protecting person privacy stipulated in the related laws and regulations in the PRC are closely followed by the Group.

Moreover, the Group has set up operational manual and perform continuous training to the operation team to ensure the laws and practices laid out in the PRC and Hong Kong are strictly pursued by the Group's operation team.

During the year, the Group has not aware any non-compliance incident that has significant negative impact from advertising, labelling and privacy matters relating to services provided and methods of redress.

Anti-corruption

Apart from ensuring a sustainable growth, the Group has shown an immense dedication at promoting integrity and honesty in the marketplace. The integral and ethical business conduct is maintained and encouraged by complying with the anti-corruption rules and regulations.

The Group adopted the Code of Conduct by introducing the internal guideline for anti-bribery and anti-corruption.

During the year, the Group has not aware any non-compliance incident that has significant negative impact from bribery, extortion, fraud and money laundering.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT ("ESG")

WORKPLACE

The credit to the Group's success and tremendous progression in the marketplace goes to the workforce, who has offered high efficiency, quality and commitment to the Group. To develop a conducive work environment, the Group aims at building a cross-cultural workforce, developing the competencies of employees, recognising, motivating and rewarding talent and ensuring the well-being and safety of all individuals. The Group adopted the Code of Conduct by introducing the internal guideline on employee's Code of Conduct, such as anti-bribery, anticorruption and whistleblowing.

Employment

The personal data ordinance, employment ordinance, minimum wages ordinance, non-discrimination policies and other ordinances related to occupational health and safety of the employees are followed by the Group.

For recruitment and selection, the Group follows its internal policy for recruitment. This policy encourages the recruitment of those candidates who have the desired competencies and attitude to execute a job; and are equipped with adequate qualifications, experience and merits. The policy is non-discriminatory, wherein the gender, religious affiliation, ethnicity, age and race of the candidate are not considered when recruiting; only the talent is given the top priority. Also, the labor contracts are timely developed and a strong labor relationship is maintained and promoted in accordance with the law. Recruitment is an essential process that caters to the recognition of talent, however, retaining that talent is also equally integral for attaining higher rate of growth and success. In this regard, the Group has established a policy on employee's remunerations and benefits, which emphasises on retaining the potential employees through motivation in terms of bonus, incentives, share options and rewards.

As at 31 December 2018, the Group had a total of 77 employees (2017: 78 employees). The human resources structure of the Group was relatively stable. Meanwhile, the employees' structure of the Group was also considered to be more balance and diverse in terms of gender and age group compared to last year's figures.

During the year, the Group has not aware any non-compliance incident that has significant negative impact from compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.

Workforce indicators

Number of employees	**2018**	**2017**
By gender		
Female	39	35
Male	38	43
By age group		
Below 30	19	21
30 to 49	30	48
50 or above	28	9
By region		
Hong Kong	5	5
PRC	72	73
By employment contract		
Permanent	72	72
Temporary/Part-time	5	6

WORKPLACE *(Continued)*

Employment *(Continued)*

Employee turnover Indicators

Number of employee turnover	2018	2017
By gender		
Female	5	18
Male	6	12
By age group		
Below 30	5	12
30 — 49	4	18
50 or above	2	—
By region		
Hong Kong	1	2
PRC	10	28
By employment contract		
Permanent	9	30
Temporary/Part-time	2	—

Health and Safety

The Group is highly committed towards promoting a healthy and safe environment to all the employees as it facilitates a sustainable corporate culture. Being healthy not only corresponds to personal benefits but also increases the productivity of individuals, thus increasing the overall efficiency. For this purpose, the employees are offered accessibility to daylight and enhanced technology solutions.

As per the Employees' Compensation Ordinance under the legislation of Hong Kong, the permanent employees are offered with insurance. While the general staff is provided with accident and medical insurance, the officers and the directors are offered liability insurance. Furthermore, the Group performs in accordance with the Mandatory Provident Fund Schemes Ordinance in Hong Kong.

For ensuring employee safety, certain internal policies are developed and implemented. The measures included in those security systems ranges from office cleanliness in a consistent and timely fashion, regular inspection of electricity, fire safety, and water cleanliness and security etc. Further, the following measures are taken by the Group:

1. For avoiding and preventing harmful repercussions of fire incidence, the Group has installed fire-fighting equipment in the office premises and taken measures to confirm a smooth flow of fire channels. The employees in PRC are also trained regarding the protective measures in case of fire.

2. In terms of water safety, the Group procures pure water for drinking purposes.

3. Masks are distributed to the employees located in Beijing in winter, when the haze is at its best.

4. Each year, physical examination of staff members in Beijing is executed under the arrangement of the Group for preventing the precedence of infectious and occupational diseases.

During the year, the Group has not aware any non-compliance incident that has significant negative impact from providing a safe working environment and protecting employees from occupational hazards.

WORKPLACE *(Continued)*

Development and Training

The employees, i.e., the talents of the Group, are rendered as the most valuable asset with which the business grows and flourishes in terms of both, monetary and reputation. At the Group, the employees are valued and given importance by not only varnishing their skills for business growth but also for their career growth. The employees are subjected to continuous and effective trainings that promote knowledge acquisition and knowledge transfer. Moreover, suitable performance evaluations are adopted for monitoring the development of all the employees. Comprehensive performance evaluation is effective in assessing the productivity and work efficiency of individuals that further assists in identifying the weaknesses and strengths. A regular transparent review process is conducted for reviewing the employees' performance, attitude and abilities. The employees with higher performance are also rewarded with bonus incentives.

The Group has its internal policy on employee's training that delves into the varied aspects of employee development and training activities. This policy is segregated into 11 segments and covers a broad range of activities concerned with human resource development and training systems, performance evaluations, expenses, training and trainee management, obligations, general provisions and responsibilities. The trainings are not only commenced during the employment of the individuals but initiated before the job, while considering the specific needs of the staff members. The type of training can either be internal lectures or field trips, which further covers the essential areas of technical knowledge distribution, workplace ethics, customer relationship management and risk management. Apart from these generic trainings, managerial skills trainings are organised to improve the competencies of employees appointed at management level. Also, team-up activities are organised, wherein the employees are encouraged to share their skills, thus creating an ambience of team work and unity.

Development and training indicators

Indicators	2018	2017
Total number of hours of training received by employees	832.5	607
Internal training (hours)	812.0	309
External training (hours)	20.5	298

The Group continued to provide more practical and intensive training to its employees in 2018. Compared to 2017's figures, an increase of 37.15% has been observed in terms of training hours received by employees. Considering the cost efficiency and training effectiveness, the Group has provided more internal training to the employees instead.

Labour Standards

It is essential to note that the Group is committed towards the growth and well-being of its employees or workforce. All the laws and regulations pertaining to the prevention of child and forced labour are strictly followed.

During the year, the Group has not aware any non-compliance incident that has significant negative impact from preventing child and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT ("ESG")

COMMUNITY

The Group has realised the significance of a sustainable community in facilitating the growth and development of all the business operations. It is the responsibility of the Group to contribute to the well-being of the community in which it operates. For this purpose, the Group has continuously provided subsidies to a poor student for over ten years. The beneficiary student has finally obtained a bachelor degree in 2018. Charitable events such as leisure and long-distance walking activities and badminton competition are also organised where the employees are encouraged to contribute personally and also as a team. Such event increases the employee engagement and commitment towards the Group and also raises their level of interaction among themselves and with the community.

During the year, the Group has contributed approximately 27 hours of social activities and events to the community in different aspects.

ENVIRONMENT

The nature of business carried out by the Group has little to no destructive effects on the environment. Yet, the Group is devoted to conserving and protecting the environment, for which, several activities and measurements are undertaken. Moreover, the Group has realised its role as a responsible enterprise and aims at recognising the effect of its operations on the environment while facilitating its financial growth.

Further, the Group performs its business operations in accordance with the environmental laws and abides by the applicable legislation. Adequate measurements are undertaken to spread environmental awareness among the employees, re-use and recycle, and dispose of the waste materials adequately.

Paper reduction and wastage management

For instance, the Group utilises web-based financial and hotline services when interacting with the customers to reduce paper usage. Also, for minimising carbon footprint across the office, the Group promotes the use of e-statement for reducing paperwork.

The Group has established a practice to recycle plastic bottle, paper box and paper used in office which does not contain confidential information.

Energy-saving, water saving and greenhouse gas emissions reduction

Considering the energy conservation, the Group takes effort to reduce energy consumption and emissions. In response to the PRC government's call, the employees gave their full support and participation in curbing down the higher levels of energy usage, reducing carbon emissions and wastage by using environmental protection materials and optimising the business procedures.

ENVIRONMENT *(Continued)*

Energy-saving, water saving and greenhouse gas emissions reduction *(Continued)*

The Group is dedicated to use resources efficiently and has certain energy and resource saving initiatives in place to help to lessen its consumption of resources as follow:

- Natural lighting in the office where possible;
- Using LED lighting in the office instead of incandescent;
- Optimal temperature setting in the office;
- Use of more energy efficient equipment such as computers, pantry items, fridges and other electronic equipment with efforts to phase out higher consumption items for more efficient low consumption items in the future;
- Switching off all non essential items in the office during non-office hours; and
- Turn off the water tap when it is not in use.

The majority of our use of resources is through consumption of electricity, paper, plastic bottles and water for drinking. Water consumption by the Group is mainly used for domestic use purpose. No issue is observed in sourcing water that is fit for purpose. Use of packaging material is not applicable to the Group's core business. The Group has policies and procedures in place to deal with the issue of use of resources abovementioned, the Group will continue its efforts to reduce consumption and find other methods to help increase our overall efficiency.

As a consequence, it was observed that in 2018, no non-compliance incidents or grievances were reported that might have affected the environment. Also, the Group does not aware of any significant impacts of activities on the environmental and natural resources.

During the year, the increase generation of GHG emissions and usage of electricity, paper and water was mainly due to the change of branches' location and restructuring. In the coming year, the Group will strictly implement various waste reduction and environmental protection policies to achieve considerable ESG targets.

ENVIRONMENT *(Continued)*

Energy-saving, water saving and greenhouse gas emissions reduction *(Continued)*

Emissions Indicators

Indicators	**2018**	**2017**
Total GHG emissions (tonnes)	172.70	164.95
Total GHG emissions per floor area (tonnes/m2)	0.10	0.03
Total GHG emissions per employee (tonnes/employee)	2.24	2.11
Indirect emissions (tonnes)	175.32	164.95
— Electricity	172.70	162.52
— Paper consumption	2.63	2.43

Electricity consumption

Indicators	**2018**	**2017**
Total electricity consumption (KWh)	155,526	146,255
Total electricity consumption per floor area (KWh/m2)	88	27
Total electricity consumption per employee (KWh/employee)	2,020	1,875

Paper consumption

Indicators	**2018**	**2017**
Total paper consumption (tonnes)	0.55	0.54

Water consumption

Indicators	**2018**	**2017**
Total water consumption (m3)	1,021.62	792.97
Total water consumption per floor area (m3/m2)	0.65	0.15
Total water consumption per employee (m3/employee)	13.27	10.17

Effluent and waste management

Indicators	**2018**	**2017**
Waste disposed to landfill (tonnes)	**3.43**	**4.33**
— General office waste	2.70	3.65
— Food waste	0.73	0.68
Waste collected for recycling (tonnes)	**0.34**	**0.33**
— Paper — General office	0.08	0.04
— Paper box	0.20	0.25
— Plastic	0.06	0.04

Apart from above, the Group has not identified any significant hazardous wastes or non-hazardous wastes that were produced by our core business.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Wei ("**Mr. Zhang**"), aged 50, is the chairman, chief executive officer, executive director and a member of the nomination committee of the Company since 1 December 2015. Mr. Zhang currently is a director of Prima Finance Holdings Limited ("**Prima Finance**") and general manager of Beijing Wanchi Technology Company Limited* ("**Beijing Wanchi**"), both of which are subsidiaries of the Company which were acquired by the Group in June 2014. Mr. Zhang joined Beijing Wanchi in November 2012 and was appointed as a director of Prima Finance in November 2012. Mr. Zhang has taken up the management role as the chairman/director and general manager of a number of subsidiaries of the Company. Mr. Zhang holds a diploma in banking management from Harbin University of Finance and studied the subject of law and graduated from the People's Republic of China Communist Party Beijing City Committee Party School. Mr. Zhang has over 26 years of experience in the financial management field. Prior to joining Prima Finance and Beijing Wanchi in 2012, he held various managerial positions in banking and investment management corporations.

Mr. Yang Bo ("**Mr. Yang**"), aged 41, is the executive director, chief operating officer and compliance officer of the Company. He is also the vice general manager of Beijing Wanchi Technology Company Limited, a subsidiary of the Company. Mr. Yang has over 18 years of experience in finance and accounting. Mr. Yang joined the Group in May 2017. Prior to joining the Group, Mr. Yang worked for MIE Holdings Corporation from April 2007 to May 2017 as financial controller. From January 2006 to April 2007, Mr. Yang worked for Ernst & Young Hua Ming. From August 2000 to December 2005, Mr. Yang worked for PricewaterhouseCoopers Zhong Tian CPAs Limited Company. Mr. Yang graduated from Renmin University of China with a bachelor's degree in International Accounting in 1999. He is a member of the Beijing Institute of Certified Public Accountants.

NON-EXECUTIVE DIRECTOR

Mr. Zang Wei ("**Mr. Zang**"), aged 42, is the non-executive director of the Company. He graduated from Nanjing University and obtained the Legal Professional Qualification Certificate issued by Ministry of Justice of the People's Republic of China. Mr. Zang is currently the deputy general manager of the legal department of Zhong Fa Group, a company controlled by Mr. Dai Hao, Ms. Jin Yu and Mr. Dai Di who are the substantial shareholders of the Company; and the corporate governance officer of the board office of Zhong Fa Group. Mr. Zang had worked at Ecotime Real Estate (Group) Company Limited*（永泰房地產(集團)有限公司）, a subsidiary of Zhong Fa Group and had held the positions of legal supervisor for Lianyuangang Project*（連雲港項目）, legal manager, assistant manager, manager and assistant to general manager of the legal department under cost management division. Mr. Zang has more than 18 years of experience in legal practices.

* *English name is for identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Yihua ("**Mr. Chen**"), aged 45, is the independent non-executive director, chairman of the nomination committee and a member of the remuneration committee and audit committee of the Company. Mr. Chen holds a bachelor's degree in machinery manufacturing engineering from Tianjin University, the PRC. Mr. Chen has 18 years of experience in management in international express logistic industry. Mr. Chen is also familiar with import and export business in machinery and equipment. Mr. Chen held managerial position in different multinational companies, such as China National Overseas Engineering Corporation and FedEx Express-DTW Co. Ltd. Mr. Chen is currently the senior director of infrastructure and process engineering of DHL-Sinotrans International Air Courier Ltd.

Mr. Du Hui ("**Mr. Du**"), aged 45, is the independent non-executive director of the Company. Mr. Du is also a chairman of the remuneration committee, and a member of the audit committee and nomination committee of the Company. Mr. Du has over 15 years of experience in financial management in the PRC. Mr. Du has been the sales controller of Beijing Lanxum Technology Company Limited ("**Beijing Lanxum**"), a company listed on the Chinext of Shenzhen Stock Exchange (stock code: SHE:300010), since December 2010. Prior to that, Mr. Du had been a financial controller in Beijing Lanxum from 2002 to November 2010. Mr. Du graduated in 1998 from Sun Yat-sen University with a bachelor's degree of laws and graduated in 2002 from Renmin University of China, with an undergraduate degree in Accounting.

Dr. Wong Wing Kuen, Albert ("**Dr. Wong**"), aged 67, is the independent non-executive director, chairman of the audit committee and a member of the nomination committee and remuneration committee of the Company. Dr. Wong holds a Doctor of Philosophy in Business Administration degree from the Bulacan State University, Republic of the Philippines and a Bachelor's Degree in commerce from a joint program held by Shenzhen University, the PRC and Clayton University, Missouri, the United States of America. He also received a Bachelor's Degree in Business Management and a Master's Degree in Business Administration from Nottingham Trent University, the United Kingdom in December 2005 and December 2007, respectively. He is a fellow member of The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries, The Taxation Institute of Hong Kong, Association of International Accountants and The Institute of Certified Public Accountants in Ireland. He is an Associate of The Chartered Institute of Bankers in Scotland. He is a member of The Hong Kong Securities and Investment Institute, The Chartered Institute of Arbitrators and the Macau Society of Certified Practising Accountants. He is a Certified Tax Adviser of Hong Kong for the year 2017 by The Taxation Institute of Hong Kong.

Dr. Wong is currently the principal consultant of KND & Co. CPA Limited, a private professional accounting firm in Hong Kong. He was also the managing director of Charise Financial Planning Limited, a private professional consulting firm in Hong Kong since October 2005 to January 2014. Dr. Wong has 24 years of experience in accounting.

Dr. Wong is currently an independent non-executive director of China Medical & Healthcare Group (Stock Code: 383), Solargiga Energy Holdings Limited (Stock Code: 757), China Merchants Land Limited (Stock Code: 978), China VAST Industrial Urban Development Company Limited (Stock Code: 6166) and APAC Resources Limited (Stock Code: 1104), all companies listed on the Main Board of the Exchange. Dr. Wong is also an independent non-executive director of China Wan Tong Yuan (Holdings) Limited (Stock code: 8199), a company listed on the GEM of the Exchange.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Lam Fei Sui ("**Ms. Lam**"), aged 40, is the chief financial officer and authorised representative of the Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Ms. Lam joined the Group in July 2015. She holds a Bachelor's Degree of arts in accountancy from The Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants. Ms. Lam has more than 15 years of experience in accounting and finance, auditing and internal audit in both Hong Kong and the PRC. Prior to joining the Group, Ms. Lam has worked for an international accounting firm and a company whose shares are listed on the Main Board of the Exchange.

CORPORATE GOVERNANCE REPORT

The Company is committed to promoting high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. The Board believes that sound and reasonable corporate governance practices are essential for sustainable growth of the Group and for safeguarding the interests and the Group's assets.

Throughout the year ended 31 December 2018, the Company had complied with all the code provisions set out in the Appendix 15 Corporate Governance Code and Corporate Governance Report (the "**CG Code**") of the GEM Listing Rules with the exception of the following deviations:

CODE PROVISION A.2.1

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Zhang Wei was appointed as Chairman and chief executive officer of the Company (the "**CEO**") on 1 December 2015. Given the size and that the Company's and the Group's current business operations and administration have been stable, the Board is justified that the current structure is able to effectively discharge the duties of both positions. However, going forward, the Board will review from time to time the need to separate the roles of the Chairman and the CEO if the situation warrants it.

CODE PROVISION A.6.7

Code provision A.6.7 of the CG Code stipulates that the independent non-executive Directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of the Shareholders.

A non-executive Director was unable to attend the annual general meeting of the Company held on 24 May 2018 as he had other business engagement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by Directors on terms equivalent to the Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Model Code**"). The Company had made specific enquiries with written guidelines in relation to the Model Code to all Directors and all Directors have confirmed that they complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

THE BOARD

As at the date of this annual report, the Board comprised six Directors, including two executive Directors, namely Mr. Zhang Wei as Chairman and CEO and Mr. Yang Bo as chief operating officer of the Company; one non-executive Director, namely Mr. Zang Wei, and three independent non-executive Directors, namely Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen, Albert.

Biographical details of the Directors are shown on pages 18 to 19 and set out on the websites of the Company. The List of Directors and their Role and Function was published both on the websites of the Company and the Exchange. The Board is currently supported by the AC, RC and NC to oversee specific areas of the Company's affairs. Each of these Committees has been established with written terms of reference, which were approved by the Board, setting out the Committee's major duties and responsibilities. These terms of reference were published both on the websites of the Company and the Exchange.

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and the Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs and overseeing the achievement of strategic plans to enhance shareholders' value.

THE BOARD *(Continued)*

Generally, the Board is responsible for all major aspects of the affairs of the Company, including:

- formulation of overall strategies and review of its financial performance and results;
- oversee the risk management and internal control systems on an ongoing basis;
- policies relating to key business and financial objectives of the Company;
- material transactions, including acquisition, investment, disposal of assets or capital expenditure;
- appointment, removal or reappointment of Board members and auditors;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- recommendation to shareholders on final dividend and the declaration of any interim dividends.

The Board is responsible for maintaining proper accounting records so as to enable the Directors to monitor and disclose with reasonable accuracy the financial position of the Group. The Board updates Shareholders on the operations and financial position of the Group through quarterly, interim and annual results announcements as well as the publication of timely reports and announcements of other matters as prescribed by the relevant laws, rules and regulations.

Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors, at the expense of the Company.

All Directors, including independent non-executive Directors assume the responsibilities to the Shareholders for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company and its shareholders. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

The non-executive Directors (including the independent non-executive Directors), advise the Company on strategic and critical matters. The Board considers that each non-executive Director brings his/her own senior level of experience and expertise to the constructive functioning of the Board. To this end, regular informal meetings are held between the executive Directors and non-executive Directors. The Chairman should hold meetings with the non-executive Directors at least annually without presence of the executive Directors to evaluate the functioning of the Board.

All non-executive Directors and independent non-executive Directors are appointed for a term of one year. They are subject to the retirement by rotation and re-election of Directors in the bye-laws of the Company (the "**Bye-laws**") which requires one-third of the Directors in office to retire from office by rotation but eligible for offering themselves to be re-elected at each annual general meeting.

The executive Directors are delegated with responsibility to oversee and monitor the operation of specific business areas and to implement the strategies and policies set by the Board.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Director has made written annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. Upon review, the Board concluded that all the independent nonexecutive Directors are independent within the meaning of the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Zhang Wei acknowledged the distinct roles of the Chairman and the CEO. His respective responsibilities are clearly defined and segregated to ensure a balance of power and authority, and reinforce his independence and accountability. The Chairman provides leadership for the decision of the Board regarding the daily operations and administration of the Company are delegated to the management, led by the CEO. Acting as the principal manager, CEO develops operating plans and strategies to the Board and ensuring the effective implementation of the strategies and policies adopted and prioritised by the Board supported with effective and competence management built and maintained by him. The CEO maintained to keep all Directors timely and appropriately informed of all major changes and business development.

THE BOARD COMMITTEES

(1) Remuneration Committee (the "*RC*")

The RC reviews and makes recommendations to the Board on the remunerations of Directors and senior management. To minimise any conflict of interest, any member who is interested in any given proposed motion is required to abstain from voting on such motion. The RC was set up on 20 March 2006 with written terms of references to oversee the remuneration policy and structure for all Directors and senior management. The RC is formed by a majority of independent non-executive Directors and chaired by an independent non-executive Director. During the year ended 31 December 2018 and up to the date of this annual report, the members of the RC were as follows:

Independent non-executive Directors:
Mr. Du Hui *(Chairman)*
Mr. Chen Yihua
Dr. Wong Wing Kuen, Albert

The RC held six meetings during the year ended 31 December 2018 in making recommendation to the Board on the remuneration package of the Directors and senior managements, assessing reasonable salary adjustments for senior managements and reviewing the policy and structure of the remuneration packages for Directors. The company secretary of the Company (the "**Company Secretary**") acts as the secretary to the RC. The roles and functions of the RC are to make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The RC also reviews and recommends the Board on its proposals relating to the remuneration of the executive Directors with reference to the Board's corporate goal and objectives. The RC is provided with sufficient resources by the Company to discharge its duties. No individual Director is involved in deciding his or her own remuneration.

The emolument payable to Directors depends on the prevailing market conditions, the Company's performance and their time, effort and expertise to be exercised on the Group's affairs and the Company's remuneration policy.

The remuneration packages of each Directors, senior management and newly appointed Directors, were discussed, reviewed and recommended to the Board during the year ended 31 December 2018. Details of Directors' emoluments are set out in Note 8 to the consolidated financial statements in this annual report.

THE BOARD COMMITTEES *(Continued)*

(1) Remuneration Committee (the "*RC*") *(Continued)*

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2018 was within the following band:

In the band of	Number of individual
Nil to HK$1,000,000	1

The Company has adopted a share option scheme since 2012 (details of which are set out in Note 27 of the consolidated financial statements in this annual report). The purpose of the said share option scheme is to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimise their performance and efficiency for the benefit of the Group.

(2) Nomination Committee (the "*NC*")

The NC was set up on 1 February 2012 with written terms of reference to review the structure, size and composition (including but not limited to the gender, skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The NC is chaired by an independent non-executive Director. The NC comprises a majority of independent non-executive Directors. During the year ended 31 December 2018 and up to the date of this annual report, the members of the NC were as follows:

Independent non-executive Directors:
Mr. Chen Yihua *(Chairman)*
Mr. Du Hui
Dr. Wong Wing Kuen, Albert

Executive Director:
Mr. Zhang Wei

The NC held five meetings and passed one resolution during the year ended 31 December 2018 in making recommendations to the Board on the appointment and re-appointment of Directors and senior management, on the re-election of Directors at the general meeting and on the formulation of a director nomination policy; reviewing the structure, size, composition and diversity of the Board members; assessing the independence of the independent non-executive Directors; reviewing the need to separate the roles of the Chairman and the CEO and reviewing amendment of its terms of reference and Board Diversify Policy. The Company Secretary acts as the secretary to the NC. The roles and functions of the NC include to identify individuals suitably qualified to become Board members, select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of independent non-executive Directors, review the Policy and the Nomination Policy (as defined below) and the progress on achieving the objectives set for implementing the Policy, make recommendations to the Board on the appointment or re-appointment of Directors, and succession planning for Directors, in particular the Chairman and the CEO.

THE BOARD COMMITTEES *(Continued)*

(2) Nomination Committee (the "*NC*") *(Continued)*

Director Nomination Policy

Director nomination policy of the Group (the "**Nomination Policy**") is in place and was adopted in writing in the year ended 31 December 2018 taking into consideration the revised Listing Rules effective from 1 January 2019. The Nomination Policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board. The Company recognises that certain independent non-executive Directors could have multiple business commitments, including directorship to other corporations. The Company requires these the independent non-executive Directors to be committed sufficient time to be devoted to the Group as mutually deemed necessary. The board diversity policy (the "**Policy**") adopted aims to set out the approach to achieve diversity on the Board. A summary of the Policy is set out below:

Measurable Objectives and Implementation

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

Monitoring and Reporting

The NC will report annually, in this annual report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

Review of this Policy

The NC will review this Policy, as appropriate, to ensure the effectiveness of the Policy. The NC will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

(3) Audit Committee (the "*AC*")

The AC of the Company comprises all independent non-executive Directors and is chaired by an independent non-executive Director who has appropriate professional qualifications and related financial management expertise. During the year ended 31 December 2018 and up to the date of this annual report, the members of the AC were as follows:

THE BOARD COMMITTEES *(Continued)*

(3) Audit Committee (the "*AC*") *(Continued)*

Independent non-executive Directors:
Dr. Wong Wing Kuen, Albert *(Chairman)*
Mr. Chen Yihua
Mr. Du Hui

The AC held four meetings and passed two resolutions during the year ended 31 December 2018 in reviewing the quarterly, interim and annual reports before submission to the Board, the corporate governance, internal control and risk management issue, adequacy of the resources, staff qualifications and experience, training programmes and budget on accounting, financial reporting and internal audit functions and amendment of its terms of reference; and making recommendations to the Board on the re-appointment of external auditor of the Company and the engagement of a consultancy firm for the provision of risk assessment and internal audit services and provision of environmental, social and governance services to the Group. The Company Secretary acts as the secretary to the AC. The AC performs, amongst others, the following roles and functions:

- ensure that co-operation is given by the Company's management to the external auditor where applicable;
- review the Group's quarterly, interim and annual results announcements and reports and the financial statements prior to their recommendations to the Board for approval;
- review the effectiveness of Group's financial reporting system, risk management and internal control systems; and
- review transactions with connected persons (if any).

Review of risk management and internal control systems

The AC is delegated by the Board with the responsibility to provide independent oversight of the Group's financial reporting, risk management and internal control systems, and the adequacy of the external and internal audits. The AC reviewed the effectiveness of the Group's risk management and internal control systems by reviewing the reports (including the internal audit plan) issued by the independent external assurance provider and the internal control self-assessment from the management.

The AC reviewed and concurred with the management's confirmation that for the year ended 31 December 2018: (i) the Group's risk management and internal control systems were effective and adequate; and (ii) the Group had complied satisfactorily with the requirements of the CG Code in respect of risk management and internal control systems.

Review of accounting, financial reporting and internal audit functions

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes, on the Group's accounting, financial reporting and internal audit functions.

BOARD COMPOSITION AND BOARD AND COMMITTEE MEETINGS

Practices and Conduct of Meetings

The Board meets regularly at least four times each year and more frequently as the needs of the business demand. Apart from the Board meetings, the Board would from time to time devote separate sessions to consider and review the Group's strategy and business activities.

The Board and committees meeting schedule and the agenda of each meeting were made available to Directors in advance.

Notices of regular Board meetings were served to all Directors at least 14 days before the meetings. For all other Board and Committees' meetings, reasonable notices were given.

Papers for Board meetings or Committees' meetings together with all relevant information are sent to all Directors or Committee members at least 3 days before each meeting to enable them to make informed decisions with adequate data. The Board and each Director also have direct and independent access to the management whenever necessary.

According to the current Board practice, any material transactions involving a conflict of interest with a substantial Shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Bye-laws also contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

BOARD COMPOSITION, AND BOARD AND COMMITTEE MEETINGS *(Continued)*

Meetings Held and Attendance

The composition of the Board and the Committees, and the individual attendance records of each Director at the Board and Committees' meetings during the year ended 31 December 2018 are set out below:

	Meetings attended/Meetings held				
Name of Directors	**Board meetings**	**AC meetings**	**RC meetings**	**NC meetings**	**Annual General meeting**
Executive Directors					
Mr. Zhang Wei *(Chairman and CEO)*	12/13	N/A	N/A	5/5	1/1
Mr. Yang Bo *(Chief Operating Officer)*	13/13	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Zang Wei	12/13	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Chen Yihua	12/13	4/4	6/6	5/5	1/1
Mr. Du Hui	13/13	4/4	6/6	5/5	1/1
Dr. Wong Wing Kuen, Albert	13/13	4/4	6/6	5/5	1/1
Total number of meetings held	13	4	6	5	1

INDUCTION AND CONTINUOUS DEVELOPMENT

Each newly appointed Director receives a comprehensive induction package (the "**Package**") designed to enhance his/her knowledge and understanding of the Group's culture and operations. The Package usually includes a briefing or an introduction to the Group's structure, businesses strategies, recent developments and governance practices.

INDUCTION AND CONTINUOUS DEVELOPMENT *(Continued)*

In order to keep Directors remain informed and refresh their relevant knowledge and skills (Note), the Company has funded suitable trainings and encouraged Directors to participate in continuous professional developments. During the year ended 31 December 2018, the Directors have confirmed that they have received the training as follows:–

Name of Directors	Reading journals, written training materials and/ or updates	Attending courses, seminars, conferences and/ or forums
Mr. Zhang Wei *(Chairman and CEO)*	✓	✓
Mr. Yang Bo *(Chief Operating Officer)*	✓	✓
Mr. Zang Wei	✓	
Mr. Chen Yihua	✓	✓
Mr. Du Hui	✓	
Dr. Wong Wing Kuen, Albert		✓

Note: Training set out above refers to training relevant to the Group's business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors' duties and responsibilities.

The Directors acknowledge the need for continuous professional development so that they can continue contributing to the Company, and the Company provides support whenever relevant and necessary.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual, interim and quarterly reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, and reports to the regulators as well as to information required to be disclosed pursuant to statutory requirements.

The above statements, which should be read in conjunction with the independent auditor's report set out from pages 55 to 60 of this annual report, are made with a view to distinguishing for Shareholders how the responsibilities of the Directors differ from those of the auditor in relation to the financial statements.

ACCOUNTABILITY AND AUDIT *(Continued)*

Having made appropriate enquiries and examined major areas which could give rise to significant financial exposures, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2018. The Directors considered the Group has applied appropriate accounting policies consistently, made judgments and estimates that are prudent and reasonable in accordance with applicable accounting standards.

The quarterly, interim and annual results and reports were published within the time limits as required under the GEM Listing Rules after the end of the relevant periods to provide stakeholders with transparent and timely financial information.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the remuneration, reviewed and approved by the AC on the audit and non-audit scope, paid or payable to the auditor in respect of audit and non-audit services provided by the auditor of the Group, Moore Stephens CPA Limited, were as follows:

	Year Ended	
	31 December 2018	31 December 2017
	Amount	Amount
Nature of services	HK$'000	HK$'000
Audit services	768	698

CORPORATE GOVERNANCE FUNCTION

The written terms of reference of the corporate governance functions was adopted by the Company on 1 February 2012 and the Board is collectively responsible for the following corporate governance functions:

- to develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;
- to review and monitor the training and continuous professional development of Directors and senior managements;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the Company's compliance with the CG Code and disclosure in corporate governance reports; and
- such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board is responsible.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective risk management and internal control systems to safeguard the interests of Shareholders and the Group's assets. The Board also acknowledges its responsibility for overseeing the Group's risk management, financial reporting, and internal control systems on an ongoing basis and reviewing their effectiveness at least annually through the AC. The AC assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

To this end, appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Besides, management continues to allocate resources for the risk management and internal control systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Board, through the AC, has delegated the internal audit function to an independent external assurance provider, who has conducted a review on the adequacy and effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2018. The review is conducted in accordance to the internal audit plan approved by the AC, which covers all material controls, including financial, operational and compliance controls. The Board considers that the Group's risk management and internal control systems are effective and adequate.

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

The Board reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes, on the Group's accounting, financial reporting and internal audit functions.

The Board, through delegation of its authority to an ESG working group, is also responsible for reviewing the Company's corporate social responsibility strategy, principles and policies; setting guidance, direction and overseeing practices and procedures; and monitoring progress on the Company's corporate social responsibility and related activities.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The following highlights the key risk management measures under the Group's "Three Lines of Defence" model for 2018.

1st line of defence — Risk management

- Management conducted an annual Internal Control Self-Assessment for 2018. Division heads confirmed that appropriate internal control policies and procedures have been established and complied with.
- Various policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties, controls and risk management, and they are subject to regular review.
- The Group's anti-bribery and anti-corruption guidelines were adopted to set out minimum standards in recognising circumstances which may lead to or give the appearance of involving corruption or unethical business conduct, to help avoid conduct which is clearly prohibited, and to encourage everyone in the Group to seek appropriate guidance promptly when needed.
- The Group's whistleblowing policy was adopted to facilitate internal reporting of any malpractice and unethical conduct within the Group without fear of reprisal and victimisation.

2nd line of defence — Risk oversight

- The Group's Enterprise Risk Management ("**ERM**") Policy was developed to outline the principles, governance, roles and responsibilities, and approach within a coherent risk management framework that addresses and prioritises risks that are material and relevant to the Group's corporate goals.
- The Group's ERM Framework was refined to help management assess and manage risks arising from and associated with new business activities and environments, including emerging risks. An integrated risk assessment approach was adopted to address risks across various subsidiaries of the Group, to assess those risks on an integrated group-wide basis.

3rd line of defence — Independent assurance

- The external assurance provider takes up the internal audit function, who is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control systems and reporting the review results regularly to the Board through the AC.

The Group's Enterprise Risk Management Policy was approved by the Board as an effective and adequate approach to be applied across the Group to manage the risks associated with its business and operations. This policy is designed to enhance enterprise risk management of the Group through a holistic and integrated framework so that all material risks faced by the Group are identified and appropriately managed to:

(i) promote consistent risk identification, measurement, reporting and mitigation;
(ii) set a common risk language to avoid any conflicting terminology or confusion in risk reporting;
(iii) develop and communicate policies on enterprise risk management and controls aligned with the business strategy; and
(iv) enhance reporting to provide transparency of risks across the Group.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

For internal audit, a risk-based approach is adopted. The annual work plan of external assurance provider for internal audit covers major activities and processes of the Group's operations, businesses and service units. The results of these audit activities are communicated to the AC and key members of senior management of the Group. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the AC and senior management of the Group (as the case may be) periodically. The external assurance provider for internal audit provides recommendations to the Board, the AC and the senior management of the Group for ensuring the adequacy and effectiveness of internal controls for the Group.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the management of the Group to assess the effectiveness of risk management and internal control systems at least annually and to personally certify, through the Internal Control Self-Assessment for 2018, that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and its business practices in the future.

The Company regulates the handling and dissemination of inside information as set out in the Code of Conduct to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

COMPANY SECRETARY

The appointment and removal of the Company Secretary is subject to approval by the Board in accordance with the Bye-laws. The Company Secretary is responsible for ensuring the Board procedures and policy are followed and Board activities are effectively conducted. The Company Secretary is also responsible for maintaining minutes recorded in sufficient details of all the meetings of the Board and committees of the Company. Draft and final versions of minutes are disseminated to Directors for comment and filed for record purposes respectively within a reasonable time after each meeting. The Directors have full and timely access to the board papers and minutes of the Board and committees of the Company. Ms. Kwok Ka Huen ("**Ms. Kwok**"), delegated by an external service provider, was appointed as a joint company secretary of the Company on 13 October 2015 and was re-designated as the company secretary of the Company with effect from 1 January 2016. Ms. Kwok confirmed that she has complied with all the qualifications, experience, and professional training requirements of the GEM Listing Rules. During the year ended 31 December 2018, Ms. Kwok has taken no less than 15 hours of relevant professional training. Ms. Kwok's primary corporate contact is Ms. Lam Fei Sui, the Chief Financial Officer of the Company.

CONSTITUTIONAL DOCUMENTS

The latest version of the amended and restated Bye-laws has been published both on the websites of the Company and the Exchange since 9 March 2012 and did not made any amendments to the Bye-laws during the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

The Board recognises the importance of maintaining on-going communication with the Shareholders. The Company promotes communications with the Shareholders through several communication channels including publication of notices, circulars and announcements of key developments, and quarterly, interim and annual reports as prescribed under the GEM Listing Rules which can also be accessed via the "Investor Relations" of the Company's website.

The aims of the Company are to improve its transparency, gain more understanding and confidence in relation to the Group's business developments and acquire more market recognition and support from the Shareholders.

The Shareholders are encouraged to attend all general meetings of the Company. The notices of the special general meetings and annual general meeting of the Company were circulated to all the Shareholders in accordance with the requirements of the GEM Listing Rules and the Bye-laws. It is a standard practice to have the non-executive Directors available to answer questions relating to their roles, tenure, and the committees of the Board. The results of voting by poll are published on the websites of the Exchange and the Company after the meetings.

Any comments and suggestions to the Board can be addressed to our Hong Kong office or the Company Secretary by mail to Unit 2613A, 26th Floor, Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong or email at general@capitalfinance.hk.

SHAREHOLDERS' RIGHTS

In accordance with the Company's bye-law 58 of the Bye-laws, the Shareholders holding at the date of deposit of the requisition not less than one-tenth of the issued share capital of the Company carrying the right of voting at special general meetings of the Company shall at all times have the right, by written requisition to the Company at the head office and principal place of business in Hong Kong, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

A Shareholders' communication policy was adopted by the Company to maintain an on-going dialogue with the Shareholders and encourage them to communicate actively with the Company. The Board has reviewed the said policy from time to time to ensure its effectiveness.

REPORT OF THE DIRECTORS

The Directors herein submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in Note 16 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the performance of the Group for the year ended 31 December 2018 by operating segment is set out in Note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's financial performance for the year ended 31 December 2018 and the financial position of the Company and the Group at that date are set out in the consolidated financial statements on pages 61 to 153.

The Board did not recommend any dividends in respect of the year ended 31 December 2018 (2017: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy that aims to enhance transparency of the Company and facilitate Shareholders and investors to make informed investment decisions in relation to the Company (the "**Dividend Policy**").

According to the Dividend Policy, the Board shall take into account, inter alia, the following factors in deciding whether to propose a dividend and in determining the dividend amount:

(i) the Group's financial results;
(ii) the financial condition of the Group;
(iii) future cash requirements and availability for business operations, business strategies and future development needs;
(iv) any restrictions on payment of dividends that may be imposed by the Group's lenders;
(v) the retained earnings and distributable reserves of the Company and each of the members of the Group;
(vi) the general market conditions; and
(vii) any other factors that the Board may consider appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the Companies Act of Bermuda and the Bye-laws.

Any declaration and/or payment of future dividends under the Dividend Policy are/is subject to the Board's determination and would be in the best interests of the Group and the Shareholders as a whole. The Board will review the Dividend Policy from time to time.

REPORT OF THE DIRECTORS

BUSINESS REVIEW AND COMMENTARY

Financial Results

The financial results and business review of the Group for the year ended 31 December 2018 are set out in the annual report and particular on the section of "Management Discussion and Analysis" from pages 5 to 9.

Environmental measure and performance

Since the Group's main business is short-term financing services in the PRC and Hong Kong; it does not bring about serious adverse effects on the environment. Nevertheless, the management acknowledges that being a responsible enterprise, the Group still has to take into account the impact of its business operation on the environment while enjoying financial growth.

As such, the Group has formulated its environmental measure with a focus on ensuring full compliance with applicable legislation and requirements by promoting environmental awareness among staff, disposing waste in an environmentally responsible way, and reusing and recycling materials.

In order to reduce carbon footprint across the office, the Group during the year ended 31 December 2018 encouraged employees to utilise e-statement or scanning to reduce our use of paper, switch off computers and office equipment, electrical appliances and air-conditioners when they are not in use.

For details, please refer to the section of "Environmental, Social and Governance Report" from pages 10 to 17 of this annual report.

Compliance with laws and regulations

In relation to the human resources, the Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, ordinances relating to disability, sex, family status and race discrimination, as well as the Employment Ordinance, the Minimum Wage Ordinance and ordinances relating to occupational safety of employees of the Group, so as to safeguard the interests and well-being of its employees.

The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and guidelines issued by the Office of the Privacy Commissioner for Personal Data, with a view to protecting the privacy of its employees and customers, etc. The operation team of the Group in the PRC and Hong Kong also complied with the laws and regulations in the PRC and Hong Kong.

During the year ended 31 December 2018, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

For details, please refer to the section of "Environmental, Social and Governance Report" from pages 10 to 17 of this annual report.

BUSINESS REVIEW AND COMMENTARY *(Continued)*

Compliance with laws and regulations *(Continued)*

Key relationships

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. We enjoy good relationships with suppliers and customers with mutual trust. The Group has adopted web-based services and customer services hotline with the aim of forming effective communication channels with our customers. By gathering customer feedbacks, the Group is able to enhance and improve the services offered to the customers, strengthen customer loyalty, and enhance market penetration and expansion. During the year ended 31 December 2018, there was no material and significant dispute between the Group and its suppliers/customers.

Employees are the valuable assets of the Group. The Group strives to motivate its employees with a clear career path and improvement of their skills by providing on-the-job training to our staff members. The systematic training programs cover areas such as managerial skills, technical knowledge, risk management, customer services, workplace ethics and other areas relevant to the industries. The Group has recorded 832.5 training hours during the year ended 31 December 2018. In addition, the Group puts efforts into providing staff with a harmonious, positive and inspiring working environment. The Group always adheres to its people-oriented concept, values and maintains their employees' legitimate rights and interests.

By providing employees with a good working environment, competitive salary and adequate trainings, employees' productivities and their performances are greatly improved.

For details, please refer to the section of "Environmental, Social and Governance Report" from pages 10 to 17 of this annual report.

Key risks and uncertainties

The main risks for the Group include interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of the main risks and risk management measures are set out in Note 31 to the consolidated financial statements.

For the year ended 31 December 2018, the Group's business and earnings growth were mainly affected by the fluctuations and uncertainties in the macroeconomic situation and the amendments of laws and regulations in the PRC. Due to the economic slowdown in the PRC, the government continues to lower the lending interest rates and amend the laws and regulations. Apart from strengthening the present Beijing market, the Group will further expand its business in Shenyang, Lhasa, Hong Kong and others cities, therefore, the macroeconomic conditions of PRC and Hong Kong, such as the GDP growth rate, the unemployment rate and the request for credit facilities may create further uncertainties on the business development of the Group. Certain mitigating measures will be performed periodically and performances will be monitored from time to time.

FIVE-YEAR/PERIOD FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years/period is set out on page 154 of this annual report.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in Note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in Note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on pages 65 to 66 of this annual report and in Note 33(a) to the consolidated financial statements, respectively.

The Company had no distributable reserve as at 31 December 2018 (2017: Nil).

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue to the Group's five largest customers accounted for approximately 26% of the total revenue for the year ended 31 December 2018. The Group has no supplier for the year ended 31 December 2018.

The Group's largest customer accounted for approximately 13% of the total revenue for the year ended 31 December 2018.

None of the Directors, their close associates or the shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) has an interest in these major customers.

REPORT OF THE DIRECTORS

STRUCTURED AGREEMENTS

A Overview

According to the laws of the PRC, foreign investor are not allowed to invest by means of equity investment in any pawn loan companies in the PRC or micro-financing companies in Beijing, as such the Company's indirect wholly owned subsidiary, Beijing Wanchi Technology Company Limited ("**Beijing Wanchi**"), has entered into a series of structured agreements (the "**Structured Agreements**") with Beijing City Jinfu Pawning Company Limited ("**Beijing Jinfu**"), Beijing Jinlu Pawning Company Limited ("**Beijing Jinlu**"), Beijing City Jinshou Pawning Company Limited ("**Beijing Jinshou**"), Beijing City Jinxi Pawning Company Limited ("**Beijing Jinxi**") and Beijing Zhongjinfu Micro-financing Company Limited ("**Beijing Micro-financing**") and their respective owners, which enables the Group to:

– have power to direct the relevant activities of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing;

– exercise the voting rights of 100% equity interest Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and voting rights of 79% of equity interest of Beijing Micro-financing at the general meetings of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing respectively;

– receive and be exposed to substantially all of the economic interest returns generated by Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and 79% of the economic interest returns generated by Beijing Micro-financing through service fees in consideration for the management and consulting services provided by Beijing Wanchi at Beijing Wanchi's discretion;

– have an irrevocable option to purchase the entire equity interest in Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and 79% equity interest in Beijing Micro-financing with consideration each at a normal price of RMB1 when and to the extent permitted under the PRC laws; and

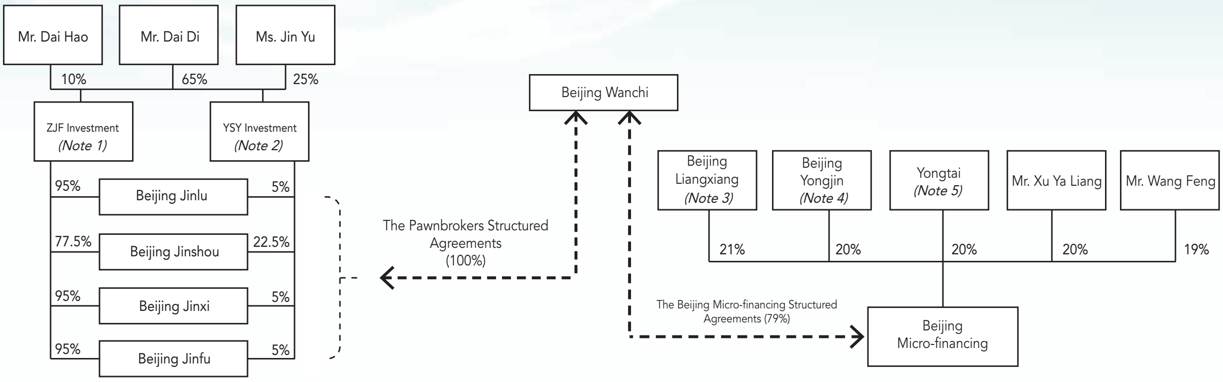
– obtain pledges over the entire equity interest of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and 79% equity interest of Beijing Micro-financing from their respective owners.

The Structured Agreements mainly included the Pawnbrokers Structured Agreements (please see the section headed "Continuing Connected Transactions" for the major terms) and the Beijing Micro-Financing Structured Agreements (please refer to note B below for the major terms).

STRUCTURED AGREEMENTS *(Continued)*

A Overview *(Continued)*

The following simplified diagram illustrates the flow of economic benefits from the Pawnbrokers and the Beijing Micro-financing to the Group stipulated under the Structure Agreements.



Note 1: 中金福(北京)投資管理有限責任公司 (Zhong Jinfu (Beijing) Investment Management Company Limited*), a company established in the PRC with limited liability

Note 2: 雲水月投資管理(北京)有限公司 (Yun Shui Yue Investment Management (Beijing) Company Limited*), a company established in the PRC with limited liability

Note 3: 北京良鄉經濟開發區實業總公司 (Beijing Liangxiang Economic Development Zone Enterprise Holding Company Limited*), a company established in the PRC with limited liability and a PRC State-owned enterprise under Liangxiang Economic Development Zone

Note 4: 北京永進基業科技孵化器有限公司 (Beijing Yongjin Jiye Technology Incubator Company Limited*), a company established in the PRC with limited liability

Note 5: 永泰房地產(集團)有限公司 (Yongtai Real Estate (Group) Company Limited*), a company established in the PRC with limited liability

B The Beijing Micro-financing Structured Agreements

The Beijing Micro-Financing Structured Agreements (collectively the Beijing Micro-financing Exclusive Service Agreement, the Beijing Micro-financing Exclusive Option Agreement, the Beijng Micro-Financing Proxy Agreement, and the Beijing Micro-financing Equity Pledge Agreement) were entered into in order to enable the Group to control and manage the business of the Beijing Micro-financing in the PRC, under which 79% of the business, financial and operating activities of Beijing Micro-financing are controlled and managed by Beijing Wanchi and 79% of the economic benefits and risks arising from the business, financial and operating activities of the Beijing Micro-financing are transferred to Beijing Wanchi by means of operation and management fees payable by Beijing Micro-financing to Beijing Wanchi.

* *English name is for identification purpose only*

STRUCTURED AGREEMENTS *(Continued)*

B The Beijing Micro-financing Structured Agreements *(Continued)*

(1) The Beijing Micro-financing Exclusive Service Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Exclusive Service Agreement, pursuant to which, the Majority Shareholders (Beijing Micro-financing) agreed to engage Beijing Wanchi on an exclusive basis to provide operation and management services in connection with the business of Beijing Micro-financing in the PRC, the Majority Shareholders (Beijing Micro-financing) agreed, subject to compliance with the PRC laws and regulations, to pay to Beijing Wanchi the fees equivalent to 79% of the total profits after income tax of Beijing Micro-financing as audited in accordance with the HKFRSs. Beijing Wanchi shall receive the economic benefits and bear the economic risks related to the 79% of the total shares of Beijing Micro-financing and may provide financial support to Beijing Micro-financing if Beijing Micro-financing encounters operational losses or difficulties. Beijing Wanchi has the right to decide whether Beijing Micro-financing should continue operations and the Majority Shareholders (Beijing Micro-financing) should unconditionally agree and procure Beijing Micro-financing to unconditionally agree to the decision made by Beijing Wanchi for such purpose.

The Beijing Micro-financing Exclusive Service Agreement has a term of 10 years beginning from its effective date (i.e. 1 January 2013) and will expire on the date on which 79% equity interest in Beijing Micro-financing is transferred to Beijing Wanchi and/or its nominee(s).

(2) The Beijing Micro-financing Exclusive Option Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Exclusive Option Agreement, pursuant to which, the Majority Shareholders (Beijing Micro-financing) irrevocably and unconditionally granted to Beijing Wanchi the exclusive right to acquire or to nominate persons to acquire all or part of 79% equity interest in Beijing Micro-financing (i) at the consideration equivalent to the then fair value of 79% equity interest in Beijing Micro-financing; or (ii) at the consideration as agreed by negotiation between Beijing Wanchi and the Majority Shareholders (Beijing Micro-financing). Subject to compliance with the relevant PRC laws and regulations, Beijing Wanchi may exercise the options at any time and in any manner at its sole discretion. Pursuant to the Beijing Micro-financing Exclusive Option Agreement, Beijing Micro-financing may not, without the prior written consent of Beijing Wanchi, declare or distribute any dividends to the Majority Shareholders (Beijing Micro-financing). The Beijing Micro-financing Exclusive Option Agreement became effective on 1 January 2013 and will expire on the date on which 79% equity interest in Beijing Micro-financing is transferred to Beijing Wanchi and/or its nominee(s).

STRUCTURED AGREEMENTS *(Continued)*

B The Beijing Micro-financing Structured Agreements *(Continued)*

(3) The Beijing Micro-financing Proxy Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Proxy Agreement, pursuant to which, Beijing Wanchi or its nominee(s) is irrevocably and unconditionally authorised to exercise shareholders' rights of the Majority Shareholders (Beijing Micro-financing) in Beijing Micro-financing.

Beijing Wanchi or its nominee(s) may exercise such shareholders' rights of the Majority Shareholders (Beijing Micro-financing) without the prior consultation with the Majority Shareholders (Beijing Micro-financing). Further, the Majority Shareholders (Beijing Micro-financing) shall not exercise such shareholders' rights without the prior written consent of Beijing Wanchi.

The Beijing Micro-financing Proxy Agreement became effective on 1 January 2013 and will expire on the date on which 79% equity interest in Beijing Micro-financing is transferred to Beijing Wanchi and/or its nominee(s).

(4) The Beijing Micro-financing Equity Pledge Agreement

Beijing Wanchi, the Majority Shareholders (Beijing Micro-financing) and Beijing Micro-financing have entered into the Beijing Micro-financing Equity Pledge Agreement, pursuant to which, the first priority security interest (the "Pledged Micro-financing Equity Interest") over 79% equity interest in Beijing Micro-financing was granted to Beijing Wanchi for guaranteeing the performance of the Beijing Micro-financing Exclusive Service Agreement, the Beijing Micro-financing Exclusive Option Agreement and the Beijing Micro-financing Proxy Agreement.

The Beijing Micro-financing Equity Pledge Agreement provides that none of the Pledged Micro-financing Equity Interest may be transferred or be pledged without prior written consent of Beijing Wanchi.

The Beijing Micro-financing Equity Pledge Agreement became effective on 1 January 2013 and shall be terminated pursuant to its terms and conditions.

Details of the Beijing Micro-Financing Structured Agreements were disclosed in the circular of the Company dated 30 May 2014.

STRUCTURED AGREEMENTS *(Continued)*

C Significance and financial contributions to the Group

Pursuant to the Structured Agreements, the Group obtains control over and derives the economic benefits from the Pawnbrokers and Beijing Micro-Financing. The table below sets out the financial contribution of the Pawnbrokers and Beijing Micro-Financing to the Group.

	Significances and financial contribution to the Group			
	Revenue For the year ended 31 December		**Total assets As at 31 December**	
	2018	2017	**2018**	2017
Pawnbrokers and Beijing Micro-Financing	**74%**	84%	**70%**	74%

The table below sets out (i) revenue; and (ii) assets involved in the Pawnbrokers and Mico-Financing entities, they would be consolidated into the Group's financial statements pursuant to the Structural Agreements:

	Revenue HK\$'000 For the year ended 31 December 2018	**Assets HK\$'000 As at 31 December 2018**
Pawnbrokers and Beijing Micro-Financing	**63,391**	**375,970**

STRUCTURED AGREEMENTS *(Continued)*

D Risks associated with the Structured Agreements and the actions taken to mitigate the risk

In connection with the Structured Agreement, the Group is subject to certain risks and limitations, which are summarised below:

(1) Although the PRC legal adviser to the Company expressed the view that the Structured Agreement are in compliance with the relevant PRC laws and regulations, uncertainties exist regarding the interpretation and application of the current and future PRC laws, rules and regulations. The PRC legal adviser to the Company cannot assure that the PRC regulatory authorities will not determine that the Company's corporate structure and the Structured Agreement violate the PRC laws, rules or regulations. The PRC legal adviser to the Company also cannot rule out the possibility that there may be amendments to the Draft Foreign Investment Laws and the Note before promulgation and implementation of the New Foreign Investment Laws which may have a material adverse impact on the Group at the time when they take effect. If the PRC government determines that the Structured Agreement do not comply with the applicable laws and regulations of the PRC or Beijing Wanchi is found to be in violation of any future PRC foreign investment laws or regulation and/or any other laws or regulation, the relevant PRC regulatory authorities would have broad discretion in dealing with such violation including levying fines, confiscating the income, revoking the Pawnbrokers and Beijing Micro-Financing entities' business or operating license(s), to restructure the relevant ownership structure or operations, and to dispose of all or some of its equity interest in the Pawnbrokers and Beijing Micro-Financing entities. Any of these actions could cause material and adverse effect in the Group's ability to conduct business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to receive its economic benefits from the Pawnbrokers and Micro-Financing entities, the Company will no longer be able to consolidate the Pawnbrokers and Micro-Financing entities. In case the Company is required to dispose of all the equity interest in the Pawnbrokers and Micro-Financing entities, the Company may record a substantial loss and the Company's financial condition and results of operation may be materially and adversely affected.

(2) The Structured Agreements may not be as effective in providing the Group with control and entitlement to the economic interests over the Pawnbrokers and Beijing Micro-financing as direct ownership. The Group can only look to and rely on the Pawnbrokers and Beijing Micro-financing and their respective registered shareholders to perform their contractual obligations under the Structured Agreements such that the Group can exercise effective control over the Pawnbrokers and Beijing Micro-financing. The registered shareholders of the Pawnbrokers and the Majority Shareholders (Beijing Micro-financing) may not act in the best interests of the Group or may not perform their obligations under the Structured Agreements. As such, the Group will face difficulties in effecting control over the Structured Entities' operation of business through Structured Agreements, which may adversely affect the Group's business efficiency.

STRUCTURED AGREEMENTS *(Continued)*

D Risks associated with the Structured Agreements and the actions taken to mitigate the risk *(Continued)*

(3) The Structured Agreement may be subject to scrutiny by the tax authorities and additional tax may be imposed. Pawnbrokers and Micro-Financing entities are required to pay Beijing Wanchi management fee for the services rendered by Beijing Wanchi. Such management fee payments between related parties may be subject to scrutiny or challenge by the PRC tax authorities within ten years after the taxable year during which such transactions are conducted.

(4) If any of the Pawnbrokers and Beijing Micro-Financing entities fail to obtain the requisite licenses and approvals to continually operate its pawn loan and micro-financing business in the PRC, the Group's business and financial position may be adversely affected.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Structured Agreements and the Group's compliance with the Structured Agreements:

(1) Major issues arising from the implementation and compliance with the Structured Agreements of any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(2) The Board will review the overall performance and compliance with the Structured Agreements at least once a year;

(3) The Company will disclose the overall performance and compliance with the Structured Agreements in its annual reports to update the Shareholders and potential investors; and

(4) The Company will engage external legal advisors or other professional advisors, if necessary to assist the Board to review the implementation of the Structured Agreements, review the legal compliance of pawnbrokers and Beijing Micro-financing to deal with specific issues or matters arising from the Structured Agreements.

For the year ended 31 December 2018, the Board has reviewed the overall performance of the Structured Agreement and believed that the Group has complied with the Structured Agreements in all material respects.

As advised by the PRC legal advisers to the Company, the Structured Agreements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under, the current PRC laws. The Company will monitor the relevant PRC laws and regulations relevant to the Structured Agreements and will take all necessary actions to protect the Company's interest in the Pawnbrokers and Beijing Micro-Financing.

STRUCTURED AGREEMENTS *(Continued)*

(iii) Material changes

During the year ended 31 December 2018, there was no material change in the Structured Agreements and/or the circumstances under which they were adopted.

(iv) Unwinding of the Structured Agreements

As of the date of this annual report, none of the Structured Agreements has been unwound as none of the restrictions that led to the adoption of Structured Agreements have been removed.

For more details of above Pawnbrokers and Beijing Micro-Financing entities' particulars, business activities, and the quantitative information including revenue and assets, please refer to Note 16 to the consolidated financial statements. For more details of the Structured Agreements, please refer to the circular of the Company dated 30 May 2014.

CONTINUING CONNECTED TRANSACTIONS

Pawnbrokers Structured Agreements

During the year ended 31 December 2018, the Group had the following continuing connected transactions which are subject to the reporting requirements under Chapter 20 of the GEM Listing Rules.

The Pawnbrokers Structured Agreements (collectively the Pawnbrokers Equity Pledge Agreements, the Pawnbrokers Exclusive Option Agreements, the Pawnbrokers Exclusive Service Agreements and the Pawnbrokers Proxy Agreements) were entered into in order to enable the Group to manage the business of the Pawnbokers, comprising Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi in the PRC, under which all the business, financial and operating activities of Pawnbokers are managed by Beijing Wanchi and all economic benefits and risks arising from the business, financial and operating activities of the Pawnbokers are transferred to Beijing Wanchi by means of operation and management fees payable by Pawnbokers to Beijing Wanchi.

(1) The Pawnbrokers Exclusive Service Agreements

Beijing Wanchi and each of the Pawnbrokers have entered into the Pawnbrokers Exclusive Service Agreements, pursuant to which, each of the Pawnbrokers agreed to engage Beijing Wanchi on an exclusive basis to provide operation and management services in connection with the business of the relevant Pawnbroker in the PRC. Each of the Pawnbrokers agreed, subject to compliance with the PRC laws and regulations, to pay to Beijing Wanchi the fees equivalent to the total profits before income tax as audited in accordance with the Hong Kong Financial Reporting Standards (the "**HKFRSs**") after deducting all relevant costs and reasonable expenses in connection with the business operation of the relevant Pawnbroker. Beijing Wanchi has the right to decide whether the Pawnbroker concerned should continue operations and the Pawnbroker concerned should unconditionally agree to the decision made by Beijing Wanchi for such purpose.

The Pawnbrokers Exclusive Service Agreements have a term of 10 years beginning from their effective date (i.e. 1 August 2013) and shall be renewed automatically for another 10 years upon every expiration of the term unless terminated by Beijing Wanchi with a 30-day written notice to the other parties or all the equity interests in or assets of the Pawnbrokers are transferred to Beijing Wanchi and/or its nominee(s).

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

(2) The Pawnbrokers Exclusive Option Agreements

Beijing Wanchi, ZJF Investment, YSY Investment, Mr. Dai Di, Mr. Dai Hao and Ms. Jin Yu (collectively, the "**Dai Family**") and each of the Pawnbrokers have entered into the Pawnbrokers Exclusive Option Agreements, pursuant to which, ZJF Investment and YSY Investment irrevocably and unconditionally granted to Beijing Wanchi the exclusive rights to acquire or to nominate persons to acquire all or part of the equity interests in and/or assets of the relevant Pawnbroker at the minimum consideration as permitted by the PRC laws and regulations. Pursuant to the Pawnbrokers Exclusive Option Agreements, each of the Pawnbrokers may not, without the prior written consent of Beijing Wanchi, declare or distribute any dividends to its shareholders. The Pawnbrokers Exclusive Option Agreements became effective on 1 August 2013 and will expire on the date on which all the equity interests or assets of the Pawnbrokers are transferred to Beijing Wanchi and/or its nominee(s) pursuant to the Pawnbrokers Exclusive Option Agreements.

(3) The Pawnbrokers Proxy Agreements

Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers have entered into the Pawnbrokers Proxy Agreements, pursuant to which, Beijing Wanchi or its nominee(s) is irrevocably and unconditionally authorised to exercise shareholders' rights in the relevant Pawnbroker.

Beijing Wanchi or its nominee(s) may exercise such shareholders' rights without the prior consultation with ZJF Investment, YSY Investment or the Dai Family. Further, ZJF Investment, YSY Investment or the Dai Family shall not exercise such shareholders' rights without the prior written consent of Beijing Wanchi.

The Pawnbrokers Proxy Agreements became effective on 1 August 2013 and will expire on the date on which all the equity interests in or assets of the Pawnbrokers are transferred to Beijing Wanchi and/or its nominee(s).

(4) The Pawnbrokers Equity Pledge Agreements

Beijing Wanchi, ZJF Investment, YSY Investment, the Dai Family and each of the Pawnbrokers have entered into the Pawnbrokers Equity Pledge Agreements, pursuant to which, the first priority security interests (the "**Pledged Pawnbrokers Equity Interests**") over the equity interests in the Pawnbrokers were granted to Beijing Wanchi for guaranteeing the performance of the Pawnbrokers Exclusive Service Agreements, the Pawnbrokers Exclusive Option Agreements and the Pawnbrokers Proxy Agreements.

The Pawnbrokers Equity Pledge Agreements provide that none of the Pledged Pawnbrokers Equity Interests may be transferred or be pledged without prior written consent of Beijing Wanchi.

The Pawnbrokers Equity Pledge Agreements became effective on 1 August 2013 and shall be terminated pursuant to its terms and conditions.

Details of Pawnbrokers Structured Agreements were disclosed in the circular of the Company dated 30 May 2014.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

(4) The Pawnbrokers Equity Pledge Agreements *(Continued)*

Each of the Pawnbrokers and Beijing Wanchi (the Company's wholly-owned subsidiary) and/or, as the case may be, ZJF Investment, YSY Investment and the Dai Family (a substantial shareholder of the Company) have entered into the respective Pawnbrokers Structured Agreements. The Dai Family is a connected person of the Company. In addition, as disclosed in the circular of the Company dated 30 May 2014, the directors, chief executives or substantial shareholders of the Pawnbrokers (each of them are treated as the Company's whollyowned subsidiaries) and their respective associates are connected persons of the Company.

In view of the fact that both ZJF Investment and YSY Investment are wholly-owned by the Dai Family. ZJF Investment and YSY Investment are also substantial shareholders of the Pawnbrokers. The transactions conducted under the Structured Agreements are continuing connected transaction as defined in Chapter 20 of the GEM Listing Rules.

During the year ended 31 December 2018, Beijing Wanchi was entitled to operation and management fees from the Pawnbrokers in a manner as prescribed in the Pawnbrokers Exclusive Services Agreement on 23 December 2013. The operation and management fees payable by Pawnbrokers to Beijing Wanchi are equivalent to the total profits before income tax as audited in accordance with the HKFRSs after deducting all relevant costs and reasonable expenses in connection with the business operation of the relevant Pawnbroker for the period from the acquisition completion date on 25 June 2014 to 31 December 2018. No dividend or other distribution had been made by the Pawnbrokers to its registered shareholders for the year ended 31 December 2018.

The independent non-executive Directors have reviewed the Pawnbrokers Structured Agreements and confirmed that: (1) the transactions carried out during the year ended 31 December 2018 have been entered into in accordance with the relevant provisions of the Pawnbrokers Structured Agreements and have been operated so that the total before-tax profit of the Pawnbrokers (after deducting all relevant costs and reasonable expenses in connection with their business operations) have been retained by the Group; (2) no dividends or other distributions have been made by the Pawnbrokers to its registered shareholders which are not otherwise subsequently assigned or transferred to the Group. There was no new contract or renewed contract (on the same terms as the existing Pawnbrokers Structured Agreement) entered into during the year ended 31 December 2018.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

(4) The Pawnbrokers Equity Pledge Agreements *(Continued)*

The Company's auditor was engaged to report on the continuing connected transactions entered into by the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the results of the work performed, the auditor has issued a limited assurance report containing an unqualified conclusions in respect of the continuing connected transactions in accordance with Chapter 20 of the GEM Listing Rules in confirming that:

a. nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Company's board of directors;

b. nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the relevant provisions of the Pawnbrokers Structured Agreements and have been operated so that the total before-tax profit of the Pawnbrokers (as defined in the Company's circular dated 30 May 2014) (after deducting all relevant costs and reasonable expenses in connection with their business operations) have been retained by the Group; and

c. nothing has come to their attention that causes them to believe that dividends or other distributions have been made by the Pawnbrokers to its registered shareholders which are not otherwise subsequently assigned or transferred to the Group.

The Company confirmed that the disclosure requirements for the continuing connected transactions have been complied in accordance with Chapter 20 of the GEM Listing Rules.

EQUITY-LINKED AGREEMENTS

Other than (i) the structured agreements as disclosed above and (ii) the share option scheme of the Company set out in Note 27 to the consolidated financial statements, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company or subsisting during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this annual report were:

Executive Directors
Mr. Zhang Wei *(Chairman and CEO)*
Mr. Yang Bo

Non-executive Director
Mr. Zang Wei

Independent Non-executive Directors
Mr. Chen Yihua
Mr. Du Hui
Dr. Wong Wing Kuen, Albert

In accordance with bye-law 84(1) of the Bye-laws, Mr. Zhang Wei and Mr. Du Hui shall retire from the Board by rotation at the forthcoming annual general meeting of the Company (the "**AGM**") and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Directors' biographical details are set out on pages 18 to 19.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals of the Group are set out in Note 8 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen, Albert, the existing independent non-executive Directors; Mr. Yang Bo, the existing executive Director and Mr. Zang Wei, the existing non-executive Director have each entered into an appointment letter with the Company for a term of one year subject to retirement by rotation and re-election at the general meeting in accordance with the Bye-laws and may be terminated by not less than one month prior notice in writing served by either party to the other in accordance with the provisions set out in the respective appointment letters.

Mr. Zhang Wei, the existing executive Director, has entered into an appointment letter with the Company for a term of three years commencing on 1 December 2016 till 30 November 2019, subject to retirement by rotation and re-election at the general meeting in accordance with the Bye-laws and may be terminated by not less than one month prior notice in writing served by either party to the other in accordance with the provisions set out in the appointment letter.

The emolument of Mr. Zhang Wei and Mr. Yang Bo, the general manager and vice general manager of a subsidiary of the Company (the "Subsidiary") respectively, had been adjusted from RMB33,000 per month to RMB55,000 per month and RMB28,210 per month to RMB56,419 per month respectively, all with effect from 1 September 2018. Such emolument had been determined by the Board reference to the Group's performance and the prevailing market conditions.

DIRECTORS' SERVICE CONTRACTS *(Continued)*

With effect from 1 March 2019, the director's fee and emolument of Mr. Zhang as an executive Director and the general manager of the Subsidiary have been adjusted from HK$80,000 to HK$175,000 and from RMB55,000 to RMB35,000 per month respectively.

None of the Directors who are proposed for re-election at the AGM has an appointment letter with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**") which (i) were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) which were required to be notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SHARE OPTIONS

Particulars of the share option scheme adopted on 2 August 2012 (the "**Share Option Scheme**") are set out in Note 27 to the consolidated financial statements.

No share option was granted, outstanding, lapsed, cancelled or exercised at any time during the year ended 31 December 2018 and there was no share option outstanding as at 31 December 2018. As at the date of this report, a maximum of 23,050,219 shares, representing approximately 1.8% of the existing issued share capital of the Company, is available for issuance under the Share Option Scheme.

DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or the chief executives of the Company to acquire benefits by means of the acquisition of Shares in or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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

The register of substantial shareholders of the Company pursuant to Section 336 of the SFO showed that, as at 31 December 2018, the following companies and persons had interests in more than 5% of the Company's issued share capital:

Long positions in the Shares

Name of substantial shareholder	Number of shares interested Direct interests	Deemed interests	Total interests	Percentage of the issued share capital of the Company *(Note 5)*
Exuberant Global Limited (note 1)	1,384,571,429	—	1,384,571,429	106.41
Mr. Dai Di (note 1)	—	1,384,571,429	1,384,571,429	106.41
Time Prestige Holdings Limited (note 2)	161,142,857	—	161,142,857	12.38
Mr. Dai Hao (notes 2 and 3)	—	563,999,999	563,999,999	43.34
Bustling Capital Limited (note 3)	402,857,142	—	402,857,142	30.96
Ms. Jin Yu (notes 2 and 3)	—	563,999,999	563,999,999	43.34
Silver Palm Limited (note 4)	71,428,571	—	71,428,571	5.49
Mr. Wang Jia Sheng (note 4)	—	71,428,571	71,428,571	5.49

Notes:

1. The 1,384,571,429 Shares held by Exuberant Global Limited ("**Exuberant Global**") represent (i) 294,200,000 Shares and (ii) 1,090,371,429 Shares to be issued upon full conversion of the convertible bonds. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the 1,384,571,429 Shares held by Exuberant Global.

2. The 161,142,857 Shares held by Time Prestige Holdings Limited ("**Time Prestige**") represent (i) 26,800,000 Shares and (ii) 134,342,857 Shares to be issued upon full conversion of the convertible bonds. Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the 161,142,857 Shares. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in 402,857,142 Shares held by Bustling Capital Limited ("**Bustling Capital**").

3. The 402,857,142 Shares held by Bustling Capital represent (i) 67,000,000 Shares and (ii) 335,857,142 Shares to be issued upon full conversion of the convertible bonds. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the 402,857,142 Shares. In addition, by virtue of being the spouse of Mr. Dai Hao, Ms. Jin Yu is also deemed to be interested in the 161,142,857 Shares held by Time Prestige.

4. Silver Palm Limited ("**Silver Palm**") is wholly and beneficially owned by Mr. Wang Jia Sheng ("**Mr. Wang**"). Accordingly, Mr. Wang is deemed to be interested in the 71,428,571 Shares held by Silver Palm.

5. The percentage represents the number of Shares interested divided by the number of the issued Shares as at 31 December 2018 (i.e. 1,301,118,056 Shares).

Save as disclosed above, the Directors are not aware of any person who, as at 31 December 2018, had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken during the year ended 31 December 2018 are provided under Note 29 to the consolidated financial statements. These related party transactions did not fall under the definition of connected transaction or continuing connected transaction as defined in the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as aforesaid, no contracts of significance, to which the Company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the year ended 31 December 2018.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the Bye-laws, a director of the Company shall be indemnified and secured harmless out of assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred by the director of the Company.

Such permitted indemnity provision has been in force since the adoption of the amended and restated Bye-laws on 5 March 2012 and is currently in force at the time of approval of this report. The Company has also taken out and maintained directors' and officers' liability insurance throughout the year ended 31 December 2018, which provides appropriate cover for certain legal actions brought against its directors and officers.

INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had engaged in any business that compete or may compete either directly or indirectly with the business of the Group, or have any other conflict of interests with the Group.

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

Neither the Company, nor any its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 21 to 34.

RETIREMENT BENEFIT PLANS

Other than operating the statutory mandatory provident fund scheme for Hong Kong employees and participating in social insurance for its employees in the PRC in accordance with the relevant PRC regulations, the Group has not operated any other retirement benefits schemes for the Group's employees.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this report, there is sufficient public float of the Company's issued shares as required under the GEM Listing Rules throughout the year ended 31 December 2018.

AUDITOR

On 29 April 2016, Mazars CPA Limited retired as the auditor of the Company from the conclusion of the AGM held on 29 April 2016 and did not seek for re-appointment while Moore Stephens CPA Limited was appointed as the auditor of the Company with effect from the conclusion of the AGM held on 29 April 2016. Save as aforesaid, there has been no change in auditors of the Company in any of the preceding three years.

The consolidated financial statements of the Group for the years ended 31 December 2017 and 2018 were audited by Moore Stephens CPA Limited, the independent auditors of the Company, who shall retire, and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Zhang Wei
Chairman
Hong Kong, 28 March 2019

INDEPENDENT AUDITOR'S REPORT

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大華馬施雲
會計師事務所有限公司

To the Shareholders of
Capital Finance Holdings Limited
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Capital Finance Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") (the "**Consolidated Financial Statements**") set out on pages 61 to 153, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our opinion, we draw attention to Note 3.1 to the Consolidated Financial Statements which indicates that the Group recorded a loss of approximately HK$29,292,000 for the year ended 31 December 2018 and had capital deficiency of approximately HK$77,077,000 as of 31 December 2018. In addition, the Group's issued convertible bonds, as described in Note 23, will expire on 24 June 2019 and the Group is required to repay 105% of the outstanding principal amount amounting to approximately HK$406,560,000. However, the cash and cash equivalents held by the Group was only amounted to approximately HK$193,406,000 as at 31 December 2018. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements as at and for the year ended 31 December 2018. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter describe in the Material Uncertainty related to Going Concern section of our report, we have determined that the following is the key audit matter to be communicated in our report.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses ("ECLs") on loans to customers (Refer to Notes 3, 4 and 18 to the Consolidated Financial Statements	
As at 31 December 2018, the gross amount of loans to customers and its related allowance for ECLs amounted to approximately HK$407,541,000 (2017: HK$543,908,000) and HK$107,788,000 (2017: allowance for impairment losses HK$7,318,000) respectively. In respect of allowance for ECLs on loans to customers, the difference between the previously reported carrying amounts and the new carrying amounts of allowances for ECLs as of 31 December 2017 and 1 January 2018 was approximately HK$57,763,000 (net of deferred tax) and has been recognised in opening accumulated losses as permitted under the relevant accounting standard. Details are disclosed in Note 2 to the Consolidated Financial Statements.	Our audit procedures to address the matter included: — We obtained an understanding of the Group's credit risk management and practices and assessed the Group's impairment provisioning policy in accordance with the requirements of HKFRS 9. — We assessed the Group's internal control procedures regarding the origination, ongoing internal credit quality assessments, recording and monitoring of loans to customers. — We assessed the application of impairment methodology of expected credit loss, and checked the assumptions and parameters to external data sources where available.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses ("ECLs") on loans to customers (Refer to Notes 3, 4 and 18 to the Consolidated Financial Statements *(Continued)*	
At each reporting date, the Group assesses the ECLs based on historical data as adjusted for forward-looking information. The models and assumptions adopted by the management of the Company in estimating ECLs are related to the future macroeconomic conditions and borrowers' creditworthiness (e.g. the likelihood of default by customers). The management of the Company believes that they have considered reasonable and supportable information that is relevant and available without undue cost and effort for this purpose. Such assessment has taken the quantitative and qualitative historical information and also, the forward-looking analysis. The measurement of ECLs involves significant judgement, assumptions and estimation such as parameters for measuring ECLs and forward-looking information. We have identified the management's ECLs assessments of the loans to customers as a key audit matter because the carrying amount of the loans to customers as at 31 December 2018 was significant and the ECLs assessment of these balance required significant management judgement and involved high level of uncertainty (Note 4).	— We assessed the reasonableness of grading and measurement of ECLs and also the management's forecast of future repayments and current financial conditions of the customers, based on historical experience, value of collaterals (if any) and observable external data, etc., and developed a reasonable range of expected cash shortfall for comparison with the Group's assessment. — We assessed the effectiveness and marketability of certain collaterals, including considering an independent legal opinion obtained by the Company, fair values of collaterals and timing required for converting collaterals into cash in the case of default. — We assessed the reasonableness and relevancy of the external information used by the Group as the forward looking information including economic data and forecasts published by government bodies and monetary authorities, such as GDP growth rates, unemployment rates, etc. — We checked the accuracy of the calculation of ECLs based on the methodology adopted by the Group and the adequacy of the Group's disclosures in relation to credit risk exposed by the Group in the Consolidated Financial Statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report for the year ended 31 December 2018 annual report other than the Consolidated Financial Statements and our auditor's report thereon (the "**Other Information**").

Our opinion on the Consolidated Financial Statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

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

– Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419

Hong Kong, 28 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	**85,721**	74,833
Other income, and other gains and losses, net	6	**18,065**	5,888
Administrative and other expenses		**(37,882)**	(36,305)
Allowance for expected credit losses/impairment losses	18	**(41,069)**	(1,534)
Finance costs	7	**(48,005)**	(44,336)
Loss before income tax	7	**(23,170)**	(1,454)
Income tax expense	9	**(6,122)**	(10,936)
Loss for the year		**(29,292)**	(12,390)
Loss for the year attributable to:			
Owners of the Company		**(29,625)**	(14,735)
Non-controlling interests	16	**333**	2,345
		(29,292)	(12,390)
Loss per share attributable to owners of the Company	11		
Basic and diluted (Hong Kong cents)		**(2.28)**	(1.13)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Loss for the year	**(29,292)**	(12,390)
Other comprehensive (expense)/income for the year		
Item that will not be reclassified to profit or loss:		
– Changes in fair value of equity investment at fair value through other comprehensive income ("FVTOCI")	**30**	—
Item that will be reclassified to profit or loss:		
– Exchange differences on translation of financial statements of foreign operations	**(26,889)**	39,855
Other comprehensive (expense)/income for the year, net of tax	**(26,859)**	39,855
Total comprehensive (expense)/income for the year	**(56,151)**	27,465
Total comprehensive (expense)/income attributable to:		
Owners of the Company	**(55,719)**	23,978
Non-controlling interests	**(432)**	3,487
	(56,151)	27,465

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	12	**1,288**	1,668
Repossessed assets	13	**2,190**	—
Equity investment at FVTOCI/available-for-sale financial assets	17	**6,934**	8,405
Deferred tax assets	24	**26,890**	3,446
		37,302	13,519
Current assets			
Loans to customers	18	**299,753**	536,590
Trade receivables	19	**—**	180
Tax recoverable		**355**	—
Prepayment, deposits and other receivables		**2,963**	4,616
Cash and cash equivalents	20	**193,406**	55,893
		496,477	597,279
Current liabilities			
Accrued expenses, deposits received and other payables		**11,457**	13,180
Tax payable		**5,185**	3,311
Dividend payable to non-controlling interests		**—**	2,541
Amount due to a shareholder	21	**499**	2,749
Convertible bonds — liability component	23	**390,439**	—
		407,580	21,781
Net current assets		**88,897**	575,498
Total assets less current liabilities		**126,199**	589,017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Promissory notes	22	**20,098**	21,532
Convertible bonds – liability component	23	**183,178**	527,378
		203,276	548,910
Net (liabilities)/assets		**(77,077)**	40,107
Capital and reserves			
Issued capital	25	**13,012**	13,012
Reserves	26	**(102,491)**	10,870
Equity attributable to owners of the Company		**(89,479)**	23,882
Non-controlling interests	16	**12,402**	16,225
(Capital deficiency)/Total equity		**(77,077)**	40,107

The Consolidated Financial Statements on pages 61 to 153 were approved and authorised for issue by the Board of Directors on 28 March 2019 and were signed on its behalf by

Zhang Wei
Director

Yang Bo
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Issued capital HK$'000 (Note 25)	Share premium HK$'000 (Note 26(i))	Contributed surplus HK$'000 (Note 26(ii))	Capital reserve HK$'000 (Note 26(ii))	Exchange reserve HK$'000 (Note 26(iii))	Convertible bonds reserve HK$'000 (Note 26(iv))	Statutory reserve HK$'000 (Note 26(vi))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	(Capital deficiency)/ Total equity HK$'000
As at 1 January 2017	11,812	543,717	131,109	120,794	(87,640)	754,090	16,784	(1,524,289)	(33,623)	15,179	(18,444)
(Loss)/Profit for the year	–	–	–	–	–	–	–	(14,735)	(14,735)	2,345	(12,390)
Other comprehensive income											
Item that will be reclassified to profit or loss											
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	38,713	–	–	–	38,713	1,142	39,855
Other comprehensive income for the year	–	–	–	–	38,713	–	–	–	38,713	1,142	39,855
Total comprehensive income for the year	–	–	–	–	38,713	–	–	(14,735)	23,978	3,487	27,465
Transfer to statutory reserve	–	–	–	–	–	–	4,258	(4,258)	–	–	–
Transactions with owners											
Issue of shares on conversion of convertible bonds (Note 23)	1,200	73,111	–	–	–	(40,784)	–	–	33,527	–	33,527
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(2,441)	(2,441)
Transactions with owners	1,200	73,111	–	–	–	(40,784)	–	–	33,527	(2,441)	31,086
As at 31 December 2017	13,012	616,828	131,109	120,794	(48,927)	713,306	21,042	(1,543,282)	23,882	16,225	40,107

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Issued capital HK$'000 (Note 25)	Share premium* HK$'000 (Note 26(i))	Contributed surplus* HK$'000 (Note 26(ii))	Capital reserve* HK$'000 (Note 26(ii))	Exchange reserve* HK$'000 (Note 26(iii))	Convertible bonds reserve* HK$'000 (Note 26(iv))	FVTOCI reserve* HK$'000 (Note 26(v))	Statutory reserve* HK$'000 (Note 26(vi))	Acc-umulated losses* HK$'000	Total HK$'000	Non-controlling interests HK$'000	(Capital deficiency)/ Total equity HK$'000
As at 31 December 2017 as originally presented	13,012	616,828	131,109	120,794	(48,927)	713,306	–	21,042	(1,543,282)	23,882	16,225	40,107
Initial application of HKFRS 9 (Note 2)	–	–	–	–	–	–	(1,123)	–	(56,519)	(57,642)	(1,244)	(58,886)
Restated at 1 January 2018	13,012	616,828	131,109	120,794	(48,927)	713,306	(1,123)	21,042	(1,599,801)	(33,760)	14,981	(18,779)
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(29,625)	(29,625)	333	(29,292)
Other comprehensive expense												
Item that will not be reclassified to profit or loss												
Changes in fair value of equity investment at FVTOCI	–	–	–	–	–	–	30	–	–	30	–	30
Item that will be reclassified to profit or loss												
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(26,124)	–	–	–	–	(26,124)	(765)	(26,889)
Other comprehensive expense for the year	–	–	–	–	(26,124)	–	30	–	–	(26,094)	(765)	(26,859)
Total comprehensive expense for the year	–	–	–	–	(26,124)	–	30	–	(29,625)	(55,719)	(432)	(56,151)
Transfer to statutory reserve	–	–	–	–	–	–	–	1,325	(1,325)	–	–	–
Transactions with owners												
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,147)	(2,147)
Transactions with owners	–	–	–	–	–	–	–	–	–	–	(2,147)	(2,147)
As at 31 December 2018	13,012	616,828	131,109	120,794	(75,051)	713,306	(1,093)	22,367	(1,630,751)	(89,479)	12,402	(77,077)

* These reserves accounts comprise the consolidated reserves of approximately HK$(102,491,000) (2017: HK$10,870,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Loss before income tax		**(23,170)**	(1,454)
Waive of interest expenses on promissory notes	6	**(3,200)**	—
Bank interest income	6	**(1,089)**	(825)
Interest expense	7	**48,005**	44,411
Loss on disposal of property, plant and equipment	6	**31**	125
Allowance for expected credit losses/impairment losses	18	**41,069**	1,534
Depreciation of property, plant and equipment	7	**621**	925
Exchange differences		**(3,433)**	1,648
		58,834	46,364
Changes in working capital:			
Loans to customers		**106,001**	(128,467)
Trade receivables		**—**	—
Prepayments, deposits and other receivables		**645**	1,134
Accrued expenses, and other payables		**(1,037)**	(1,193)
Cash generated from/(used in) operations		**164,443**	(82,162)
Interest received		**1,089**	825
Income tax paid		**(12,555)**	(10,779)
Interest paid		**—**	(77)
Net cash generated from/(used in) operating activities		**152,977**	(92,193)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Investing activities			
Proceeds from disposal of property, plant and equipment		**14**	—
Purchase of property, plant and equipment	12	**(340)**	(869)
Net cash used in investing activities		**(326)**	(869)
Financing activities			
Proceeds from interest-bearing borrowings		**—**	2,248
Repayments of interest-bearing borrowings		**—**	(14,176)
(Repayment to)/Advance from a shareholder		**(2,250)**	2,749
Dividends paid to non-controlling interests		**(4,588)**	—
Net cash used in financing activities		**(6,838)**	(9,179)
Net increase/(decrease) in cash and cash equivalents		**145,813**	(102,241)
Cash and cash equivalents at beginning of the year		**55,893**	154,012
Effect of foreign exchange rate changes, net		**(8,300)**	4,122
Cash and cash equivalents at end of the year		**193,406**	55,893
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	20	**193,406**	55,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. CORPORATE INFORMATION

Capital Finance Holdings Limited (the "**Company**") was previously incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and continues as an exempted company with limited liability in accordance with the Bermuda Companies Act 1981 upon the change of domicile of the Company from the Cayman Islands to Bermuda becoming effective on 30 November 2009, and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Exchange**"). The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is at Unit 2613A, 26th Floor, Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong.

During the year ended 31 December 2018, the Company is principally engaged in investment holding. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the provision of short-term financing services in the People's Republic of China (the "**PRC**") and Hong Kong ("**Short-term Financing Services**").

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

In the current year, the Group has applied for the first time the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which are relevant and mandatorily effective for the Group's consolidated financial statements for the accounting period beginning on 1 January 2018:

Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to Hong Kong Accounting Standards ("**HKASs**") 28	As part of the Annual Improvements to HKFRS 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers to Investment Property
HK (IFRIC) — Interpretation 22	Foreign Currency Transactions and Advance Consideration

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

HKFRS 9 Financial Instruments

HKFRS 9 has replaced HKAS 39 Financial instruments: recognition and measurement. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items (for example, contract assets, lease receivables and financial guarantee contracts).

In accordance with the specific transitional provisions set out in HKFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment under ECL model) to items that existed as of the date of initial application (i.e. 1 January 2018) on a retrospective basis based on the facts and circumstances that existed as at 1 January 2018. However, the Group has decided not to restate the comparative figures. Accordingly, the comparative information continues to be presented based on the requirements of HKAS 39 and hence may not be comparable with the current year information. The cumulative effect of initial application of HKFRS 9 has been recognised as adjustments to the opening retained profits and other component of equity as at 1 January 2018.

(a) Classification and measurement of financial instruments

In general, HKFRS 9 categorises financial assets into the following three classification categories:

— measured at amortised cost;
— measured at FVTOCI;
— measured at fair value through profit or loss ("**FVTPL**").

These classification categories are different from those set out in HKAS 39 which included held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and whether the financial assets' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application (i.e. 1 January 2018), and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment as to whether the contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the financial assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

(a) Classification and measurement of financial instruments *(Continued)*

The following table shows a reconciliation from how the Group's financial assets existed as of 1 January 2018 were classified and measured under HKAS 39 to how they are classified and measured under HKFRS 9:

	Old classification under HKAS 39	New classification under HKFRS 9	Carrying amount under HKAS 39 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	Carrying amount under HKFRS 9 HK$'000
Unlisted equity investment	Available for sale financial assets (cost less impairment)	FVTOCI	8,405	—	(1,123) (Note a)	7,282
Loans to customers	Loans and receivables	Amortised cost	536,590	—	(73,189) (Note b)	463,401
Trade receivables	Loans and receivables	Amortised cost	180	—	(180) (Note b)	—
Deposits and other receivables	Loans and receivables	Amortised cost	1,753	—	—	1,753
Cash and cash equivalents	Loans and receivables	Amortised cost	55,893	—	—	55,893

Notes:—

(a) From available-for-sale ("**AFS**") equity investment to FVTOCI

The Group had designated its unlisted equity investment (that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies) as at FVTOCI as at the date of initial application of HKFRS 9 (i.e. 1 January 2018) based on the specific transitional provisions set out in HKFRS 9, such investment has to be measured at fair value at the date of initial application (i.e. 1 January 2018). The fair value loss of approximately HK$1,123,000 were adjusted to FVTOCI reserve as at 1 January 2018.

(b) The amount represents additional impairment losses based on the ECL model under HKFRS 9.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. There were no financial liabilities which the Group had previously measured at amortised cost under HKAS 39 that were subject to reclassification upon the application of HKFRS 9.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

(b) Impairment under ECL model

HKFRS 9 has introduced the ECL model to replace the "incurred loss" model under HKAS 39. The ECL model requires an ongoing measurement of credit risk associated with a financial asset. The Group has applied the ECL model to the financial assets that are subsequently measured at amortised cost (including loans to customers, trade receivables, deposits and other receivables and cash and cash equivalents).

The Group has applied simplified approach to measure lifetime ECL for trade receivables. For the loans to customers as disclosed in Note 3, the Group measures ECL based on lifetime ECL as all loans have contractual maturity of not more than one year. Loss allowance for other financial assets including deposits and other receivables and cash and cash equivalents at amortised cost is measured on 12-month ECL ("**12-m ECL**") basis unless than has been significant increase in credit risk since initial recognition.

The following table is a reconciliation that shows how the closing loss allowance as at 31 December 2017 determined in accordance with HKAS 39 can be reconciled to the opening loss allowance as at 1 January 2018 determined in accordance with HKFRS 9:

	HK$'000
Loss allowance recognised as at 31 December 2017 under HKAS 39	7,318
Additional loss allowance as a result of the application of the ECL model under HKFRS 9	
— Loans to customers	64,780
Loss allowance recognised as at 1 January 2018 under HKFRS 9	72,098

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

(c) Effect on the Group's accumulated losses and other reserves as of 1 January 2018

The following table shows the impact of the application of HKFRS 9 on the Group's accumulated losses and other reserves (included the amount allocated to non-controlling interests) as of 1 January 2018:

	Increase in accumulated losses HK$'000
Recognition of additional ECLs and written off relating to:	
— Loans to customers	73,189
— Trade receivables	180
Total additional ECLs recognised and written off	73,369
Income tax effect — Deferred tax assets (Note 24)*	(15,606)
	57,763

* The deferred tax assets had been recognised for the above deductible temporary difference as it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

	Decrease in FVTOCI reserve HK$'000
Difference between the fair value of in unlisted equity investment as of 1 January 2018 that were previously measured at cost less impairment under HKAS 39 and their aggregate carrying amount under HKAS 39	1,123

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3 to the Consolidated Financial Statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 has replaced HKAS 11 Construction contracts, HKAS 18 Revenue and other revenue-related interpretations. Under HKAS 11 and HKAS 18, revenue arising from construction contracts and provision of services was recognised over time whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 has introduced additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Based on the specific transitional provisions set out in HKFRS 15, the Group had decided to use the cumulative effect transition method and had recognised the cumulative effect of initial application of HKFRS 15 as an adjustment to the opening balance of equity as at the date of initial application (i.e. 1 January 2018). Accordingly, comparative information has not been restated and continues to be presented under HKAS 11 and HKAS 18. Also, the Group has applied the HKFRS 15 requirements only to contracts that were not completed before 1 January 2018.

As mentioned in Note 1, the Group is engaged in the following operations:

— provision of short-term financing to the customers
— provision of financial consultancy services

The interest revenue derived from the provision of short-term financing to customers is recognised in accordance with HKFRS 9 is out of the scope of HKFRS 15.

Revenue from providing financial consultancy services is recognised in the accounting period in which the services are rendered. Revenue is recognised progressively over time using the input method based on the proportion of the actual staff costs incurred relative to the estimated total staff costs because the Group believes that it was an enforcement right to be paid for work done to date if the customer were to cancel the service agreement before the consulting services was fully completed taking into account the contract terms and the relevant laws and regulations in the PRC. As there was no contract not completed as at 1 January 2018, no transition impact on the opening accumulated losses.

Accounting policies resulting from application of HKFRS 15 are disclosed to Note 3 to the Consolidated Financial Statements.

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

	31 December 2017 As originally presented HK$'000	Effect of adoption of HKFRS 9 HK$'000	1 January 2018 restated HK$'000
Non-current Assets			
Available-for-sale financial assets	8,405	(8,405)	—
Equity investment at FVTOCI	—	7,282	7,282
Deferred tax assets	3,446	15,606	19,052
Total non-current assets	13,519		28,002
Current Assets			
Loan and account receivables	536,590	(73,189)	463,401
Trade receivables	180	(180)	—
Total current assets	597,279		523,910
Net assets/(Net liabilities)	40,107		(18,779)
Reserves			
— FVTOCI reserve	—	(1,123)	(1,123)
— Accumulated losses	(1,543,282)	(56,519)	(1,599,801)
Non-controlling interests	16,225	(1,244)	14,981
Total equity/(Capital deficiency)	40,107		(18,779)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new and amendments HKFRSs, which have been issued but are not yet effective, in these Consolidated Financial Statements:—

		Effective for annual reporting periods beginning on or after
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures	1 January 2019 *
HKAS 28 and HKFRS 10 Amendments	Sale or Contribution of Assets between an Investor and its associate or Joint Venture	To be determined*
HKFRS 9 Amendments	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK (IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
HKFRS 3 Amendments	Definition of a Business	1 January 2020
HKAS 1 and HKAS 8 Amendments	Definition of Material	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

* The amendments were original intended to be effective for annual periods beginning on or after 1 January 2018. The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Group has already commenced an assessment of the related impact of adopting the above new and amendments to HKFRSs. So far, it has preliminarily concluded that the above new and amendments to HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the Consolidated Financial Statements of the Group except for the following:

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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 sale 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 the adoption 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.

In contrast to the lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$10,492,000 (2017: HK$14,694,000) as disclosed in Note 28. 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 new requirement to recognise a right-to-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's Consolidated Financial Statements. In addition, the adoption of the new requirements may result in changes in measurement, presentation and disclosure as indicated above.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

In addition, the Group currently considers refundable rental deposits paid of approximately HK$453,000 (2017: HK$431,000) as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments and included in the carrying amount of right-to-use assets.

The directors of the Company expected that, such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not raise in a significant impact to the consolidated financial performance in the Group's future financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

3.1 Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with HKFRSs, which collective term includes all applicable HKFRSs, HKASs and Interpretations issued by the HKICPA. In addition, the Consolidated Financial Statements also comply with the applicable disclosure requirements by the Rules Governing the Listing of Securities on the GEM of the Exchange (the "**GEM Listing Rules**") and by the Hong Kong Companies Ordinance.

The Consolidated Financial Statements have been prepared under the historical cost basis except where otherwise described in the accounting policies set out below. The Consolidated Financial Statements were presented in Hong Kong dollars ("**HK$**"). All values are rounded to the nearest thousand except when otherwise indicated.

The Consolidated Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Consolidated Financial Statements for the year ended 31 December 2017 except for the adoption of certain new and revised HKFRSs that are relevant to the Group and effective from the current period as set out in Note 2.

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

Going concern assumption

The Group recorded a loss of approximately HK$29,292,000 for the year ended 31 December 2018 and had a capital deficiency of approximately HK$77,077,000 as at 31 December 2018. In addition, the Group's issued convertible bonds, as described in Note 23, will expire on 24 June 2019 and the Group is required to repay 105% of the outstanding principal amount amounting to approximately HK$406,560,000. However, the cash and cash equivalents held by the Group was only amounted to approximately HK$193,406,000 as at 31 December 2018.

In preparing the Group's Consolidated Financial Statements for the year ended 31 December 2018, the directors of the Company have taken into account all information that could reasonably be expected to be available. In particular, the directors of the Company have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

i) the Group expects to continue to generate positive operating cash flows from its short-term financing business for the next twelve months;

ii) the major convertible bondholders holding of the convertible bonds have 94.0% bondholding provided undertakings that they will not demand for payment upon the expiry of existing convertible bonds with face value of approximately HK$546,200,000 until such time when the Group has ability to repay the outstanding balance; and

iii) On 20 February 2019 (after trading hours of the Stock Exchange), the Company executed the amendment deeds, to extend the maturity date of the 2014 convertible bonds by 3 years from 24 June 2019 to 24 June 2022, and the 2015 convertible bonds by 3 years from 5 February 2020 to 5 February 2023 (i.e. the Alteration). The Amendment Deeds will only become effective upon all conditions as stipulated in the announcement of the Company dated 20 February 2019.

Based on the Group's cash flow projections, taking account of effectiveness and feasibility of the above measures covering a period of twelve from the end of the reporting period prepared by the management, the directors of the Company consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the forecast period. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the Consolidated Financial Statements on a going concern basis. The Consolidated Financial Statements do not include any adjustments that would result should the Group be unable to operate as a going concern.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

(a) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Generally control is achieved with a shareholding of more than one half of the voting rights over the relevant activities of the investee. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Company controls another entity. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the aquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interests in the acquire on an acquisition-by-acquisition basis. Non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the events of liquidation are measured at either fair value or the present ownership interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation *(Continued)*

(b) Business combinations *(Continued)*

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in the profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of the consideration transferred, non-controlling interests recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra group transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset, in which case the loss is recognised in the profit or loss. When necessary, amounts reported by subsidiaries have been adjusted to confirm with the Group's accounting policies.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation *(Continued)*

(d) Disposal of subsidiaries

When the Group loses control of a subsidiary, the profit or loss on disposal is calculate as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

(e) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Consolidated Financial Statements of the investee's net assets including goodwill.

3.3 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets, liabilities and contingent liabilities acquired. It is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.3 Goodwill *(Continued)*

For the goodwill arising on an acquisition in a reporting period, each units or group of units to which the goodwill is allocated represents the lowest level within the equity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at not higher than operating segment level. When the recoverable amount of the CGUs is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, if any.

The cost of an item of property, plant and equipment includes its purchase price and any directly attributable to the costs of bringing the asset to its working condition and location for its intended use.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvements	5 years or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	4 to 10 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.5 Intangible assets (other than goodwill)

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for other intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from being indefinite to finite is accounted for on a prospective basis (see the accounting policy in respect of impairment losses on non-financial assets below).

Intangible assets with finite useful lives are tested for impairment as described below.

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2)

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(a) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

All recognised financial assets are measured at amortised cost on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Debt instrument that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("**SPPI**").

Debt instruments at amortised cost

The Group assesses the classification and measurement of a financial asset based on the contractual cash flows characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business model for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefor the business model assessment is performed at a higher level of aggregate rather than on instrument-by-instrument basis.

The Group's business models for managing its financial instrument reflects how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

Debt instruments at amortised cost (Continued)

The Group considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called "worse case" or "stress case" scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within the business model are evaluated and reported to the entity's key management personnel;

- the risks that affect the performance of the business model and, in particular, the way in which these risks are managed.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period.

Financial assets at amortised cost subsequently measured using the effective interest method are subject to the impairment.

Effective interest method

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

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting period, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

Effective interest method (Continued)

Interest income which are derived from the Group's ordinary course of business are recognised in profit or loss and included in the "Revenue" line item. Foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9 initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

Equity investments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity investments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loans to customers, trade receivables, deposits and other receivables and cash and cash equivalents) The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done 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.

The Group always recognises lifetime ECLs for the loans to customers (as all have contractual maturity of not more than one year), trade receivable and contract assets (if any) that result from transactions within the scope of HKFRS 15 and the ECL on these assets are assessed individually for debtors with significant balances.

For other financial assets including deposits and other receivables and cash and cash equivalents, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on financial assets has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-m ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in this likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial assets being credit-impaired at the reporting date or an actual default occurring.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

Impairment under ECL model (Continued)

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, government bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

Impairment under ECL model (Continued)

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

When assessing the likelihood of the borrower to pay its credit obligation, the Group takes into account both quantitative and qualitative indicators. Qualitative indicator, such as the breach of covenants, and quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess credit-impairment which are either developed internally or obtained from external sources.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

Impairment under ECL model (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure of default, for financial assets, these are represented by the assets gross carrying amount at the reporting date.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contracts and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL is the ECL that resulted from all possible default events over the expected life of financial assets.

Where lifetime ECL is measured on a collective basis or cater for cases where evidence of significant increase in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the credit risk characteristics basis:

- Nature of financial instruments(i.e. the Group's loans to customers, trade receivables, deposits and other receivables are each assessed as a separate group;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is expect to credit risk.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(a) Financial assets *(Continued)*

Measurement and recognition of ECL (Continued)

ECL on the financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the balance sheet date.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-m ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOVI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to accumulated losses.

(b) Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(b) Financial liabilities and equity (Continued)

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

The Group classifies its financial liabilities at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial liabilities subsequently measured at amortised cost

After initial recognition, the financial liabilities including accruals and other payables, promissory notes and amounts due to a shareholder are subsequently measured at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the period.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 Financial instruments (upon the initial application of HKFRS 9 in accordance with transition in Note 2) *(Continued)*

(b) Financial liabilities and equity (Continued)

Financial liabilities (Continued)

Derecognition of financial liabilities *(Continued)*

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.7 Financial instruments (before application of HKFRS 9 on 1 January 2018)

(a) Financial assets

The Group classifies its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at the end of reporting period. All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, directly attributable transaction costs.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and held for trading. They arise principally through the provision of goods and services to customers (trade debtors), loans to customers and also incorporate other types of contractual monetary assets (such as bank balances, deposits and other receivables). They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.7 Financial instruments (before application of HKFRS 9 on 1 January 2018) *(Continued)*

(a) Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any accumulated impairment loss.

Impairment loss on financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.7 Financial instruments (before application of HKFRS 9 on 1 January 2018) *(Continued)*

(a) Financial assets *(Continued)*

If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs. For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

(b) Financial liabilities

The Group classifies its financial liabilities at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. The effective interest amortisation is included in finance cost in the profit or loss.

(c) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period respectively. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability respectively, or where appropriate, a shorter period.

(d) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(e) Equity instruments

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.8 Convertible bonds

The component parts of the convertible bonds issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished on conversion or redemption.

The conversion option classified as equity is determined by deducting the amount of liability component from the fair value of the compound instrument as a whole on initial recognition. That is recognised and included in the equity, net of income tax effects (if any), and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to issued capital, share premium account or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that related to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

3.9 Fair value measurement

The Group measures its financial instruments at fair value at the end of reporting period. Fair value is the price that will be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value if an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that will use the asset in its highest and best use.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.9 Fair value measurement *(Continued)*

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Level 2: Based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: Based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Consolidated Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.10 Repossessed assets

Collateral assets for loans to customers are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts.

Repossessed assets are initially recognised at the lower of the fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession (the Group has obtained the legal title and control of the repossessed collateral assets), and the related loans together with the related impairment allowances are derecognised from the consolidated statement of financial position. Subsequently, repossessed assets are measured at cost less impairment. The difference between the net proceeds and the carrying amount of the repossessed asset is subsequently recognised as gain or loss upon disposal of the asset.

3.11 Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits at banks with original maturity less than three months, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.12 Revenue recognition (upon initial application of HKFRS 15 in accordance with transitions in Note 2

Revenue is recognised to depict the transfer of promised services to customers in an amount the reflects the consideration to which the entity expects to be entitled in exchange for those services. Specially, the Group uses a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligation in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligation in the contract
Step 5: Recognised revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the group performs;

(b) the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

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

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.12 Revenue recognition (upon initial application of HKFRS 15 in accordance with transitions in Note 2 *(Continued)*

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or

- the Group's efforts or inputs to the satisfaction of the performance obligation.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is subject to ECLs assessment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.12 Revenue recognition (upon initial application of HKFRS 15 in accordance with transitions in Note 2 *(Continued)*

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its consultancy service contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to ECLs assessment.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. the customer pays the fixed amount based on a payment schedule. If the services rendered by the group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Interest income

Interest income from financial asset is recognised as revenue in profit or loss over the terms of the contracts using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asst's net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the credit loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.12 Revenue recognition (upon initial application of HKFRS 15 in accordance with transitions in Note 2 *(Continued)*

Financial consultancy income

The Group provides customised financial consultancy services to its customers. The Group designs financing structures and solutions based on the credit portfolios of its customers, seeks the most optimal source of funding to its customer and matches its customers with the financial institution. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised progressively over time using the input method based on the proportion of the actual staff costs incurred relative to the estimated total staff costs because the Group believes that it was an enforcement right to be paid for work done to date if the customer to cancel the service agreement before the consulting services was fully completed, after taking into account the contract terms and the relevant laws ans regulations in the PRC.

3.13 Revenue recognition (before application of HKFRS 15 on 1 January 2018)

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services provided in the ordinary course of the business and the use by others of the Group's assets yielding interests and dividends. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(i) Interest income

Interest income (as the case may be, including the administration fees that are an integral part of the effective interest) from entrusted loans, pawn loans, micro credit loans and other financial assets which yield interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(ii) Financial consultancy income

Financial consultancy income is recognised when the services are rendered.

(iii) Service income

Service income is recognised when the services are rendered.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.14 Foreign currencies

In preparing the financial statements of each individual group entity, transactions entered into by each of the group entities in currencies other than the currency of the primary economic environment in which it operates (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

For the purpose of presenting the Consolidated Financial Statements, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange reserve.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.15 Impairment of non-current assets excluding goodwill

At the end of reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGUs to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGUs) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGUs) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGUs) is increased to the revised estimate of its recoverable amount, but the increased carrying amount shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior period. A reversal of an impairment loss is recognised immediately in profit or loss.

3.16 Leases

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

Operating leases payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from leased asset are consumed.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.17 Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the profit or loss in the period in which they are incurred.

3.18 Employee benefits

Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of reporting period in which the employees render the related service. Short term employee benefits are recognised in the period when the employees render the related service.

Pension scheme contributions

A pension scheme is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of pension scheme are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature. The Group participates in the pension scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance which is available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are made based on a percentage of employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the relevant local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes. The Group has no further payment obligations once the contribution has been made.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.19 Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

3.20 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.20 Income tax *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

3.21 Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's holding company.

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a holding company of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel service to the Group or to the Company's holding company.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.21 Related parties *(Continued)*

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Key sources of estimation uncertainty

(a) Allowance for ECLs of loans to customers

Before the adoption of HKFRS 9, the Group estimates allowance for impairment of loans to customers based on an evaluation of collectability and ageing analysis of the receivables. The impairment loss amount of the individual receivable is the net decrease in the present value of the estimated future cash flows, and the evidence of impairment may include the observable evidence indicating that there is a measureable decrease in estimated future cash flows of the individual receivable. The Group periodically reviews its receivables to assess impairment individually and collectively. Factors considered by the Group may include the adverse changes in repayment status of the borrowers (e.g. decline in collateral value or payment delinquency or default), or change in national or local economic conditions that causes the default in payment. The methodologies and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce the differences between loss estimates and actual loss experience.

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

Key sources of estimation uncertainty *(Continued)*

(a) Allowance for ECLs of loans to customers *(Continued)*

Since the adoption of HKFRS 9 on 1 January 2018, The Group measures the loss allowance based on an expected credit loss model (the "**ECL model**"). The allowance for ECL on the loans to customers are probability weighted average of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the loan to customers. Specifically, a credit loss is the present value of the difference between (i) the contractual cash flows that are due to an entity under the contract and (ii) the cash flows that the entity expects to receive (see Note 18 for details). Such assessment involves high degree of estimation and uncertainty. When the actual future cash flows are less or more than expected, a material ECLs or material reversal of ECLs may arise, accordingly.

(b) Estimation of current tax and deferred tax

The Group is subject to income tax in jurisdictions in which the Group operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

Key sources of estimation uncertainty *(Continued)*

(c) Fair value of equity investment at FVTOCI

As disclosed in Note 17 to the Consolidated Financial Statements, the equity investment is related to the equity interests in a PRC private company which was engaged in the provision of micro-financing service, and its fair value as at 1 January 2018 and 31 December 2018 were determined by using discounted cash flow valuation method.

Where the fair value of financial assets recorded in the statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow valuation model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Critical accounting judgements

(a) Revenue recognition from consultancy services

Timing of satisfaction of performance obligation of financial consultancy services

The recognition of the financial consultancy income requires judgements by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgement, the directors of the Company considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

The directors of the Company have assessed that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date pursuant to the contract terms and the relevant laws and regulations in the PRC. Therefore, the directors of the Company have satisfied that the performance obligation in respect of the financial consultancy income is satisfied over time and have recognised such income over the period of services.

(b) Subsidiaries governed under structured agreements

When preparing these Consolidated Financial Statements, the management applied HKFRS 10 to determine whether the Group has "control" over the entities considered to be subsidiaries. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity, has the power to direct the relevant activities of the entity, and has the ability to affect those returns through its power over the entity. Key factors used in determining control and whether the entities are subsidiaries include whether the Group has power over the entities either through voting rights or structured agreements and whether it has the rights to obtain the majority of benefits or is exposed to the majority of ownership risks.

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

Critical accounting judgements *(Continued)*

(b) Subsidiaries governed under structured agreements *(Continued)*

When the above factors are met, the management determines that the Group has control over the entities and include them as subsidiaries in the Group's Consolidated Financial Statements. For the entities where the Group holds no equity interest but are subject to structured agreements, significant judgements are necessary as to whether these contracts give the Group the ability to exercise control over those entities, including consideration of the PRC legal and regulatory requirements, foreign exchange control, or other influences, such as, force majeure etc.

As disclosed in the Company's circular dated 30 May 2014 (the "Circular – VSA"), under the current practice, foreign investor are not allowed to invest by means of equity investment in any pawn loan companies in the PRC or micro-financing companies in Beijing, as such the Company's indirect wholly owned subsidiary, 北京萬馳科技有限公司 (Beijing Wanchi Technology Company Limited*, "**Beijing Wanchi**"), has entered into a series of structured agreements (the "**Structured Agreements**") with 北京市金福典當有限責任公司 (Beijing City Jinfu Pawning Company Limited*, "**Beijing Jinfu**"), 北京金祿典當有限責任公司 (Beijing Jinlu Pawning Company Limited*, "**Beijing Jinlu**"), 北京市金壽典當有限責任公司 (Beijing City Jinshou Pawning Company Limited*, "**Beijing Jinshou**"), 北京市金禧典當有限責任公司 (Beijing City Jinxi Pawning Company Limited*, "**Beijing Jinxi**"), 北京中金福小額貸款有限責任公司 (Beijing Zhongjinfu Micro-financing Company Limited*, "**Beijing Micro-financing**") and their respective owners, which enables the Group to:

– have power to direct the relevant activities of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing;

* English name is for identification purpose only

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

Critical accounting judgements *(Continued)*

(b) Subsidiaries governed under structured agreements *(Continued)*

– exercise the entire owners' voting rights of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and 79% owners' voting rights of Beijing Micro-financing during the general meetings of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing respectively;

– receive and be exposed to substantially all of the economic interest returns generated by Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and 79% of the economic interest returns generated by Beijing Micro-financing through service fees in consideration for the management and consulting services provided by Beijing Wanchi at Beijing Wanchi's discretion;

– have an irrevocable option to purchase the entire equity interest in Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and 79% equity interest in Beijing Micro-financing with consideration each at a normal price of RMB1 when and to the extent permitted under the PRC laws; and

– obtain pledges over the entire equity interest of Beijing Jinfu, Beijing Jinlu, Beijing Jinshou and Beijing Jinxi and 79% equity interest of Beijing Micro-financing from their respective owners.

The Group does not have any equity interest in Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing. However, as a result of the Structured Agreements, the Group has rights to variable returns from its involvement with Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing and has the ability to affect these returns (e.g. in form of service fees charged) through its power over Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing and is considered to control Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing. Consequently, the Group regards Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing as indirectly-owned subsidiaries under HKFRSs.

Nevertheless, the Structured Agreements may not be as effective as legal ownership in providing the Group with control over the consolidated entities and business, and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the consolidated entities and business. Having considered the changes in the relevant PRC laws and regulations since the execution of the Structured Arrangements, the directors of the Company believe that the Structured Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

5. SEGMENT INFORMATION

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the provision of short-term financing services to the customers. As this is the only operating segment of the Group, no further analysis for segment information is presented.

In determining the Group's geographical segments and revenues are based on the location in which the customers are located; assets and capital expenditure are attributed to the segments based on the locations of the assets.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile. All the Group's revenue and non-current assets are principally attributable to the PRC, being the single geographical region.

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and deferred tax assets ("**Specified non-current assets**"):

	Revenue from external customers Year ended 31 December		**Specified non-current assets As at 31 December**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**—**	—	**338**	573
PRC	**85,721**	74,833	**3,140**	1,095
	85,721	74,833	**3,478**	1,668

The customer base in short-term financing services segment is diversified and there is one (2017: Nil) customer individually contributed to 10% or more of the Group's revenue for the year ended 31 December 2018 in the amount of approximately HK$11,189,000 (2017: Nil).

6. REVENUE, OTHER INCOME, AND OTHER GAINS AND LOSSES, NET

The Group's revenue represents the short-term financing services income, net of direct financing costs. An analysis of the Group's revenue, other income and other gains and losses, net is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Revenue			
Interest income from loans to customers		**73,276**	72,137
Financial consultancy income		**12,445**	2,771
Interest expense on funds for loans to customers	7	**—**	(75)
Short-term financing services income,net		**85,721**	74,833
Other income, and other gains and losses, net			
Bank interest income		**1,089**	825
Waive of interest expenses on promissory notes*	22	**3,200**	—
Loss on disposal of property, plant and equipment		**(31)**	(125)
Investment income		**1,183**	—
Recovery of bad debts#		**12,570**	—
Sundry income		**54**	5,188
		18,065	5,888

* During the year, the Group negotiated with the holder of promissory notes, which is an independent third party (the "**Holder**") to the Group, in relation to the waiver arrangement. Pursuant to the agreement, the Holder agreed to irrevocably and unconditionally waive the coupon interest on promissory note for two financial years of 2017 and 2018.

\# The amount represented the bad debts relating to loans to customers written off in previous years subsequently settled during the year ended 31 December 2018.

7. LOSS BEFORE INCOME TAX

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

	Notes	**2018 HK$'000**	2017 HK$'000
Finance costs			
Effective interest expenses on			
– convertible bonds	23	**46,239**	42,581
– promissory notes	22	**1,766**	1,753
– others		**—**	2
Interest expense on funds for loans to customers		**—**	75
		48,005	44,411
Less: interest expense included in revenue	6	**—**	(75)
		48,005	44,336
Other items			
Staff costs (excluding directors' emoluments)			
Salaries, allowance and other benefits	8(a)	**16,075**	14,025
Pension scheme contributions		**1,986**	1,948
		18,061	15,973
Auditor's remuneration			
– Audit services		**878**	883
Depreciation of property, plant and equipment	12	**621**	925
Minimum lease payments under operating leases for land and buildings		**3,820**	5,731
Exchange difference, net		**(458)**	647

8. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

(a) Directors' and chief executive's emoluments

The aggregate amounts of emoluments received and receivable by the Directors and chief executive of the Company in connection with the management of the affairs of the Company and its subsidiaries are as follows:

Year ended 31 December 2018

Name of Directors	Fees HK$'000	Salaries, allowance and other benefits HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive directors				
Mr. Zhang Wei (Note 1)	**960**	**1,915**	**64**	**2,939**
Mr. Yang Bo (Note 2)	**120**	**925**	**64**	**1,109**
Non-executive director				
Mr. Zang Wei (appointed on 1 January 2018) (Note 3)	**100**	**—**	**—**	**100**
Independent non-executive directors				
Mr. Chen Yihua	**200**	**—**	**—**	**200**
Mr. Du Hui	**180**	**—**	**—**	**180**
Mr. Wong Wing Kuen, Albert (appointed on 1 January 2018) (Note 3)	**180**	**—**	**—**	**180**
	1,740	**2,840**	**128**	**4,708**

8. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

Year ended 31 December 2017

Name of Directors	Fees	Salaries, allowance and other benefits	Pension scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Mr. Zhang Wei (Note 1)	960	515	58	1,533
Mr. Yang Bo (appointed on 1 October 2017) (Note 2)	30	98	15	143
Ms. Li Wei (resigned on 1 October 2017)	630	361	47	1,038
Independent non-executive directors				
Mr. Chen Yihua	200	–	–	200
Mr. Du Hui	180	–	–	180
Ms. Sze Sau Wan (resigned on 1 January 2018)	144	–	–	144
	2,144	974	120	3,238

Notes:

1. Mr. Zhang Wei is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

2. Mr. Yang Bo is also the Chief Operating Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Operating Officer.

3. Dr. Wong Wing Kuen, Albert and Mr. Zang Wei have been appointed as independent non-executive director and non-executive director of the Company on 1 January 2018, respectively.

(b) Five highest paid individuals

Of the five highest paid individuals in the Group, two (2017: three) individuals were directors of the Company and whose emoluments are set out in Note 8(a) above. The emoluments of the remaining three (2017: two) non-director individuals, fall within the band of Nil to HK$1,000,000, are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowance and other benefits	**2,630**	794
Pension scheme contributions	**147**	116
	2,777	910

8. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT *(Continued)*

(b) Five highest paid individuals *(Continued)*

There was no arrangement under which a director, the five highest paid individuals waived or agreed to waive any remuneration during the year ended 31 December 2018 (2017: Nil). In addition, no emolument was paid by the Group to the any of the directors or the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2017: Nil).

(c) Senior management's emoluments

The number of the senior management (excluding the directors of the Company) whose remuneration fell within the following band is as follows:

	Number of individuals	
	2018	2017
Nil to HK$1,000,000	**3**	2

9. INCOME TAX EXPENSE

	2018	2017
	HK$'000	HK$'000
Current income tax		
PRC		
Current tax charge for the year	**12,032**	11,194
Over-provision in respect of prior years	**(225)**	(111)
	11,807	11,083
Withholding tax on dividends	**2,267**	236
Deferred tax credit (Note 24)	**(7,952)**	(383)
Income tax expense	**6,122**	10,936

9. INCOME TAX EXPENSE *(Continued)*

The Company is subject to income tax on an entity basis on profits arising in or derived from the jurisdiction in which entities in the Group and domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax under these jurisdictions.

For the year ended 31 December 2018, no provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising in Hong Kong (2017: Nil).

The subsidiaries of the Group established in the PRC save for below are subject to enterprise income tax ("**EIT**") of the PRC at 25% (2017: 25%). Pursuant to the relevant laws and implementation rules announced by the People's Government of the Tibet Autonomous Region, Lhasa Jiade Financial Consultant Company Limited ("**Lhasa**"), a subsidiary of the Group established in Tibet of the PRC is subject to the EIT at 15%. Upon the announcement of preferential tax treatment, the EIT rate of Lhasa has changed to 9% for the year 2015 to 2017, the EIT rate of Lhasa has been resumed to 15% since 1 Jan 2018.

Dividend distribution out of profit of foreign-invested enterprises earned in the PRC subsequent to 1 January 2008 is subject to withholding income tax at a tax rate of 10% (2017: 10%).

The income tax expense for the year can be reconciled to the accounting loss before income tax per the consolidated income statement as follows:

	2018	2017
	HK$'000	HK$'000
Loss before income tax	**(23,170)**	(1,454)
Tax calculated at the rates applicable to the tax jurisdiction concerned	**(4,477)**	2,140
Tax effect on income not taxable for tax purpose	**(708)**	(757)
Tax effect on expenses not deductible for tax purpose	**10,604**	10,382
Tax concession received	**—**	(954)
Over provision in respect of prior years	**(225)**	(111)
Utilisations of tax losses	**(1,339)**	—
Withholding Tax on dividend	**2,267**	236
Income tax expense for the year	**6,122**	10,936

10. DIVIDEND

No dividend has been paid or declared by the Company for the year ended 31 December 2018 (2017: Nil). The directors of the Company do not recommend for payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

11. LOSS PER SHARE

The calculation of basic loss per share for the current year and prior year are based on the loss for the year attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the year are set forth below.

The calculation of diluted loss per share for the year are based on the loss for the year attributable to the owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

For the year ended 31 December 2018, as the Company's outstanding convertible bonds had an anti—dilutive (2017: anti-dilutive) effect to the basic loss per share calculation, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share. Therefore the basic and diluted loss per share for the year ended 31 December 2018 are equal (2017: equal).

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

	2018 **HK$'000**	2017 HK$'000
Loss		
Loss attributable to owners of the Company, used in basic loss per share calculation	**(29,625)**	(14,735)
Adjustment of /(loss) attributable to owners of the Company: Interest saving of the convertible bonds	**—***	—*
Loss attributable to owners of the Company, used in the diluted loss per share calculation	**(29,625)**	(14,735)

11. LOSS PER SHARE *(Continued)*

	2018	2017
	'000	'000
Share		
Weighted average number of ordinary shares for basic loss per share calculation ('000)	**1,301,118**	1,298,488
Effect of dilutive potential ordinary shares: Conversion of convertible bonds ('000)	**—***	—*
Weighted average number of ordinary shares for diluted loss per share calculation ('000)	**1,301,118**	1,298,488

* No adjustment/effect considered due to anti-dilutive effects

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
As at 1 January 2017	1,066	2,125	715	3,906
Additions	505	137	227	869
Disposal/Written off	(1,065)	(459)	(52)	(1,576)
Exchange realignments	—	96	61	157
As at 31 December 2017 and 1 January 2018	506	1,899	951	3,356
Additions	—	201	139	340
Disposal/Written off	—	(120)	(166)	(286)
Exchange realignments	—	(72)	(48)	(120)
As at 31 December 2018	**506**	**1,908**	**876**	**3,290**
Accumulated depreciation				
As at 1 January 2017	962	677	504	2,143
Disposal/Written off	(1,028)	(374)	(49)	(1,451)
Charge for the year	230	545	150	925
Exchange realignments	—	29	42	71
As at 31 December 2017 and 1 January 2018	164	877	647	1,688
Disposal/Written off	—	(83)	(158)	(241)
Charge for the year	179	386	56	621
Exchange realignments	—	(37)	(29)	(66)
As at 31 December 2018	**343**	**1,143**	**516**	**2,002**
Net carrying amount				
As at 31 December 2018	**163**	**765**	**360**	**1,288**
As at 31 December 2017	342	1,022	304	1,668

13. REPOSSESSED ASSETS

During the year, the Group obtained an asset by taking possession of collaterals held as security in relation to a loan to a borrower. The nature and carrying value of the asset held as at 31 December are summarised as follows:

	2018 **HK$'000**	2017 HK$'000
Repossessed property – residential property in Beijing	**2,190**	—

The estimated market value of the repossessed asset held by the Group as at 31 December 2018 was approximately HK$3,131,000 (2017: Nil). It comprises property in respect of which the Group has acquired access or control through court proceeding (Note 18). The Group will proceed to dispose of the property within a reasonable time after possession, which is not expected to be within 12 months from the end of reporting period.

14. INTANGIBLE ASSETS

	Pawn licences HK$'000
Cost	
As at 1 January 2017	149,000
Exchange realignments	11,251
As at 31 December 2017 and 1 January 2018	160,251
Exchange realignments	(8,302)
As at 31 December 2018	151,949
Accumulated amortisation and impairment losses	
As at 1 January 2017	149,000
Exchange realignments	11,251
As at 31 December 2017 and 1 January 2018	160,251
Exchange realignments	(8,302)
As at 31 December 2018	151,949
Net carrying amount	
As at 31 December 2018	—
As at 31 December 2017	—

14. INTANGIBLE ASSETS *(Continued)*

Pawn licences

Pawn Licences represented the operating licences of the Pawn Broker Business (as defined in the Company's circular dated 30 May 2014), arising from the Short-term Financing Business acquired by the Group in prior years. The directors of the Company were of the opinion that the Group would renew the Pawn Licences, at minimal cost, continuously and had the ability to do so. Therefore, the Pawn Licenses were considered by the directors of the Company as having an indefinite useful life.

The impairment assessment of the Pawn Licences was included in the impairment assessment of the Short-term Financing CGU that includes goodwill (as defined in Note 15). As at 31 December 2016, the recoverable amount of the Short-term Financing CGU fell below its carrying amount, the directors of the Company concluded that, assessed together with goodwill (Note 15), should be fully impaired.

15. GOODWILL

	Short-term Financing CGU HK$'000
Cost	
As at 1 January 2017	628,341
Exchange realignments	47,446
As at 31 December 2017 and 1 January 2018	675,787
Exchange realignments	(35,008)
As at 31 December 2018	640,779
Accumulated impairment losses	
As at 1 January 2017	628,341
Exchange realignments	47,446
As at 31 December 2017 and 1 January 2018	675,787
Exchange realignments	(35,008)
As at 31 December 2018	640,779
Net carrying amount	
As at 31 December 2018	—
As at 31 December 2017	—

15. GOODWILL *(Continued)*

Goodwill arising in prior years related to the acquisitions of equity interest in (i) Prima Finance Holdings Limited and its subsidiaries (collectively referred to as the "**Prima Finance Group**") and was allocated to the short-term financing CGU ("**Short-term Financing CGU**").

Goodwill acquired through business combinations in prior years had been allocated to the Short-term Financing CGU for impairment test.

As at 31 December 2016, in light of unfavourable operating environment and keen competition of the short-term financing industry, including the relatively lower interest rate environment in the PRC and increasing number of competitors, that were expected to have a negative impact on the future cash flows that could be generated by the Short-term Financing CGU, the directors of the Company had re-estimated the cash flows that could be generated from the Short-term Financing CGU. Based on the fair value less costs of disposal estimated using the revised cash flow projections and using the income approach, the directors of the Company concluded that goodwill and Pawn Licenses allocated to the Short-term Financing CGU had been fully impaired.

16. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES

Particulars of the Company's subsidiaries which are all private companies with limited liability as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Country/ place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid up share capital/ paid-up capital	Percentage of equity attributable to the Company	
Directly held:				**2018**	2017
Fortune Front Holdings Limited	BVI	Investment holding, Hong Kong	US$1	**100%**	100%
Capital Finance Innovative Technology Limited	BVI	Investment holding, Hong Kong	US$1	**100%**	100%
Star Capital Global Limited	BVI	Investment holding, Hong Kong	US$1	**100%**	100%
UTD Fortune Holdings Limited	BVI	Investment holding, Hong Kong	US$1	**100%**	100%
Indirectly held:					
United Tone Investments Limited	BVI	Investment holding, Hong Kong	US$100	**100%**	100%
Sunny Bridge Investments Limited	BVI	Investment holding, Hong Kong	US$100	**100%**	100%

16. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES *(Continued)*

Name of subsidiary	Country/ place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid up share capital/ paid-up capital	Percentage of equity attributable to the Company	
Indirectly held: *(Continued)*					
Fortune Front Investments Limited	Hong Kong	Provision of financing consultancy services, Hong Kong	HK$100	**100%**	100%
UTD Fortune (Hong Kong) Limited	Hong Kong	Provision of money lending services (to be commenced), Hong Kong	HK$1	**100%**	100%
Prima Finance Holdings Limited	Cayman Islands	Investment holding, Hong Kong	HK$1	**100%**	100%
Century Epoch Holdings Limited	Hong Kong	Investment holding, Hong Kong	HK$100	**100%**	100%
Beijing Wanchi	PRC	Provision of entrusted loan and financial consultancy service, PRC	Paid-up capital of HK$3,000,000	**100%**	100%
拉薩嘉德財務顧問有限公司 Lhasa Jiade Financial Consultant Company Limited*	PRC	Provision of entrusted loan and financial consultancy service, PRC	Paid-up capital of Renminbi ("**RMB**") 5,000,000	**100%**	100%
Beijing Jinfu#	PRC	Provision of pawn loan services in Beijing, PRC	Paid-up capital of RMB40,000,000	**100%**	100%
Beijing Jinlu#	PRC	Provision of pawn loan services in Beijing, PRC	Paid-up capital of RMB15,000,000	**100%**	100%
Beijing Jinshou#	PRC	Provision of pawn loan services in Beijing, PRC	Paid-up capital of RMB40,000,000	**100%**	100%
Beijing Jinxi#	PRC	Provision of pawn loan services in Beijing, PRC	Paid-up capital of RMB15,000,000	**100%**	100%
Beijing Micro-financing#	PRC	Provision of microfinancing services, PRC	Paid-up capital of RMB50,000,000	**79%**	79%

* English name is for identification purpose only.

\# These subsidiaries are held through certain structured agreements (Note 4b).

16. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES *(Continued)*

The companies accounted for as subsidiaries through certain structured agreements including Beijing Jinfu, Beijing Jinlu, Beijing Jinshou, Beijing Jinxi and Beijing Micro-financing are identified as the Group's short-term financing services segment comprising pawn loan business and micro-financing business. They, in aggregate, contributed revenue of approximately HK$63,391,000 (2017: HK$62,683,000) to the Group, representing approximately 74% (2017: 84%) of the Group's total revenue for the year ended 31 December 2018, and the total assets and total liabilities for this segment are approximately HK$375,970,000 (2017: HK$450,191,000) and HK$11,624,000 (2017: HK$18,014,000), representing approximately 70% (2017: 74%) and approximately 2% (2017: 3%) of the Group's total assets and total liabilities as at 31 December 2018, respectively.

None of the subsidiaries had any debt security outstanding at the year or at any time during the year.

Financial information of a subsidiary with individually material non-controlling interests ("NCI")

The following table shows the information relating to a non-wholly owned subsidiary, Beijing Micro-financing, that has material NCI. The summarised financial information represents amounts before inter-company eliminations since acquisition.

	Beijing Micro-financing	
	2018	2017
Proportion of NCI's ownership interests	**21%**	21%

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Summarised statement of financial position		
Current assets	**99,530**	120,504
Non-current assets	**6,481**	763
Current liabilities	**(1,610)**	(4,309)
Non-current liabilities	**(45,344)**	(39,695)
Net assets	**59,057**	77,263
Carrying amount of NCI	**12,402**	16,225

16. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES *(Continued)*

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Summarised income statement		
Revenue/other income	**20,893**	20,388
Profit for the year	**2,601**	5,728
Total comprehensive income	**1,586**	11,167
Profit attributable to NCI	**333**	2,345
Dividends paid to NCI	**2,147**	2,441
Summarised statement of cash flows		
Net cash flows generated from operating activities	**11,892**	7,173
Net cash flows used in investing activities	**(66)**	(112)
Net cash flows used in financing activities	**(2,409)**	(15,168)
Net cash inflow/(outflow)	**9,417**	(8,107)

Amounts due from subsidiaries were unsecured, non-interest bearing and had no fixed repayment terms.

The Company recognised a allowance for ECLs on the amounts due from subsidiaries amounting to approximately HK$8,013,000 as at 31 December 2018.

17. EQUITY INVESTMENT AT FAIR VALE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018	2017
	HK$'000	HK$'000
Unlisted equity investment	**6,934**	8,405

The above unlisted equity investment represented that the 7% equity interest of 瀋陽金融商貿開發區互聯小額貸款有限公司 (Shenyang Hulian Micro-financing Company Limited*) ("**Shengyang Hulian**"), a private entity incorporated in the PRC, which is principally engaged in the provision of micro financing services business. Upon the adoption of HKFRS 9, the Group designated its investment in Shenzhen Hulian at FVTOCI (non-recycling) (Note 2), as the investment is held for long term strategic purpose. As such, the equity investment is reclassified from available-for-sale financial assets to financial assets at FVTOCI. No dividends were received on this investment during the year (2017: Nil).

* English name is for identification purpose only

The financial assets at FVTOCI were revalued on 31 December 2018 by Valtech Valuation Advisory Limited, independent firm of professional value of the Group. Fair value of this unlisted equity investment is estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors of the Company to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of shares. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable.

The following table shows the significant unobservable inputs used in the valuation model.

Assets	**Fair value hierarchy**	**Valuation technique**	**Significant unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**	**Sensitivity of unobservable inputs**
Equity investment in Shenyang Hulian	Level 3	Discounted cash flow method	Long-term growth rate	3.0%	+ The higher long-term growth rate, the higher fair value of the investment, and vice versa	Increase/Decrease 1% result in increase/decrease in fair value by HK$1,611,000/1,101,000
			Discount rate	10.3%	– The higher discount rate, the lower fair value of the investment	Increase/Decrease 1% result in decrease/increase in fair value by HK$736,000/559,000

The fair value measurement is based on the above asset's highest and best use, which does not differ from their actual use.

18. LOANS TO CUSTOMERS

	Notes	2018 HK$'000	2017 HK$'000
Principal and interest receivable:			
Pawn loans	a	**238,498**	316,862
Micro-credit loans	b	**114,109**	120,964
Entrusted loans	c	**54,934**	106,082
Loans to customers, gross		**407,541**	543,908
Less:			
Allowance for ECLs/impairment losses		**(107,788)**	(7,318)
Loans to customers, net		**299,753**	536,590

Allowance for ECLs on loans to customers which are short term in duration (i.e. loan term of less than one year) are always measured at an amount equal to lifetime ECLs.

Notes:

(a) For the pawn loans to customers, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts, and the Group has a sole discretion to approve the renewal of loan for a period of up to 180 days. As at 31 December 2018, pawn loans advanced to customers bore interest at fixed rates ranging from 0.1% per month to 0.4% per month (2017: 0.1% per month to 0.4% per month). They are also subject to administrative fee rates payables by customers. The pawn loans advanced to customers after taking into account the above mentioned administrative fee rates, bore effective interest rates ranging from 19.8% to 62.4% (2017: 13.7% to 52.2%) per annum as at 31 December 2018.

The loans to customers are all collaterals-backed pawn loans, the gross amount of pawn loans based on the type of collaterals are set out below:

	2018 HK$'000	2017 HK$'000
Real estates	**118,246**	132,018
Equity interests	**19,060**	12,024
Machineries and equipment	**20,578**	56,263
Movable properties		
— Inventories	**49,115**	61,913
— Other movable properties	**31,499**	54,644
	238,498	316,862

18. LOANS TO CUSTOMERS *(Continued)*

Notes: (Continued)

(b) Micro-credit loans

For micro-credit loans to customers, the loan periods are ranging from 180 to 365 days (2017: 180 to 365 days), and the Group has a sole discretion to approve the renewal of loan for another certain period, usually within one year. As at 31 December 2018, micro-credit loans advanced to customers bore interest at fixed rates ranging from 1.5% per month to 2.0% per month (2017: 1.5% per month to 2.0% per month) and the effective interest rates of micro-credit loans ranging from 20.0% to 28.6% (2017: 22.6% to 27.0%) per annum as at 31 December 2018.

The loans to customers are the guaranteed loans or collaterals-backed micro-credit loans, the gross amount of micro-credit loans based on the type of collaterals and guarantees are set out below:

	2018	2017
	HK$'000	HK$'000
Collaterals-backed:		
— Real estates	**64,654**	69,521
Guaranteed *	**49,455**	51,443
	114,109	120,964

* This represented the personal/corporate guarantee from the independent third parties or controlling shareholders of the customers.

(c) Entrusted loans

For entrusted loans to customers, they represented loans from the Group to customers through banks in the PRC. In an entrusted loan arrangement, the bank entered into loan agreements with the customers. The customers repaid the loan to the bank and then the bank returned the principal and accrued interest to the Group. While the bank exercises supervision over and receives repayment from the borrower, the bank does not assume any risk of default in repayment by the borrower. The maturity date for each loan contract is normally not more than 1 year and the Group has a sole discretion to approve the renewal of loan for another one year. As at 31 December 2018, entrusted loans advanced to customers bore interest at fixed rates ranging from 15.6% to 17.4% (2017: 15.6% to 17.4%) per annum.

The loans to customers are guaranteed loans or collaterals-backed entrusted loans, the gross amount of entrusted loans based on the types of collaterals and guarantee are set out below:

	2018	2017
	HK$'000	HK$'000
Collaterals-backed:		
— Real estates	**34,332**	60,334
— Equity interests	**20,602**	21,660
Guaranteed *	**—**	24,088
	54,934	106,082

* This represented the personal/corporate guarantee from the independent third parties or controlling shareholders of the customers.

18. LOANS TO CUSTOMERS *(Continued)*

For pawn loans and micro-credit loans that have been past due and the interest charged under the original loan contracts reached the maximum cap as restricted under certain laws and regulations in the PRC, the Group charges the same interest rates as stipulated in the respective original loan contracts. The Group may charge penalty or additional interest when the interest rates charged in the original loan contracts had not reached the maximum cap under the laws and regulations in the PRC.

The Group holds collateral over the pawn loan and micro-credit loan receivables and the banks hold certain collateral over entrusted loans on behalf of the Group. During the loan period, additional collateral may be obtained from customers to secure their repayment obligations under loan contracts. All collaterals are registered in accordance with the relevant laws and regulations in the PRC.

If the customers repaid all the principal and interest in accordance with the loan agreement, the collateral is released and the transaction is deemed to be completed. In the event of default as defined in the relevant contract by customers, the Group might collect and sell the collaterals (through legal proceedings) after taking into a legal advise. The risk of unrecoverable principal and interest is compensated by the realisable value of these collaterals.

Moreover, at the end of reporting period, the management of the Company performs credit evaluation and due diligence procedures to determine whether the guarantors have the ability to repay the Group in the event of default by customers.

The directors of the Company consider that the fair values of loan receivables (after allowance for ECLs) are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

Loans to customers are all denominated in RMB which is the functional currency of the relevant group entities.

The following is a credit quality analysis of loans to customers before allowance for ECLs as at 31 December 2018 under the requirements of HKFRS 9.

	2018
	HK$'000
Neither overdue nor credit-impaired	**252,420**
Overdue but not credit-impaired	
— overdue within 30 days	**41,068**
— overdue 30 to 90 days	**77,001**
Overdue and credit-impaired	
— overdue more than 90 days	**37,052**
	407,541

As mentioned in Note 2, the Group has adopted the ECL model as required by HKFRS 9 since 1 January 2018 in assessing and measuring the impairment allowance for the Group's loans to customers. As described in the above table, the management of the Company catergorised the loans into mainly 3 categories; (a) neither overdue nor credit-impaired, (b) overdue but not credit-impairment and (c) overdue and credit-impaired. The management of the Company considered a number of factors as described in Note 2 in determining whether the loans are credit-impaired and concluded that, based on the Group's past experience in loan financing business and relevant forward looking information available to the Group, loans with more that 90 days past due are considered as credit-impaired.

18. LOANS TO CUSTOMERS *(Continued)*

The Group considers the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast directions of conditions as the reporting date.

Movement of allowances for ECLs on loans to customers under HKFRS 9 are as follows:

	Lifetime ECL – not credit impaired HK$'000	**Lifetime ECL – credit impaired** HK$'000	**Total** HK$'000
As at 31 December 2017	4,807	2,511	7,318
Effect arising from application of HKFRS 9 (Note a)	56,744	8,036	64,780
As at 1 January 2018	**61,551**	**10,547**	**72,098**
Changes in the loss allowance:			
Transferred to Lifetime ECL — not credit impaired	**—**	**—**	**—**
Transferred to Lifetime ECL — credit impaired	**(39,227)**	**39,227**	**—**
Charged to profit or loss (Note b)	**49,062**	**(7,993)**	**41,069**
Exchange realignments	**1,828**	**(7,207)**	**(5,379)**
As at 31 December 2018	**73,214**	**34,574**	**107,788**

Notes:

a. Following the initial application of HKFRS 9 on 1 January 2018, the impairment loss has been assessed using ECL method, with no restatement to prior period comparatives. Refer to Note 2 for information on the application of HKFRS 9.

b. There has been no change in the estimation techniques or significant assumptions made during the year in assessing the loss allowance for the loans to customers.

Specifically, in estimating the amount of ECL, the management of the Company uses various approaches taking into account (i) aging of the Group's loans to customers based on the categories as described above and (ii) the difference between the effective interest rate charged by the Group to the borrowers, which in the opinion of the directors of the Company reflect the market borrowing rate of the respective borrowers and the rate that the Group would charge to borrowers with low credit risk, which the management of the Company believes that the difference best reflects the Group's exposure credit risk. The Group also takes into account forward-looking information, e.g. the applicable GDP growth and unemployment rate, etc. The Group has recognised allowance for ECLs, representing approximately 26.4% of the gross carrying amount, against all loans to customers as at 31 December 2018.

The Group's allowance for ECLs on loan to customers may also take into account the subsequent settlement, certain collateral valuation and the management's judgement on the marketability of the collateral properties and customers' capability of payment.

18. LOANS TO CUSTOMERS *(Continued)*

The analysis of credit-impaired loans of the Group as at 31 December 2018 was as follows:

	Gross carrying amount HK$'000	Allowance for ECLs HK$'000	Net carrying amount HK$'000	Type of collaterals
Pawn loans	**25,538**	**(23,982)**	**1,556**	**Real estates and other movable properties**
Micro-credit loans	**11,514**	**(10,592)**	**922**	**Real estates and guarantee**
	37,052	**(34,574)**	**2,478**	**70,866**

The fair value of real estates held against the credit-impaired loans as at 31 December 2018 were estimated by the management of the Company based on the latest external valuation where available adjusted in light of the discount and time required to covert the real estates into cash.

The management of the Company estimated the fair value of the collaterals other than the real estates held against the credit-impaired loans as at 31 December 2018 were insignificant.

The overdue loans to customers as at 31 December 2018 of approximately HK$20,027,000 out of HK$155,121,000 has been subsequently settled in 2019.

The following is a credit quality analysis of loans to customers before allowance for impairment losses as at 31 December 2017 under the requirements of HKAS 39.

	2017 HK$'000
Neither past due nor impaired	106,081
Not yet past due	290,926
1 to 30 days past due	85,006
31 to 90 days past due	14,599
91 to 180 days past due	21,125
181 to 365 days past due	14,212
Over 365 days past due	11,959
	543,908

Loans to customers which were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Impairment provisions are recognised for financial reporting purposes only for losses that have incurred at the end of reporting period based on objective evidence of impairment.

18. LOANS TO CUSTOMERS *(Continued)*

For the year ended 31 December 2017, the management of the Company reviewed and assessed for impairment individually based on customers' repayment history and the fair values of the collaterals, if any. As at 31 December 2017, the Group provided impairment losses of approximately HK$2,511,000 on loans with the aggregate gross carrying amount of approximately HK$146,901,000 on an individual assessment basis. Impairment loss of approximately HK$4,807,000 was provided on a collective assessment basis.

Movements of impairment allowances on loans to customers under HKAS39 are as follows:

	2017		
	Individually assessed HK$'000	Collectively assessed HK$'000	Total HK$'000
At the beginning of the year	1,394	3,926	5,320
Charged to profit or loss	972	562	1,534
Exchange realignments	145	319	464
At the end of the year	2,511	4,807	7,318

The Group has certain concentration risk on entrusted loans as it has three (2017: five) customers with outstanding balances of approximately HK$48,422,000 (2017: approximately HK$106,081,000), representing approximately 16.2% (2017: 19.8%) of the total loans to customers (net of allowance for ECLs) as at 31 December 2018.

Information about the loans to customers and the Group's exposures to credit risk and interests rate risk can be found in Note 31.

During the year, the Group has taken legal actions against one customer with regards to the overdue repayment of principal and interest receivables. The pledged property of the customer was forcibly auctioned for the repayment of overdue principal and interest receivables through legal proceeding. The Group has successfully acquired the pledged asset as repossessed asset Note (13) within one year after the initiation of legal action. Subsequent to the reporting date, the Group has commenced legal action against seven customers in respect of the overdue principal and interest receivables of an aggregate amount of approximately HK$13,486,000 as at 31 December 2018. Up to the date of the Consolidated Financial Statements are authorised for issue, none of the cases commenced first trial. The directors of the Company after taking the legal advice into consideration, were of the view that the balances could be partially recovered by way of enforcement means within specified period (maximum period of not more than 3 years for any circumstames) according to the Civil Proceeding Law of the PRC.

19. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables from third parties	—	180

Following the application of HKFRS 9 on 1 January 2018, the balance is written off as the directors of the Company, are of the opinion that the Group had no reality prospect of recovery for such amount.

20. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents, represented by bank balances and cash, were denominated in:		
HK$	1,651	1,306
RMB	191,755	54,587
	193,406	55,893

Cash at banks earn interest at floating rates based on daily bank deposit rates.

As at 31 December 2018, the Group has cash and cash equivalents denominated in RMB amounting to approximately RMB168,428,000 (2017: RMB45,463,000) respectively and were kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

21. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder was unsecured, interest-free and repayable on demand.

22. PROMISSORY NOTES

	Notes	2018 HK$'000	2017 HK$'000
At the beginning of the year		21,532	19,779
Effective interest expense	7	1,766	1,753
Waive of interest expenses	6	(3,200)	—
Carrying value at the end of the year	(i)	20,098	21,532

(i) As at 31 December 2018, the promissory notes bore interest of 8% (2017: 8%) per annum and mature in 5 years from the date of issue on 6 February 2015. The effective interest rate of the promissory notes were determined to be approximately 9.01% (2017: 9.01%) per annum. The promissory notes were classified under non-current liabilities and measured at amortised cost.

23. CONVERTIBLE BONDS

As part of the acquisition consideration upon the completion of the Group's acquisition of the Prima Finance Group in 2014, the Company had issued zero-coupon convertible bonds with the principal amount of HK$420,200,000 ("**2014 CB**") as part of the Initial Consideration (as defined in Annual Report 2015) to Exuberant Global Limited, Busting Capital Limited and Time Prestige Holding Limited (collectively, the "**Vendors**") of the Prima Finance Group. In 2015, the Company issued zero-coupon convertible bonds in the principal amount of HK$236,000,000 ("**2015 CB**") to the Vendors.

Principal terms of convertible bonds as below:

Principal amount:	HK$656,200,000
Interest:	non-interest bearing
Maturity:	5 years from the date of issue (i.e. 24 June 2019 and 5 February 2020)
Security:	Unsecured
Conversion right:	The holder(s) of the convertible bonds shall have the rights to convert the whole or the part (in multiples of HK$1,000,000) of the outstanding principal amount of the convertible bonds into the ordinary share(s) of the Company at any time up to the seventh day prior to the maturity date of the convertible bonds.
Conversion Restriction:	The holder(s) of the convertible bonds shall not have the right to convert the convertible bonds to the extent that immediately after such conversion (i) there will not be sufficient public float of the shares of the Company as required under the GEM Listing Rules; or (ii) the holder of the convertible bonds together with parties acting in concert with it will, in aggregate, control or be interested in 30% or such percentage of the voting rights of the Company which the holder of the convertible bonds would be obliged to make a general offer under the Takeovers Code.
Conversion Price:	HK$0.35 per ordinary share of the Company, subject to anti-dilutive adjustments
Redemption:	Unless previously converted, the Company shall pay 105% of the outstanding principal amount under the convertible bonds to the holder(s) of the convertible bonds on the maturity date of the convertible bonds.
Voting rights:	The convertible bonds shall not carry any voting rights.

On 9 January 2017, the holder of 2015 CB exercised his rights to convert the zero-coupon convertible bonds with the principal amount of HK$42,000,000 into new ordinary shares of the Company.

23. CONVERTIBLE BONDS *(Continued)*

The conversion option of the convertible bonds is accounted for as equity instrument and is determined after deducting the fair value of the liability component from the total fair value amount of the convertible bonds at the date of issuance. The residual amount represents the value of the conversion option, which is credited directly to equity as convertible bonds reserve of the Company and the Group.

The liability component of the convertible bonds 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 on initial recognition and the subsequent measure of interest expense on the convertible bonds is calculated using effective interest rates ranging from 8.72% to 8.87% (2017: 8.72% to 8.87%) per annum.

The movements of above-mentioned convertible bonds were as follows:

	Note	**2018** **HK$'000**	2017 HK$'000
Equity component			
At the beginning of the year		**713,306**	754,090
Conversion during the year		**—**	(40,784)
At the end of the year		**713,306**	713,306
Liability component			
At the beginning of the year		**527,378**	518,324
Effective interest expenses	7	**46,239**	42,581
Conversion during the year		**—**	(33,527)
Analysed as:			
Current liabilities			
— 2014 CB		**390,439**	—
Non-current liabilities			
— 2015 CB (2017: 2014 CB and 2015 CB)		**183,178**	527,378
At the end of the year		**573,617**	527,378

On 20 February 2019, the Company executed the amendment deeds to extend the maturity date of 2014 CB and 2015 CB by 3 years to 24 June 2022 and 5 February 2023. Save for the aforesaid alternation, all other terms and conditions of the convertible bonds shall remain unchanged. The difference arising from the extinguishment would be recognised in the profit or loss for the year ending 31 December 2019 as a result of the substantial modification of term of the convertible bonds. The amendment deeds are not yet effective up to the date of the Consolidated Financial Statements are authorised for issue.

24. DEFERRED TAX ASSETS

The movements in the Group's deferred tax assets were as follows:

	Notes	Allowance for impairment losses/ECLs HK$'000	Accrued revenue and charges HK$'000	Total HK$'000
At 1 January 2017		1,330	1,503	2,833
Credited to profit or loss	9	383	—	383
Exchange realignment		116	114	230
At 31 December 2017		1,829	1,617	3,446
Initial application of HKFRS 9	**2**	**15,606**	**—**	**15,606**
At 1 January 2018		**17,435**	**1,617**	**19,052**
Credited/(charged) to profit or loss	**9**	**9,549**	**(1,597)**	**7,952**
Exchange realignment		**(94)**	**(20)**	**(114)**
At 31 December 2018		**26,890**	**—**	**26,890**

As at 31 December 2018, the Group has recognised the deferred tax assets in respect of the allowance for ECLs (2017: Allowance for impairment losses and accrued revenue and charges) as it is probable that the future profits will be available for offsetting against which the deductible temporary differences can be utilised.

24. DEFERRED TAX ASSETS *(Continued)*

As at 31 December 2018, certain subsidiaries of the Company incorporated in Hong Kong has estimated unused tax losses of approximately HK$592,000 (2017: approximately HK$592,000) available for offsetting against future profits, which are subject to the agreement from the tax authority. No deferred tax asset has been recognised in respect of the above tax losses due to the uncertainty over the availability of future profit streams of these subsidiaries. Such losses may be carried forward indefinitely.

As at 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the directors of the Company, having considered the future funding requirements of the Group's subsidiaries established in the PRC, it is probable that the earnings will not be distributed in the foreseeable future. Unremitted earnings amounted to approximately HK$300,047,000 (2017: approximately HK$331,330,000) as at 31 December 2018.

As at 31 December 2017, the Group has estimated unused tax losses in the PRC of approximately HK$5,140,000 which was subsequently agreed by the tax bureau in the PRC. Such unused tax losses were fully offset against the taxable profits during the year ended 31 December 2018 (Note 9).

25. SHARE CAPITAL

	Note	Number of shares '000	Amount HK$'000
Authorised:			
As at 1 January 2017, 31 December 2017 and 31 December 2018, ordinary shares of HK$0.01 each		10,000,000	100,000
Issued and fully paid:			
As at 1 January 2017, ordinary shares of HK$0.01 each		1,181,118	11,812
Shares issued upon conversion of convertible bonds	(i)	120,000	1,200
As at 31 December 2017, 1 January 2018 and 31 December 2018, ordinary shares of HK$0.01 each		1,301,118	13,012

Note:

(i) On 9 January 2017, convertible bonds with principal value of HK$42,000,000 have been converted into 120,000,000 new ordinary shares of the Company at a conversion price of HK$0.35 per share (Note 23).

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

26. RESERVES

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity.

(i) Share premium

The balance represents the premium arising from the issue of the Company's shares at a price in excess of their par value per share.

(ii) Contributed surplus and capital reserve

The contributed surplus represents the remaining credit balance pursuant to the Group's capital reorganisation that took place in prior years. The capital reserve of the Group represents the contributions from owners of the Company for modification of terms, partial waiver and early redemption of the promissory notes held thereby that took place in prior years.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(iv) Convertible bonds reserve

The convertible bonds reserve represents the equity component (conversion right) of the convertible bonds issued (Note 23).

(v) FVTOCI reserve

The FVTOCI reserve comprises the cumulative net change in the fair value of equity investment designated at FVTOCI under HKFRS 9 that are held at the end of reporting period.

(vi) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the relevant articles of association of the group entities incorporated in the PRC (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the paid-up capital of the PRC subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into paid-up capital provided that the remaining balance of the statutory surplus reserve fund after such conversion is no less than 25% of the paid-up capital.

27. SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was adopted pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 2 August 2012.

Under the Scheme, the Board of Directors (the "**Board**") may at its discretion offer to any employee of the Group, any director (whether executive or non-executive and whether independent or not) of the Group, any adviser, consultant, supplier, distributor, contractor, agent, business partner, promoter, services provider or customer of the Group whom, in the sole discretion of the Board, has contributed or will contribute to the Group of the options to subscribe for shares in the Company in accordance with the terms of the Scheme and Chapter 23 of the GEM Listing Rules. The principal purposes of the Scheme are to recognise and motivate the contribution of the employees of the Group and to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. The Scheme commenced on 2 August 2012 and will end on the day immediately prior to the tenth anniversary thereof.

The maximum number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company may not exceed 10% of issued share capital of the Company, or may not exceed a maximum of 30%, should the shareholders renew the 10% limit, from time to time which have been duly allotted and issued. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted under the Scheme where applicable to a director, chief executive, substantial shareholder or management shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive directors who are the prospective grantees in question). In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme where applicable at any time during the option period after the option has been granted by the Board. The option period, during which an option may be exercised, is determined by the Board under the Scheme, but may not be later than ten years after the date of the grant of the option. According to the Scheme where applicable, there is no provision requiring a minimum holding period before an option may be exercised. A nominal consideration of HK$1 is payable on acceptance of the grant of an option under the Scheme where applicable.

The exercise price will be determined by the Board under the Scheme, but may not be less than the higher of (i) the closing price of the Company's shares on the GEM of the Exchange on the date of the options granted; (ii) the average of the closing prices of the Company's shares on the GEM of the Exchange for the five trading days immediately preceding the date of the options granted; and (iii) the nominal value of the Company's shares.

No option has been granted or exercised under the Scheme during the year ended 31 December 2018 (2017: Nil).

28. OPERATING LEASE COMMITMENTS

As lessee

The Group leases its office premises and staff's quarters under operating lease arrangements where applicable, with leases negotiated for initial terms ranging from one to twenty years (2017: one to twenty years). None of the leases includes contingent rentals.

The Group had total future minimum lease payments under non-cancellable operating leases falling due in respect of properties owned by non-controlling interest (Note 29) and certain independent third parties at the end of each reporting period, is as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**1,732**	3,344
In the second to fifth years, inclusive	**6,255**	8,468
Over five years	**2,505**	2,882
	10,492	14,694

29. RELATED PARTY TRANSACTIONS

Save for those transactions/information disclosed elsewhere in these Consolidated Financial Statements, details of transactions between the Group and related parties are disclosed below.

(a) Operating lease payments of approximately HK$237,000 (2017: HK$231,000) (Note 28) were paid to a non-controlling interest of non-wholly owned subsidiary of the Group during the year ended 31 December 2018. The operating leases were charged at approximately HK$20,000 (2017: HK$19,000) per month and the lease terms will be expired on 31 December 2034, and the future minimum lease payments under non-cancellable operating lease in respect of such property was approximately HK$3,795,000 (2017: HK$3,922,000) as at 31 December 2018.

(b) In the opinion of the directors of the Company, the transaction listed above was concluded in the ordinary and usual course of business. Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the members of the board of directors and senior management of the Company.

(c) Compensation for key management personnel, including amounts paid or payable to the Company's directors and the senior executives, is as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and other benefits	**7,210**	3,912
Pension scheme contributions	**275**	236
	7,485	4,148

30. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital. The Group's overall strategy remains unchanged throughout the years.

The capital structure of the Group consists equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debts.

The Group has no plan to use special measures to adjust its gearing ratio in the foreseeable future.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risk and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Group's business, and the operational risks are inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risk, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. The Group regularly reviews its risk management policies and procedures to reflect changes in markets and products.

The directors of the Company are responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies. Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Group's relevant functional units are responsible for monitoring financial risks.

The main risks arising from the Group's financial instruments in the normal course of business are market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Market risk

i. *Interest rate risk*

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits and fair value interest rate risk in relation to fixed-rate loans to customers and promissory notes, respectively. The Group currently does not have a policy to hedge against the interest rate risk as management does not expect any significant interest rate risk as at the end of the reporting period.

Most of the Group's interest-bearing assets and liabilities including loans to customers and promissory notes bore fixed interest rate, the income and operating cash flows of the Group are substantially independent of change in market interest rates.

No interest rate sensitivity is disclosed as in the opinion of the directors of the Company as the exposure arising from financial assets or liabilities that are subject to cash-flow interest rate risk is insignificant at the end of the reporting period.

ii. *Foreign currency risk*

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Such exposures arise from the business operations in the PRC and Hong Kong denominated in RMB and US$ respectively. As at 31 December 2018, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currencies, i.e. RMB and US$ (2017: RMB and US$), used by the respective group entities, or in the US$ for the respective group entities with HK$ being the functional currency.

As HK$ is pegged to US$, the Group considers the risk of movements in exchange rates between HK$ and US$ to be insignificant for transactions denominated in US$. The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Credit risk

Credit risk refers to the risk of the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The Group is exposed to credit risk primarily from its loans to customers, account and other receivables.

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

Credit risk measurement

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Given the loans to customers portfolio is a major component of the Group's assets, risk of the loans to customers portfolio is considered as a principal credit risk.

The Group has taken measures to identify credit risks. The Group manages credit risk at every stage of the risk management system, including pre-approval, review, credit approval and post-transaction monitoring processes.

The Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. A transaction may be subject to the review and approval of credit officer and subsidiary's chairman of the board, depending on the transaction size.

The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the risk management department and is subject to loan-to-value ratio limits based on type of loans and is monitored on an ongoing basis by the risk management department. Collaterals are initially assessed by business department and are independently evaluated by risk management department for the authenticity and the fair value.

During the post-transaction monitoring process, the Group conducts on-site inspection and ongoing post transaction reviews focusing on various aspects, including but not limited to customers' products markets, operating income, assets and liabilities, cash flows from operating activities to detect potential risks.

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfill contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating its businesses in the PRC, there exists a certain level of geographical concentration risk for its loans to customers portfolio in that it might be affected by changes in the PRC economic conditions.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Credit risk *(Continued)*

Collaterals and guarantees

According to the relevant PRC laws and regulations, the Group as the owner of the assets, has the right to establish usufructuary right and security interest over the assets. Therefore, the laws protect the Group's effective right. In the event of default, the Group is entitled to retrieve the asset.

In addition, the Group requests a third party guarantee or collateral from certain customers, depending on the customers' credit status and credit risk degree. The management evaluates the capability of the guarantor, the ownership and value of the mortgage or pledge and the feasibility to realise the mortgage or pledge.

As at 31 December 2018, the Group had a concentration of credit risk as 9.5% (2017: 6.7%) and 15.1% (2017: 20.2%) of the total loans to customers (net of allowance for ECLs) and trade receivables were made up by the Group's largest loan customer's and the five largest loan customers' outstanding balances respectively.

Relevant information with regard to the ECLs for loans to customers as at 31 December 2018 are set out in Notes 18.

The Group's exposure under outstanding loan to customers were secured by collaterals and certain guarantees as disclosed in Note 18.

During the year ended 31 December 2018, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Deposits and other receivables

For deposits and other receivables, the Group has applied the general approach in HKFRS 9 to measure the loss allowance at 12-m ECL, since there has not been a significant increase in credit risk since initial recognition for the deposits and other receivables.

Bank balances

The expected credit loss for bank balances is insignificant because such assets are placed in banks with good reputation.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's policy to manage liquidity risk is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Due to the dynamic nature of the underlying businesses, the Group maintains a reasonable level of cash and cash equivalents. The Group's primary cash requirements have been for making advances for loans to customers and payments of operating costs and outstanding debts. The Group finances its working capital requirements through funds generated from operations and fund raising exercises. The management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected future cash flows.

The following table details the remaining contractual maturities as at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating based on rates current as at the end of the reporting period) and the earliest date the Group is required to pay.

	2018			
	Total carrying value HK$'000	**Total contractual undiscounted cash flows HK$'000**	**Within 1 year or on demand HK$'000**	**1-5 year(s) HK$'000**
Accrued expenses, other payables and deposits received	**11,457**	**11,457**	**11,457**	**—**
Promissory notes	**20,098**	**23,200**	**1,600**	**21,600**
Convertible bonds	**573,617**	**610,260**	**406,560**	**203,700**
	605,172	**644,917**	**419,617**	**225,300**

	2017			
	Total carrying value HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	1-5 year(s) HK$'000
Accrued expenses, other payables and deposits received	13,180	13,180	13,180	—
Promissory notes	21,532	24,800	1,600	23,200
Convertible bonds	527,378	610,260	—	610,260
	562,090	648,240	14,780	633,460

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements recognised in the consolidated statement of financial position

(i) Financial instruments not measured at fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 2017.

(ii) Financial instruments measured at fair value

Financial value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

(ii) Financial instruments measured at fair value *(Continued)*

Financial value hierarchy (Continued)

As at 31 December 2018, the financial instruments measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	Fair value at 31 December 2018 HK$'000	Fair value measurements as at 31 December 2018 categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Assets:				
Unlisted equity investment	**6,934**	**—**	**—**	**6,934**

As at 31 December 2017, there was no financial instruments measured at fair value.

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The movement in the fair value measurement in level 3 are as follows:

Unlisted equity investment:

	2018 HK$'000
At 1 January	
— Upon initial application of HKFRS 9	7,282
Net unrealised gains or losses recognised in other comprehensive income during the year	30
Exchange realignments	(378)
At 31 December	6,934

32. MOVEMENT OF THE GROUP'S LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Amount due to a shareholder	Promissory notes	Convertible bonds	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	2,749	21,532	527,378	551,659
Financing cash flows (Note)	(2,250)	—	—	(2,250)
Finance costs recognised	—	1,766	46,239	48,005
Interest Waived	—	(3,200)	—	(3,200)
At 31 December 2018	499	20,098	573,617	594,214

	Bank borrowings	Amount due to a shareholder	Promissory notes	Convertible bonds	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	11,834	—	19,779	518,324	549,937
Financing cash flows (Note)	(12,005)	2,749	—	—	(9,256)
Finance costs recognised (Note)	77	—	1,753	42,581	44,411
Conversion of convertible bonds (Note 23)	—	—	—	(33,527)	(33,527)
Exchange realignments	94	—	—	—	94
As 31 December 2017	—	2,749	21,532	527,378	551,659

Note: The financing cash flows represented in the net cash flow of repayment to a shareholder and payment of finance costs.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**293**	540
Interests in subsidiaries	16	**—**	—
Amounts due from subsidiaries	16	**510,679**	516,549
Total non-current assets		**510,972**	517,089
Current assets			
Prepayments, deposits and other receivables		**745**	763
Cash and cash equivalents		**404**	754
Total current assets		**1,149**	1,517
Current liabilities			
Accrued expenses and other payables		**743**	460
Amount due to a shareholder	21	**499**	2,749
Convertible bonds – liability component	23	**390,439**	—
Total current liabilities		**391,681**	3,209
Net current liabilities		**(390,532)**	(1,692)
Total assets less current liabilities		**120,440**	515,397
Non-current liabilities			
Promissory notes	22	**20,098**	21,532
Convertible bonds – liability component	23	**183,177**	527,378
Total non-current liabilities		**203,275**	548,910
Net liabilities		**(82,835)**	(33,513)
Capital and reserves			
Issued capital	25	**13,012**	13,012
Reserves	(a)	**(95,847)**	(46,525)
Capital deficiency		**(82,835)**	(33,513)

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(a) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2017	543,717	131,109	120,794	754,090	(1,577,769)	(28,059)
Loss and total comprehensive expense for the year	—	—	—	—	(50,793)	(50,793)
Transactions with owners						
Issue of shares on conversion of convertible bond	73,111	—	—	(40,784)	—	32,327
Transactions with owners	73,111	—	—	(40,784)	—	32,327
As at 31 December 2017 and 1 January 2018	616,828	131,109	120,794	713,306	(1,628,562)	(46,525)
Loss and total comprehensive expense for the year	—	—	—	—	(49,322)	(49,322)
As at 31 December 2018	616,828	131,109	120,794	713,306	(1,677,884)	(95,847)

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December			Nine months ended 31 December	Year ended 31 March
	2018	2017	2016	2015	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue (Note)					
Continuing operations	**85,721**	74,833	111,927	103,395	122,589
Discontinued operation	**—**	—	4,730	46,603	78,158
	85,721	74,833	116,657	149,998	200,747
(Loss)/Profit before income tax from continuing and discontinued operations	**(23,170)**	(1,454)	(273,154)	33,759	(938,326)
Income tax credit/(expense) from continuing and discontinued operations	**(6,122)**	(10,936)	21,380	(13,158)	(20,675)
(Loss)/Profit attributable to:					
Owners of the Company	**(29,625)**	(14,735)	(254,406)	19,000	(959,988)
Non-controlling interests	**333**	2,345	2,632	1,601	987
(Loss)/Profit for the year/period	**(29,292)**	(12,390)	(251,774)	20,601	(959,001)

ASSETS AND LIABILITIES

	As at 31 December				As at 31 March
	2018	2017	2016	2015	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**37,302**	13,519	12,411	335,862	349,149
Current assets	**496,477**	597,279	536,254	503,594	473,320
Assets held for sale	**—**	—	—	52,530	235,509
Current liabilities	**407,580**	21,781	29,006	23,867	113,038
Liabilities held for sale	**—**	—	—	7,177	63,971
Net current assets	**88,897**	575,498	507,248	525,080	531,820
Non-current liabilities	**203,276**	548,910	538,103	578,021	611,723
(Capital deficiency)/Total equity	**(77,077)**	40,107	(18,444)	282,921	269,246

Note: The revenue figures have been re-presented as if the coal trading business segment, property investment business segment and development and sales of software segment had been discontinued during the year ended 31 March 2015, and nine months ended 31 December 2015 respectively, the earliest period presented.