China Gem Holdings Limited
中國中石控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1191)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "Board") of directors (the "Directors") of China Gem Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 together with comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Revenue	*5*	**103,938**	99,532
Other income (losses), net	*6*	**1,274**	(2,440)
Administrative expenses		**(41,954)**	(52,499)
Other operating expenses		**(2,754)**	(2,421)
Fair value gains on investment properties		**22,890**	812
Fair value losses on financial assets at fair value through profit or loss		**(137,195)**	(26,915)
Expected credit loss on financial assets		**(279,619)**	(18,374)
Finance costs		**(57,743)**	(57,605)
Loss before income tax	*7*	**(391,163)**	(59,910)
Income tax expenses	*8*	**(11,352)**	(7,714)
Loss for the year		**(402,515)**	(67,624)

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Other comprehensive expenses for the year, net of tax			
Item that may be reclassified subsequently to profit or loss			
Exchanges differences on translation of foreign operations		**(223)**	(590)
Total comprehensive expenses for the year		**(402,738)**	(68,214)
Loss for the year attributable to:			
— Owners of the Company		**(402,514)**	(67,623)
— Non-controlling interests		**(1)**	(1)
		(402,515)	(67,624)
Total comprehensive expenses for the year attributable to:			
— Owners of the Company		**(402,737)**	(68,213)
— Non-controlling interests		**(1)**	(1)
		(402,738)	(68,214)
		HK cents	*HK cents*
Loss per share:			
Basic and diluted	*9*	**(9.6)**	(1.7)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**9,121**	2,827
Investment properties		**231,487**	210,079
Intangible assets		**—**	538
Rental deposits		**—**	1,636
Financial asset at fair value through other comprehensive income	*10*	**—**	—
Total non-current assets		**240,608**	215,080
Current assets			
Properties held for sale		**5,629**	7,240
Properties under development		**31,431**	31,431
Loan receivables	*11*	**113,770**	258,996
Trade and other receivables	*12*	**60,166**	119,012
Deposits and prepayments		**2,211**	3,330
Financial assets at fair value through profit or loss	*13*	**499,905**	637,251
Cash and cash equivalents		**1,439**	6,887
Total current assets		**714,551**	1,064,147
Current liabilities			
Trade and other payables	*14*	**39,319**	38,237
Accruals	*15*	**127,943**	74,655
Lease liabilities	*19*	**4,049**	—
Loan from a former shareholder	*16*	**49,598**	49,598
Other borrowings	*17*	**418,412**	76,245
Senior notes	*18*	**179,967**	178,688
Total current liabilities		**819,288**	417,423
Net current (liabilities) assets		**(104,737)**	646,724
Total assets less current liabilities		**135,871**	861,804

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Lease liabilities	*19*	**2,136**	—
Other borrowings	*17*	**—**	351,600
Deferred tax liabilities		**37,405**	26,678
Total non-current liabilities		**39,541**	378,278
NET ASSETS		**96,330**	483,526
Capital and reserves			
Share capital		**42,500**	41,354
Reserves		**48,939**	437,280
Equity attributable to owners of the Company		**91,439**	478,634
Non-controlling interests		**4,891**	4,892
TOTAL EQUITY		**96,330**	483,526

1. GENERAL

China Gem Holdings Limited (the "Company", together with its subsidiaries, the "Group") was incorporated in Bermuda on 29 June 1994 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda. The principal place of business of the Company is Room 2606B, 26/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

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

(a) Adoption of new and revised HKFRSs — effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

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

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact on adoption of HKFRS 16 Leases

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16. The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	HK$'000
Statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	9,158
Lease liabilities (non-current)	(6,185)
Lease liabilities (current)	(3,469)
Accumulated losses	496

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

	HK$'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	10,698
Less: short term leases for which lease terms end within 31 December 2019	365
Less: future interest expenses	(1,409)
Total lease liabilities as of 1 January 2019	9,654

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 is 9.48%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased mobile phones, laptop computers and photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

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

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

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as lessor

The Group has leased out its investment property to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new and revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a Business [1]
Amendments to HKAS 1 and HKAS 8	Definition of Material [1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform [1]
HKFRS 17	Insurance Contracts [2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting [1]

1. Effective for annual periods beginning on or after 1 January 2020

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

3. The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values as explained in the accounting policies set out below.

Going concern

During the year ended 31 December 2019, the Group reported a net loss attributable to the owners of the Company of HK$402,514,000 (2018: HK$67,623,000) and had a net operating cash outflow of HK$945,000 (2018: HK$268,534,000). In addition, as at 31 December 2019, the Group had net current liabilities of HK$104,737,000 (2018: net current assets of HK$646,724,000).

Further, as explained in notes 17 and 18, as at 31 December 2019 and up to the date of approval of these consolidated financial statements, certain of the Group's borrowings were overdue and the Group committed events of default and/or break of covenants and restriction terms and conditions stipulated in the respective borrowings and financing agreements entered into by the Group and the lenders and investors. Though the Group has not received requests from the major lenders and investors to settle outstanding amounts due to them, the management of the Company is ongoing to negotiate and convince the lenders and investors which are scheduled to be repaid in 2019, not to exercise their contractual rights to request the Group for immediate repayment of the principal amounts and any accrued interest. Based on the latest information available to the Group, in the opinion of the Directors, there is no indication that the lenders and investors have any current intention to exercise their right to demand immediate repayment thereon.

All of the above conditions indicate the existence of material uncertainties which may cast significant doubt regarding the Group's ability to continue as a going concern.

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Accordingly, the Directors have been undertaking a number of measures to mitigate the liquidity pressure and to improve the Group's financial position which include, but are not limited to, the following:

(i) The Group is now actively participating in the negotiations in respect of a potential restructuring of the Company's borrowings with its lenders and investors and is still negotiating and convincing the Group's investors and lenders such that no action will be taken by the relevant investors and lenders to demand immediate repayment of the borrowings in any breach of loan covenants or default, including those with cross-default terms (the "Finance Reorganisation").

(ii) The Group is still identifying various options for raising of additional new sources of financing from the shareholders, related parties and the third parties. ("Additional Funding Plan"). For an example, as explained in note 21; on 26 February 2020, the Company and an independent third party entered into the Subscription Agreement (as defined in note 21), pursuant to which the Subscriber (as defined in note 21) has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$58,000,000. The net proceeds from the subscription are expected to be approximately HK$58,000,000, which are intended to be used for (i) supplementing the working capital of the Company and (ii) developing new business of the Company if such opportunity arises.

(iii) The Group is till communicating with the Group's creditors, investors and lenders of the Group to maintain the relationship with them, in particular those in relation to the Group's existing businesses and operations such that no actions will be taken by those creditors, investors and lenders against the Group should the Group not be able to meet all the payment obligations on a timely basis.

(iv) The Group continue to take active measures to control operation and administrative costs through various channels, including but not limited to (i) having human resources optimisation and adjustment, (ii) reorganising the structure to each segment and maintaining close communication with customers, creditors, investors, lenders and banks etc. (iii) committing to soliciting for new customers to support the sustainable development of principle business of the Group; and (iv) containment of capital expenditures etc. (the "Business and Operation Restructuring Plan").

The Directors have reviewed the Group's cash flow projections prepared by the management of the Company. The cash flow projections cover a period of not less than twelve months from 31 December 2019. They are of the opinion that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2019. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flow through the following:

(i) Successful in the finalisation of the Finance Reorganisation with the investors and lenders;

(ii) Successful of the Additional Funding Plan in obtaining of additional new sources of financing as and when needed;

(iii) Successful maintenance of relationship with the Group's creditors, investors, lenders and banks, in particular those in relation to the Group's existing businesses and operations such that no actions will be taken by those creditors, investors, lenders and banks against the Group should the Group not be able to meet all the payment obligations on a timely basis; and

(iv) Successful in the Group's Business and Operation Restructuring Plan.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

4. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has four (2018: four) reportable segments.

The Group's operating segments are structured and managed separately according to the nature of their operations and the products and services they provided. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments.

Details of the operating segments are as follows:

(i) The money lending segment involves the money lending business in Hong Kong and the PRC.

(ii) The license and financial service business involves the revenue generated from the licensed corporation with type 4 (advising on securities) and type 9 (asset management) regulated activities, and consultancy and administrative service income of fund portfolio, corporate development strategy consulting, project management consulting etc.

(iii) The strategic financial investment involves the investment in financial products (those in note 13) managed by fund managers who have good management skills, reasonable management fee etc.

(iv) The property development segment involves the development of property, the management and rental of units/shops within a shopping arcade and the sales of residential units in the PRC.

(a) Segment revenues and results

	Money lending		License and financial service business		Strategic financial investment		Property development		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reporting segment revenue	**25,103**	23,594	**1,323**	2,405	**68,648**	69,754	**8,864**	3,779	**103,938**	99,532
Results										
Segment results	**(133,988)**	15,727	**(1,075)**	878	**(162,200)**	25,508	**25,415**	4,893	**(271,848)**	47,006
Unallocated corporate income									**–**	11
Unallocated corporate expenses									**(61,572)**	(49,322)
Finance cost									**(57,743)**	(57,605)
Loss before income tax									**(391,163)**	(59,910)
Other segment information										
Fair value gains on investment properties	**–**	–	**–**	–	**–**	–	**22,890**	812	**22,890**	812
Depreciation of property, plant and equipment	**(10)**	(4)	**–**	–	**–**	–	**(278)**	(113)	**(4,835)**	(959)
Fair value losses on financial assets at fair value through profit or loss	**(7)**	–	**–**	–	**(137,188)**	(26,915)	**–**	–	**(137,195)**	(26,915)
Impairment loss on loan receivables	**(135,874)**	(3,214)	**–**	–	**–**	–	**–**	–	**(135,874)**	(3,214)
Impairment loss on trade and other receivables	**(15,996)**	–	**–**	–	**(127,547)**	(15,160)	**(202)**	–	**(143,745)**	(15,160)

Segment profit (loss) represents the profit earned (loss) incurred by each segment without allocation of amortisation of intangible assets, certain other revenue and other gain (loss), central administrative expenses, finance costs and income tax credit (expense).

(b) Segment assets and liabilities

	Money lending		License and financial service business		Strategic financial investment		Property development		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets										
Reportable segment asset	**133,321**	274,201	**1,413**	43,531	**533,460**	693,407	**278,037**	254,162	**946,231**	1,265,301
Unallocated assets									**8,928**	13,926
Total assets									**955,159**	1,279,227
Liabilities										
Reportable segment liabilities	**(37,752)**	(101)	**(3)**	(75)	**(3,655)**	(1,524)	**(33,422)**	(37,842)	**(74,832)**	(39,542)
Unallocated liabilities									**(746,592)**	(729,481)
Deferred tax liabilities									**(37,405)**	(26,678)
Total liabilities									**(858,829)**	(795,701)

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

- all assets are allocated to operating and reportable segments other than certain property, plant and equipment, certain other receivables, deposits and prepayments and cash and cash equivalents.

- all liabilities are allocated to operating and reportable segments other than certain accruals and other payables, income tax payable, deferred taxation, notes payable and loans payable.

(c) Geographical information

The following tables provides an analysis of the Group's revenue from external customers and its non-current assets on the location of operations and geographical location of assets respectively.

	2019 HK$'000	2018 HK$'000
Revenue from external customers		
— PRC	**10,408**	5,564
— Hong Kong	**93,530**	93,968
	103,938	99,532
Specified non-current assets		
— PRC	**234,229**	210,601
— Hong Kong	**6,379**	4,479
	240,608	215,080

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

		2019 HK$'000	2018 HK$'000
Customer A	Revenue generated from the strategic financial investment segment & money lending segment	**22,560**	20,442
Customer B	Revenue generated from the strategic financial investment segment	**16,455**	16,380
Customer C	Revenue generated from the strategic financial investment segment	**13,900**	13,900
Customer D	Revenue generated from the strategic financial investment segment	**11,733**	12,913
		64,648	63,635

(e) Reconciliation of reportable segment (loss) profit, assets and liabilities

	2019	2018
	HK$'000	*HK$'000*
Loss before income tax		
Reportable segment (loss) profit	**(271,848)**	47,006
Unallocated corporate income	—	11
Unallocated corporate expenses	**(61,572)**	(49,322)
Finance costs	**(57,743)**	(57,605)
Consolidated loss before income tax	**(391,163)**	(59,910)
Assets:		
Reportable segment assets	**946,231**	1,265,301
Unallocated Corporate assets		
—Cash and cash equivalents	**1,439**	6,887
—Other corporate assets	**7,489**	7,039
	8,928	13,926
Consolidated total assets	**955,159**	1,279,227
Liabilities:		
Reportable segment liabilities	**(74,832)**	(39,542)
Unallocated corporate liabilities		
—Loan from a former shareholder	**(49,598)**	(49,598)
—Other corporate liabilities	**(696,994)**	(679,883)
	(746,592)	(729,481)
Deferred tax liabilities	**(37,405)**	(26,678)
Consolidated total liabilities	**(858,829)**	(795,701)

5. REVENUE

Revenue represents the sales of property in the PRC, rental and building management fee income from properties in the PRC, loan interest income from money lending business, license and financial service income and interest income from financial assets investment. Loan interest income generated by overdue loan receivables and not yet overdue loan receivables for the year are HK$25,062,000 and HK$41,000, respectively.

	2019 *HK$'000*	2018 *HK$'000*
Revenue from contracts with customer within the scope of HKFRS 15:		
Sales of property in the PRC	**4,244**	—
Building management fee income	**2,069**	1,533
License and financial service income	**1,323**	2,405
	7,636	3,938
Revenue from other sources:		
Property rental income	**2,551**	2,246
Loan interest income	**25,103**	23,594
Investment income from strategic financial investment	**68,648**	69,754
	96,302	95,594
Total	**103,938**	99,532
Disaggregation of revenue recognition within scope of HKFRS 15:		
Sales of property in the PRC		
— At a point of time	**4,244**	—
Building management fee income		
— Transferred over time	**2,069**	1,533
License and financial service income		
— Transferred over time	**1,323**	2,405
	7,636	3,938

6. OTHER INCOME (LOSSES), NET

	2019	2018
	HK$'000	*HK$'000*
Other income:		
Interest income	**130**	29
Sundry income	**543**	210
	673	239
Other losses:		
Exchange gain (losses), net	**601**	(2,679)
	1,274	(2,440)

7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging (crediting):

	2019	2018
	HK$'000	*HK$'000*
Cost of sales and services recognised as expenses*	**2,754**	2,421
Staff costs	**28,076**	36,711
Depreciation of		
— Owned property, plant and equipment *(note (a))*	**948**	959
— Right-of-use-assets included within leasehold land and buildings *(note (b))*:	**3,887**	—
Amortisation of intangible assets #	**538**	1,491
Operating lease rentals in respect of land and buildings *(note (c))*	—	5,859
Auditor's remuneration #	**780**	1,200
Gain on disposal of financial assets at fair value through profit or loss	—	(64)
Losses on disposals of property, plant and equipment	**138**	—
Impairment loss on loan receivables @	**135,874**	3,214
Impairment loss on trade and other receivables @	**143,745**	15,160
— Trade receivables arising from license and financial service business	**37,578**	2,966
— Trade receivables arising from sales of properties held for sales	**202**	—
— Investment income receivable arising from financial assets investments		
Convertible bonds	**24,578**	1,209
Debt Securities	**65,391**	10,985
— Interest income arising from loan receivables	**15,996**	—
Short-term leases expenses	**1,879**	—

Notes:

(a) Depreciation of property, plant and equipment of nil (2018: HK$110,000) and HK$948,000 (2018: HK$849,000) are included in other operating expenses and administrative expenses respectively.

(b) The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. See note 2(a)(i).

(c) Operating lease rentals in respect of land and buildings of HK$1,294,000 and HK$4,565,000 were included in other operating expenses and administrative expenses respectively in 2018.

* Items included in other operating expenses
# Items included in administrative expenses
@ Items included in expected credit loss on financial assets

8. INCOME TAX EXPENSES

The amount of income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2019	2018
	HK$'000	*HK$'000*
Current tax		
— Tax for the year	—	—
— Under-provision in respect of previous years	—	249
	—	249
Deferred tax	**11,352**	7,465
Income tax expenses	**11,352**	7,714

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

No provision has been made for Hong Kong Profit Tax as there are no assessable profits generated for both years.

Taxation arising in other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

Income tax for the year can be reconciled to the loss before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019	2018
	HK$'000	*HK$'000*
Loss before income tax	**(391,163)**	(59,910)
Tax calculated at Hong Kong Profits Tax rate of 16.5%	**(64,541)**	(9,885)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**10,684**	7,082
Tax effect of expenses not deductible for tax purpose	**79,684**	17,906
Tax effect of income not taxable for tax purpose	**(16,956)**	(12,545)
Tax effect of tax losses not recognised	**2,430**	5,019
Tax effect of other deductible temporary differences not recognised	**832**	61
Utilisation of tax losses previous not recognised	**(781)**	(173)
Under-provision in prior years	**—**	249
Income tax expense for the year	**11,352**	7,714

9. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(402,514)**	(67,623)
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**4,199,456,946**	3,935,647,303

The denominators used are the same as those detailed above for both basic and diluted loss per share.

During the year ended 31 December 2019, diluted loss per share does not assume the exercise of the Company's share options as the exercise of the Company's share options would result in a decrease in loss per share, and is regarded as anti-dilutive for both years.

10. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	*HK$'000*
Equity investments at fair value through other comprehensive income	—	—

Details of the financial assets are set out in the table below:

Name	Form of business structure	Place of incorporation	Place of operation and principal activity	Percentage of direct voting rights held by the Group
Alverna Dynamic Developments Inc* ("Alverna")	Corporation	Philippines	Investment holding in Philippines	40%
Shannalyne Inc. ("Shannalyne")	Corporation	Philippines	Tree plantation operations in Philippines	40%
2010 Duran Inc.	Corporation	Philippines	Tree plantation operations in Philippines	40%
Morton 2011 Inc.	Corporation	Philippines	Dormant	40%

* Alverna holds 60% direct equity interest in Shannalyne

The Group holds an interest in certain tree plantation operations situated in the Caraga region of Mindanao in the Philippines (the "Tree Plantation Operations").

During the year ended 31 July 2011, the Group entered into a sale and purchase agreement with certain independent third parties to acquire the entire share capital of Asiaone and its subsidiaries (collectively referred to "Asiaone Group"), for a total contracted consideration of HK$2,500,000,000. Pursuant to the acquisition of Asiaone Group, the Group acquired such Tree Plantation Operations through two former associates, Shannalyne and Alverna (together the "Associates"). Details of the Tree Plantation Operations were set out in the Company's Very Substantial Acquisition Circular dated 30 June 2010. Up to 6 January 2014, the Group accounted for its interest in these Tree Plantation Operations by way of equity accounting for its interests in the Associates.

From the time it acquired its interest in the Group' Tree Plantation Operations, the Group experienced many problems, including unfavourable changes in local Philippine laws and regulations related to the forestry industry and a severe deterioration in the working relationship with its Philippine partner and majority equity rights holder in this venture, Ms. Juanita Dimla De Guzman ("Ms. De Guzman"). In addition, the Company's relationship with its then Chairman and Executive Director, Mr. Tan Cheow Teck ("Mr. CT Tan"), who held out himself as a forestry expert and a key proponent of these operations, also broke down irrevocably.

These cumulative problems resulted in the Group abandoning the Tree Plantation Operations in the Philippines and, during the year ended 31 July 2014, the Group has written down the remaining carrying value of its investment in the Associates to nil on 6 January 2014 due to the breakdown in relationship with the associates' management team and some adverse rulings/consequences arising from actions taken by the Philippine Congress and Philippine regulators. At the same date, the Group reclassified its interests in the Associates as available-for-sale financial assets ("AFS"), as the Company felt it no longer had any significant influence over the Associates. Details of the impairment of the investment in Associates and their reclassification as AFS are set out in the consolidated financial statements of the Company for the year ended 31 July 2014 and in the Company's announcements dated 19 December 2013, 13 January 2014, 19 February 2014, 10 March 2014 and 17 March 2014.

On 1 January 2018, the AFS was reclassified to financial assets at fair value through other comprehensive income due to effective of HKFRS 9 as these cumulative problems abovementioned have not been improved or resolved.

As at 31 December 2019 and up to the approval of these consolidated financial statements of the Company, in the opinion of the Directors, in view of there have been no positive development of the Group's Tree Plantation Operations since the investments in the former Associates (the amounts were previously reclassified as available-for-assets in 2014 and further reclassified as FVOCI from 1 January 2018) were fully impaired in 2014 and, consistent to prior years and as at 31 December 2019 and 31 December 2018, the Directors believe the value of the Tree Plant Operations was nil and that no realistic recovery of any value in the Philippine tree plantation operations is presently likely or probable.

The management of the Company considered that the information used in the above assessment represented the best available estimates from the information available despite of lack of the current financial and other information of the Tree Plant Operations.

11. LOAN RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Loan receivables	**252,792**	262,210
Less: Impairment allowances	**(139,022)**	(3,214)
	113,770	258,996

The Group's loan receivables, which arise from the money lending business of providing corporate loans in Hong Kong and the PRC.

Certain loan receivables are secured by collaterals or personal guarantee, bear interest ranging from 10%-15% (2018: 7.5%-15%) per annum.

Loan receivables are repayable with fixed terms agreed with the Group's customers.

Loan receivables, net of impairment losses, that are denominated in the following currencies:

	2019	2018
	HK$'000	*HK$'000*
Hong Kong Dollars ("HK$")	**101,354**	238,979
Renminbi ("RMB")	**12,416**	20,017
	113,770	258,996

Included in the loan receivables (net of impairment losses) with the following ageing analysis, based on draw down dates, at the end of reporting period:

	2019	2018
	HK$'000	*HK$'000*
Current	—	143,145
Less than 1 month	—	1,966
1 to 3 months	—	113,885
More than 3 months	**113,770**	—
	113,770	258,996

Details of the loan receivables and the impairment allowances are as follows:

	2019			2018		
	Gross loan receivables	**Allowances**	**Carrying value**	Gross loan receivables	Allowances	Carrying value
	HK$'000	***HK$'000***	***HK$000***	*HK$'000*	*HK$'000*	*HK$'000*
Loan receivables portfolio by security						
— Secured	**15,000**	**(826)**	**14,174**	15,000	—	15,000
— Unsecured	**237,792**	**(138,196)**	**99,596**	247,210	(3,214)	243,996
	252,792	**(139,022)**	**113,770**	262,210	(3,214)	258,996
Maturity profile of loan receivables portfolio						
Overdue						
Secured:						
—Overdue from 6 months to 1 year	**15,000**	**(826)**	**14,174**	—	—	—
Unsecured:						
—Overdue from 1 day to 3 months	**12,351**	**(4,331)**	**8,020**	115,000	(1,115)	113,885
—Overdue from 6 months to 1 year	**107,083**	**(69,304)**	**37,779**	—	—	—
—Over more than 1 year	**113,373**	**(64,367)**	**49,006**	—	—	—
	232,807	**(138,002)**	**94,805**	115,000	(1,115)	113,885
	247,807	**(138,828)**	**108,979**	115,000	(1,115)	113,885
Not yet overdue						
— Secured	—	—	—	15,000	—	15,000
— Unsecured	**4,985**	**(194)**	**4,791**	132,210	(2,099)	130,111
	4,985	**(194)**	**4,791**	147,210	(2,099)	145,111
	252,792	**(139,022)**	**113,770**	262,210	(3,214)	258,996

Almost all of the outstanding loan receivables were overdue for more than 180 days.

The maximum exposure to credit risk at each of the reporting dates is the carrying value of the loan receivables mentioned above.

As at 31 December 2019, the Group's overdue secured loan receivables amounted to HK$15,000,000, net of the allowances of HK$826,000 and the related interest income receivable of HK$1,574,000, net of the allowances of HK$87,000 (2018: No secured past due loan receivables). The amount was overdue for more than 180 days.

As at 31 December 2019, for secured loan receivables, in the opinion of the Directors, the fair value of the collaterals approximate to the carrying amounts of the loan receivables. The Directors performed a fair value assessment of the collateral of the secured loan receivables. The fair value assessment has adopted certain key inputs and assumptions in respect of the fair value assessment, including but not limited to (1) the fair value of the collateral assets; (2) the future cash flow of the collateral assets; and (3) other key assumptions adopted in the fair value assessment. In the opinion of the Directors, the fair value based on the best estimate of the Directors to the best available financial and other information.

As at 31 December 2019, the Group's overdue unsecured loan receivables amounted to HK$232,807,000, net of the allowances of HK$138,002,000 (2018: HK$115,000,000, net of the allowances of HK$1,115,000) and the related interest receivable of HK$32,609,000, net of the allowances of HK15,988,000 (2018: HK$13,207,000, net of the allowances of nil). Most of them were overdue for more than 180 days.

Pursuant to the Company's accounting policy, the Group recognises loss allowances for expected credit loss ("ECL") on loan and related interest receivables. The ECLs are measured on either of the following bases: (i) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (ii) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. The Group considers a financial asset to be credit-impaired when: (i) 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 (ii) the financial asset is more than 180 days past due.

The Directors performed an assessment on the allowances for ECL on loan and related interest receivables. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate. The Group measures loss allowances for trade receivables and loan receivables using the simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment in according to the accounting policy of the Company. The assessment of the ECL for loan receivables and interest receivables has adopted certain key inputs and assumptions in respect of the ECL assessment, including but not limited to (i) the amount would be recovered from the borrowers; (ii) the future cash flow, if any; and (iii) other key assumptions adopted in the ECL assessment etc.

The Directors are currently reviewing the alternatives to recover the loan and interest receivables, including but not limit to dispose of the loan and interest receivables to third parties or to negotiate loans restructure with the borrowers (collectively referred to as the "Loan Restructuring Plan"). However, as at 31 December 2019 and up to the date of approval of these consolidated financial statements, the Loan Restructuring Plan has not yet been finalised. In view of this uncertainty, the Directors are unable to reasonably assess the borrowers' ability to repay the debts in the near future. The validity of ECL assessment on loan and interest receivables depends on the outcome of certain factors, including (i) the borrowers' ability to repay the debts; and (ii) the successful of Loan Restructuring Plan.

Based on the best estimate of the Directors, the Group recognised impairment losses of HK$151,870,000 (2018: HK$3,214,000) on the outstanding loan and interest income receivables for the year and the movements in the allowance for impairment in respect of loan receivables and interest income receivables was as follows:

	Impairment loss allowances for		
	Loan receivables *HK$'000*	**Interest income receivables** *(note 12)* *HK$'000*	**Total** *HK$000*
At 1 January 2018	—	—	—
Impairment loss recognised during the year	3,214	—	3,214
At 31 December 2018	3,214	—	3,214
Impairment loss recognised during the year	**135,874**	**15,996**	**151,870**
Exchange alignments	**(66)**	**(8)**	**(74)**
At 31 December 2019	**139,022**	**15,988**	**155,010**

In the opinion of the Directors, the carrying amount of the loan receivables approximate to their fair values due to the short-term maturities.

12. TRADE AND OTHER RECEIVABLES

	Notes	2019 HK$'000	2018 HK$'000
Trade receivables arising from license and financial service business	(i)	**795**	40,011
Trade receivables arising from sales of properties held for sales	(ii)	**3,230**	—
Investment income receivable arising from financial assets investments *(see note 13)*			
— Convertible bonds, unlisted		**—**	12,844
— Debt Securities, unlisted		**34,509**	42,985
Interest receivable arising from loan receivables *(see note 11)*	(iii)	**16,621**	13,207
Amount due from a non-controlling shareholder of a subsidiary of the Group	(iv)	**4,900**	4,900
Amount due from a related party	(v)	**110**	3,589
Other receivables		**1**	1,476
		60,166	119,012

	2019			2018		
	Gross amounts	**Impairment loss allowances**	**Carry amounts**	Gross amounts	Impairment loss allowances	Carry amounts
	HK$'000	***HK$'000***	***HK$000***	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables arising from license and financial service business	**41,339**	**(40,544)**	**795**	42,977	(2,966)	40,011
Trade receivables arising from sales of properties held for sales	**3,432**	**(202)**	**3,230**	—	—	—
Investment income receivable arising from financial assets investments						
—Convertible bonds, unlisted	**25,787**	**(25,787)**	**—**	14,053	(1,209)	12,844
—Debt Securities, unlisted	**110,762**	**(76,253)**	**34,509**	53,970	(10,985)	42,985
Interest receivable arising from loan receivables	**32,609**	**(15,988)**	**16,621**	13,207	—	13,207
Amount due from a non-controlling shareholder of a subsidiary of the Group	**4,900**	**—**	**4,900**	4,900	—	4,900
Amount due from a related party	**110**	**—**	**110**	3,589	—	3,589
Other receivables	**1**	**—**	**1**	1,476	—	1,476
	218,940	**(158,774)**	**60,166**	134,172	(15,160)	119,012

Notes:

(i) Trade receivables arising from license and financial service business

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

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	—	1,563
90 – 365 days	**795**	—
Over 365 days	—	38,448
	795	40,011

The Group does not hold any collateral or other credit enhancements over the trade receivables.

(ii) Trade receivables arising from sales of properties held for sales

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

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	**2,697**	—
90 – 365 days	**533**	—
Over 365 days	—	—
	3,230	—

The Group does not hold any collateral or other credit enhancements over the trade receivables.

(iii) Interest receivable arising from loan receivables

As at 31 December 2019, except for HK$1,487,000 which the Group held collaterals and HK$39,000 is unsecured and not yet overdue, the remaining balances are unsecured and overdue.

(iv) Amount due from a non-controlling shareholder of a subsidiary of the Group.

The amount was unsecured, interest-free and repayable on demand.

(v) Amount due from a related party

The amount due from a related party bears interest at 10% per annum and was unsecured and repayable on demand.

All of the trade and other receivables are expected to be recovered within one year.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2019 HK$'000	2018 HK$'000
HK listed equity securities	(i)	**56**	62
Convertible bonds, unlisted	(ii)	**—**	124,430
Debt Securities, unlisted	(iii)	**499,849**	512,759
		499,905	637,251

Notes:

(i) HK listed equity securities

The amount are Hong Kong listed equity securities which are measures at quoted prices in active markets

(ii) Convertible bond, unlisted

As at 31 December 2019, the Group held the convertible bond (the "Convertible Bond") through one investment fund which managed by independent general partner/manager. Details of the convertible bond are as follows:

Name of fund	General partner/ manager	Investment to the fund *HK$' million*	Management fee	Term of investment	% of fund held	Name of underlying investment companies	Beneficial owner of underlying investment companies	Major business of underlying investment	Status of the investment	2019 *HK$'000*	2018 *HK$'000*
Forward Fund SPC	Full House Asset Management Company Limited	130.15	0.3% per annum of the aggregated commitment	2 years	100%	China Ocean Industry Group Limited	Please refer to relevant information announced in its annual report of 2018	Steel structure engineering and installation, intelligent parking, automobile and electronic business	(note below)	–	124,430

Note: Pursuant to the relevant convertible bond agreements, the Convertible Bond of HK$80,000,000 and HK$49,000,000 were matured on 10 November 2019 and 31 December 2019, respectively. As at 31 December 2019 and up to the date of approval of these consolidated financial statements, pursuant to the relevant debt securities agreements, the related investment income receivables arising from financial assets investment was overdue and the borrowers committed events of default and/or break of covenants and restriction terms and conditions stipulated in the respective debt securities agreements entered into by the unlisted companies and the borrowers. Accordingly, the entire Convertible Bond and investment income receivable are repayment on demand.

Details of the movements of the Convertible Bond were as following:

	HK$'000
Carrying values as at 1 January 2018	124,533
Changes in fair value during the year	(103)
Carrying values as at 31 December 2018	124,430
Changes in fair value during the year	**(124,430)**
Carrying values as at 31 December 2019	—

Through the investment fund of "Forward Fund SPC", the Group invested in two-year Convertible Bond issued by the China Ocean Industry Group Limited ("China Ocean") (the "Convertible Bond"), a company listed on the Stock Exchange (the Stock code: 651) with a subscription amount of HK$129,000,000. The Convertible Bond carry an interest of 10% per annum, payable annually in arrears. If the Convertible Bond has not been converted before the maturity date, they will be redeemed on maturity date at principal amount plus the accrued interest. Immediately after full conversion of the Convertible Bond at the conversion price of HK$0.070 per share, the number of conversion shares of the Group will account for approximately 11.28% of the total number of shares of the China Ocean as enlarged by the allotment and issue of conversion shares (assuming there is no other change in the share capital of the China Ocean).

Based on the interim report of China Ocean for the six months ended 30 June 2019, the loss for the period attributable to owners of the company amounted to HK$302,016,000, the net current liabilities amounted to HK$3,435,976,000 and the deficiency of shareholders' equity attributable to the owners of the Company amounted to HK$2,711,944,000.

With reference to the announcements of China Ocean dated 5 August 2019, 28 August 2019, 23 September 2019, 25 September 2019, 27 September 2019, 20 November 2019, 11 December 2019, 16 December 2019, 31 December 2019, 12 January 2020, 17 January 2020, 20 January 2020, 3 February 2020 and 20 March 2020,, China Ocean received a petition from a creditor in the matter of the Companies (Winding Up and Miscellaneous Provision) Ordinance (Chapter 32, Laws of Hong Kong) filed in the High Court of The Hong Kong Special Administrative Region under Companies Winding-up Proceedings No. 230 of 2019 (the "Petition"). As at 31 December 2019 and up to the date of approval of these consolidated financial statements, the Petition has not yet been finalised.

The Convertible Bond overdue on 10 November 2019 and thus, the Convertible Bond are repayment on demand.

As at year ended 31 December 2019, the management of the Company has engaged an independent external valuer, Norton Appraisals Holdings Limited, to perform fair value valuation of the Convertible Bond. The Convertible Bond was recognised as financial assets at fair value through profit or loss. Since China Ocean is during the winding-up process and the deficiency of shareholders' equity attributable to the owners of the Company amounted to HK$2,711,944,000, based on the interim report of China Ocean for the six months ended 30 June 2019. In view of the circumstances as mentioned above, the management of the Company consider that the value of the Convertible Bond was nil as at 31 December 2019 and that no realistic recovery of any value in the Convertible Bond from China Ocean is presently likely or probable.

As at 31 December 2018, the Convertible Bond is measured at fair value by a firm of independent professional valuer, Norton Appraisals Holdings Limited ("Norton Appraisals"), using the Goldman Sachs' Model, which is a financial modeling technique commonly adopted in valuation of financial assets, at the end of the reporting period.

	Significant unobservable inputs	**Relationship of unobservable inputs to fair value**
2018	Expected volatility: 71.38%	The higher the expected volatility, the higher the fair value

Thus, based on the report prepared by the independent external valuer, the Group recognised a fair value loss on the Convertible Bond of approximately HK$124,430,000 for the year ended 31 December 2019.

The management of the Company consider that the information used in the above valuation and assessment represented the best available estimates from the information available despite of lack of the current financial and other information of China Ocean.

(iii) Debt Securities, unlisted

As at 31 December 2019, the Group held the debt securities (the "Debt Securities") through four investment funds which managed by independent general partner/manager and details of which are as follows:

Name of fund	General partner/ manager	Investment to the fund *HK$'million*	Management fee	Term of investment	% of fund held	Name of underlying investment companies	Beneficial owner of underlying investment companies	Major business of underlying investment	Status	2019 *HK$'000*	2018 *HK$'000*
Wealth Creation Special Opportunities Fund LP	OBOR Fund Management Limited	100.0	0.3% per annum of the aggregated commitment	3 years (may extend for another 2 years)	100%	Baton Investment Limited	Ma Zufeng	Investment, mining investment	(note below)	102,118	102,938
Partners Tian Wei Fund	Pearl River Capital Limited, transferred from Partners Investment Management Limited on 29 October 2019	140.0	0.3% per annum of the aggregated commitment	3 years (may extend for another 2 years)	100%	Star Keen Investment Limited	Lin Xiaosheng	Investment management	(note below)	136,886	135,891
Bison Target Investment SPC — BOCI Fund Income Focused Growth SP	BTS Investment Limited	136.5 (USD17.50)	0.5% per annum of the aggregated commitment	3 years (may extend for another 2 years)	100%	Fen River Capital Limited	Huang Zhengxiong	Real state investment, high-tech investment	(note below)	130,746	135,837
Nan Tai Investment LP	Nan Tai Investment Limited	140.0	0.5% per annum of the aggregated commitment	2 years (extended for another 1 year)	100%	Huatune International Group Limited	Qian Baohua	Industrial investment, chemical industry and trading	(note below)	130,099	138,093
										499,849	512,759

Note: As at 31 December 2019 and up to the date of approval of these consolidated financial statements, pursuant to the relevant debt securities agreements, the related investment income receivables arising from financial assets investment was overdue and the borrowers committed events of default and/or break of covenants and restriction terms and conditions stipulated in the respective debt securities agreements entered into by the unlisted companies and the borrowers. Accordingly, the entire Debt Securities and investment income receivable are repayment on demand.

Details of the movements of the Debt Securities were as following:

	HK$'000
Carrying values as at 1 January 2018	517,147
Changes in fair value during the year	(4,388)
Carrying values as at 31 December 2018	512,759
Changes in fair value during the year	(12,759)
Exchange alignments	(151)
Carrying values as at 31 December 2019	499,849

As at 31 December 2019, the related investment income receivables relating to the Debt Securities were of HK$110,762,000, net of allowances of HK$76,253,000 (2018: HK$53,970,000, net of allowances of HK$10,985,000).

The Directors have been undertaking a number of measures to recover the Debt Securities and investment income receivables, including but not limit to dispose of the Debt Securities to third parties or to negotiate debts restructure with the borrowers (collectively referred to as the "Debt Securities Restructuring Plan"). However, as at 31 December 2019 and up to the date of approval of these consolidated financial statements, the Debt Securities Restructuring Plan has not yet been finalised. Accordingly, the Directors are unable to assess the borrowers' ability to repay the debts in the near future.

The management of the Company has engaged an independent external valuer to perform fair value valuation of the Debt Securities using discounted cash flow method and to assess the ECL assessment of the investment income receivables. Based on the report prepared by the independent external valuer, Norton Appraisals (2018: Norton Appraisals), the Group recognised a fair value loss on the Debt Securities of approximately HK$12,759,000 and ECL on investment income receivables of HK$76,253,000 as at 31 December 2019.

Details of the fair value valuation on Debt Securities issued by private corporates are measured at fair value using the discounted cash flow method at the end of the reporting period.

	2019		2018	
	Range	**Relationship of unobservable inputs to fair value**	Range	Relationship of unobservable inputs to fair value
Significant unobservable inputs:				
Discount rate	20.62% to 21.22%	The higher the discount rate, the lower the fair value	12.51% to 13.35%	The higher the discount rate, the lower the fair value

The fair value valuation and ECL assessment have adopted certain key assumption provided by the management of the Company, including but not limited to the validity of the cash flow projection, the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) etc. The validity of fair value valuation of the Debt Securities and ECL assessment of the investment income receivables depends on the outcome of certain factors, including but not limited to (i) the borrowers' ability to repay the debts; and (ii) the successful of Debt Securities Restructuring Plan.

The management of the Company consider that the information used in the above valuation and assessment represented the best available estimates from the information available despite of lack of the current financial and other information of the borrowers.

The management of the Company consider that the information used in the above valuation and assessment represented the best available estimates.

14. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Construction fee payable (note (i))	**28,733**	28,115
Other payable	**10,586**	10,122
	39,319	38,237

The aging analysis of trade payables at the end of the reporting period, based on invoice date, is as follows:

Over 365 days	**28,733**	28,115

Trade and other payables that are denominated in the following currencies:

HK$	**6,937**	729
RMB	**32,382**	37,508
	39,319	38,237

Note:

(i) The balances represented outstanding construction fee in dispute.

15. ACCRUALS

	2019	2018
	HK$'000	*HK$'000*
Accrued salaries and bonus	**10,239**	8,848
Accrued interest payables in respect of:	**113,295**	59,928
— Huarong Loan (see note 17 (i))	**77,853**	39,497
— RMB Loan (see note 17 (ii))	**3,890**	1,769
— Senior Notes (see note 18)	**28,833**	16,037
— Loan from Linshan Limited (see note 16)	**2,686**	2,329
— Others	**33**	296
Deposits received	**992**	992
Others	**3,417**	4,887
	127,943	74,655

All the accruals are repayable on demand. As explain in notes 16, 17 and 18, the Group did not make the scheduled interest payment. Other than this, all of the accruals are expected to be settled within one year.

16. LOAN FROM A FORMER SHAREHOLDER

	2019	2018
	HK$'000	*HK$'000*
Loan from a former shareholder, Linshan Limited	**49,598**	49,598

The loan from Linshan Limited ("Linshan") is unsecured and bears interest at the rate of 1% (2018: 1%) per annum.

During the year ended 31 July 2011, a shareholder's loan amounting to approximately HK$40,000,000 was granted to the Group by Corporate King Limited ("Corporate King"), a former corporate substantial shareholders of the Company. Mr. CT Tan, a former Chairman and former Executive Director of the Company is the controlling shareholder of Corporate King.

During the year ended 31 July 2013, an assignment of deed was entered into between Linshan, a former substantial shareholder of the Company, and Corporate King such that the shareholder's loan with accrued interest amounting to approximately HK$49,891,000 as at 31 July 2013 was assigned from Corporate King to Linshan. Linshan is wholly owned by Mr. Shannon Tan Siang-Tau ("Mr. S Tan"), a former Executive Director of the Company and the son of Mr. CT Tan, a former Chairman and former Executive Director of the Company.

The loan from Linshan was due for repayment on 31 December 2014, and in January 2015, the Group received a demand letter from Linshan for the settlement of the outstanding loan and accrued interest thereon.

Mr. S Tan and Mr. CT Tan were both key members of the management team of the Group's former Tree Plantation Operations in the Philippines, details of which are set out in note 10. The Group has been highly dissatisfied with the performance, behaviour and misrepresentations of this management team, as the Tree Plantation Operations were a total failure and has since been fully written off and abandoned by the Group during the year ended 31 July 2014. On 28 October 2014, a criminal action for misappropriation of certain funds and falsification of documents was filed in the Philippines against Ms. De Guzman, another key member of the management team and the majority equity rights holder of these Tree Plantation Operations. In around May 2016, a warrant for the arrest of Ms. De Guzman was issued by the Regional Trial Court of Makati City. Ms. De Guzman subsequently filed a Motion for Reconsideration to dismiss the complaint raised against her. In June 2016 the Court denied Ms. De Guzman's motion and an arrest warrant was issued against her. Although several attempts have been made to serve the arrest warrant on Ms. De Guzman, none have been successful up to the date these financial statements were approved.

Since then, the Group is contemplating similar measures/actions against Mr. S Tan and Mr. CT Tan, and until that situation has been resolved, the Group has no intention of settling the loan and interest due to Linshan.

Till to 31 December 2019 and up to the approval of these consolidated financial statements, there were no development of the loan from the former shareholder.

Up to 31 December 2019, the Group's interest expenses payable to Linshan was HK$2,686,000 (2018: HK$2,329,000) (details are set out in note 15).

17. OTHER BORROWINGS

	Notes	2019 HK$'000	2018 HK$'000
Other borrowings:			
— Huarong loan	(i)	**390,506**	389,955
— RMB Loan	(ii)	**27,406**	27,890
— HK$ Loan	(iii)	**500**	—
— Other Loan	(iv)	**—**	10,000
		418,412	427,845
Analysed by:			
— Current portion		**418,412**	76,245
— Non-current portion		**—**	351,600
		418,412	427,845

Notes:

(i) Huarong Loan

Pursuant to the Company's announcement dated 7 November 2017, on 7 November 2017, China Huarong International Holdings Limited ("Huarong") entered into a facility agreement (the "Huarong Loan Agreement") with the Company, Long Chang International Group Co., Limited and China Gem Financial Group Limited (China Gem Financial Group Limited is a substantial shareholder of the Company) in relation to a 9.7% per annum five year loan facility in an aggregate principal amount of up to US$60,000,000 (the "Huarong Facility").

The purpose of the Huarong Facility is for funding the general working capital of the Company and its subsidiaries. The borrowers are the Company and Long Chang International Group Co., Limited (both are collectively referred to as the "Borrowers") and the Huarong Facility was secured by corporate guarantee provided by China Gem Financial Group Limited.

On 8 November 2017, the Group had drawn down of US$26,000,000 and the maturity date of the first drawn down loan will be on 7 November 2022, five years subsequent to the drawn down. On 10 November 2017, the Group had drawn down of US$24,000,0000 and the maturity date of the second drawn down loan will be on 9 November 2022, five years subsequent to the drawn down. As at 31 December 2018, the Directors considered the Group had not breached the covenant relating to this drawn facility.

As at 31 December 2019, the aggregate loan balance was US$50,000,000 (equivalent to approximately HK$390,506,000) (2018:US$50,000,000, equivalent to approximately HK$389,955,000) (the "Huarong Loan") and the accrued interest payable was HK$77,853,000 (2018: HK$39,497,000) (details are set out in note 15).

Pursuant to the Huarong Loan Agreement, the borrowing is subject to the fulfilment of covenant relating to certain ratio of the Group's financial position ratio which is commonly found in lending arrangements with financial institutions. If the Group breaches the covenants, the drawn down facilities would become repayable on demand. Further, the Huarong Loan Agreement imposes a covenant that the Borrowers are required to pay the interest in accordance with the schedule as specified in the Huarong Loan Agreement. Otherwise, Huarong has the right to declare the Huarong Facility to be cancelled and/or all or part of outstanding amounts under the Huarong Facility, together with accrued interest and all other sums that would become repayable on demand.

Pursuant to notice issued by Huarong to the Company on 25 September 2019, Huarong transferred the Huarong Loan to its wholly-owned subsidiary, Pure Virtue Enterprises Limited.

Since 2018, the Group did not make the scheduled interest payment. Accordingly, pursuant to the relevant clauses of Huarong Loan Agreement, the Huarong Loan and the accrued interest payment are repayable on demand. Thus, the entire Huarong Loan was classified as current liability as at 31 December 2019.

(ii) RMB Loan

On 19 April 2018, 中石百納(深圳)股權投資管理有限公司, a wholly-owned subsidiary of the Company entered into a facility agreement (the "RMB Loan Agreement") with a PRC Entity ("RMB Loan Lender") in relation to a 9% per annum 90 days loan facility in an aggregate principal amount of up to RMB32,000,000 (the "RMB Loan Facility"). RMB Loan Facility was secured by personal guarantee provided by two former directors of the Company.

Pursuant to the first loan extension agreement on 24 July 2018, the maturity of the RMB Loan Facility was extended to 16 December 2018 and thus the interest rate was increased from 9% to 14%. In addition, pursuant to the second extension agreement on 16 December 2018, the maturity of the RMB Loan Facility was further extended to 16 December 2019. However, the Group did not make the scheduled principal and interest payment. Accordingly, pursuant to the relevant clauses of the RMB Loan Agreement and the subsequent extension agreements, the RMB Loan, the accrued interest and the other sums of payable, if any, are repayable on demand.

As at 31 December 2019, the outstanding loan balance was RMB24,500,000 (equivalent to approximately HK$27,406,000) (2018: RMB24,500,000, equivalent to approximately HK$27,890,000) (the "RMB Loan") and the accrued interest payable was HK$3,890,000 (2018:HK$1,769,000) (details are set out in note 15).

(iii) HK$ Loan

Pursuant to the loan facility agreement between Double Management Fund SP Of Forward Fund SPC, a wholly-owned subsidiary of the Company and the general partner of Forward Fund SPC, Leader SP Of Forward Fund SPC, in relating to a loan facility of HK$500,000, the interest rate was 5% per annum from 10 May 2019 to 31 August 2019 and the interest rate was increased to 15% from 1 September 2019.

As at 31 December 2019, the outstanding loan balances was HK$500,000, which is non-secured and repayable on demand.

(iv) Other Loan

Pursuant to the loan facility agreement between the Company and a company incorporated in Cayman Islands, in relating to a loan facility of HK$10,000,000, the interest rate was 15% per annum (2018: 15% per annum), secured by corporate guarantee provided by China Gem Financial Group Limited, a shareholder of the Company and personal guarantee provided by a former director and repayable on 30 December 2018. The loan was fully settled on 2 January 2019.

As at 31 December 2019 and up to the date of approval of these consolidated financial statements, the Group has not received any requests from the lenders of the Huarong Loan and RMB Loan to settle any outstanding amounts due to them. The management of the Company is ongoing to negotiate and convince the lenders of the Huarong Loan and RMB Loan which are scheduled to be repaid in 2019, not to exercise their contractual rights to request the Group for immediate repayment of the principal amounts and any accrued interest. Based on the latest information available to the Group, in the opinion of the Directors, there is no indication that the lenders have any current intention to exercise their right to demand immediate repayment thereon.

18. SENIOR NOTES

	2019	2018
	HK$'000	*HK$'000*
Senior Notes	**179,967**	178,688

Pursuant to the Company's announcements on 3 November 2017 and 6 November 2017, the Company, as the note issuer, entered into a note purchase agreement (the "Senior Note Agreement") with Prosper Talent Limited (the "Investor"), a wholly-owned subsidiary of CCB International (Holdings) Limited in relation to two-year notes in an aggregate principal amount of up to HK$180,000,000 (the "Senior Notes"). The purpose of the Senior Notes is for funding the general working capital of the Company and its subsidiaries and project investments. The Senior Notes are repayable on the maturity date falling immediately before the second anniversary of the date of issue of the Senior Notes.

Pursuant to terms and conditions of the Senior Notes Agreement, China Gem Financial Group Limited ("CG Financial"), a substantial shareholder of the Company, is required to charge certain ordinary shares of the Company in favour of the Investor as security for the Senior Notes.

On 6 November 2017, an 8% per annum two-year note in the principal amount of HK$90,000,000 was issued to the Investor with the maturity date on 5 November 2019. On 5 December 2017, the Company further issued an 8% per annum two-year note in the principal amount of HK$90,000,000 to the Investor with the maturity date on 4 December 2019.

In view of the Group did not make the scheduled principal and interest payment and accordingly, pursuant to the relevant clauses of the Senior Note Agreement, the Senior Notes and the related accrued interest are repayable on demand.

As at 31 December 2019, the outstanding Senior Notes balances were HK$179,967,000 (2018: HK$178,688,000) and the accrued interest payable was HK$28,833,000 (2018:HK$16,037,000) (details are set out in note 15).

As at 31 December 2019 and up to the date of approval of these consolidated financial statements, the Group has not received any requests from the Investor of the Senior Notes to settle any outstanding amounts due to the Investor. The management of the Company is ongoing to negotiate and convince the Investor of the Senior Notes which are scheduled to be repaid in 2019, not to exercise its contractual rights to request the Group for immediate repayment of the principal amounts and any accrued interest. Based on the latest information available to the Group, in the opinion of the Directors, there is no indication that the Investor has any current intention to exercise its right to demand immediate repayment thereon.

19. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019.

Nature of leasing activities (in the capacity as lessee)

The Group leases four properties in Hong Kong which the payments were fixed over the lease terms. One of the leases terminated before 31 December 2019 and was classified as short-term lease.

RIGHT-OF-USE ASSETS

	31 December 2019	1 January 2019
	HK$'000	*HK$'000*
Ownership interests in leasehold land and buildings, carried at fair value with remaining lease term of:		
— 50 years or more	**340**	—
Other properties leased for own use, carried at depreciated cost	**5,271**	9,158
Ownership interests in leasehold investment property, carried at fair value, with remaining lease term of 50 years or more	**149,342**	—

LEASE LIABILITIES

Future lease payments are due as follows:

As at 31 December 2019	**Minimum lease payments**	**Interest**	**Present value**
	HK$'000	***HK$'000***	***HK$000***
Not later than one year	4,469	420	4,049
Later than one year and not later than two years	1,704	147	1,557
Later than two years and not later than five years	600	21	579
	6,773	588	6,185

Operating leases — lessee

The Group leases the majority of its properties. The terms of property leases tend to be tenant repairing with rent reviews every 2 to 5 years and many have break clauses. The total future minimum lease payments are due as follows:

	2018
	HK$'000
Within one year	5,834
In the second to fifth years inclusive	4,864
	10,698

Initial application of HKFRS 16 at 1 January 2019

Short term leases

	2019
	HK$'000
Within one year	408

Operating leases — lessor

Certain properties may have been vacated prior to the end of the lease term. Where possible the Group always endeavours to sub-lease such vacant space on short-term lets. An onerous provision is recognised where the rents receivable over the lease term are less than the obligation to the head lessor. The Group's investment property is also leased to a number of tenants for varying terms. The sub-lease rental income during the year ended 31 December 2019 was HK$2,551,000 (2018: HK$2,246,000).

The minimum rent receivables under non-cancellable operating leases are as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**3,014**	3,031
In the second to fifth years inclusive	**1,510**	4,003
Over five years	**376**	817
	4,900	7,851

20. DIVIDEND

No dividend has been declared or proposed by the Directors in respect of the year ended 31 December 2019 (2018: nil).

21. EVENTS SUBSEQUENT TO THE END OF THE REPORTING DATE

(a) Lapse of subscription agreement

On 20 January 2020, given that the conditions precedent for the subscription agreement that was between the Company and Pearl River Capital Limited, had not been fulfilled on or before 30 September 2019, the subscription agreement had lapsed and the subscription will not proceed. Either party to the subscription agreement shall have no claim against each other. Please refer to the announcements of Company dated 11 March 2019 and 20 January 2020 relating to the convertible bonds issued under the General Mandate in 2018 for further details.

(b) Issue of convertible bonds

Pursuant to the Company announcement on 26 February 2020, on 26 February 2020, the Company and Sunwah Fortune Limited (the "Subscriber") entered into an agreement (the "Subscription Agreement"), pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the convertible bonds in the aggregate principal amount of HK$58,000,000 (the "Sunwah Convertible Bonds").

Assuming the conversion rights attaching to the Sunwah Convertible Bonds are exercised in full at the conversion price of HK$0.08, a maximum of 725,000,000 conversion shares (the "Conversion Shares") will be allotted and issued, representing (i) approximately 17.06% of the total number of issued shares as at 26 February 2020; and (ii) approximately 14.57% of the total number of issued shares as enlarged by the allotment and issue of the Conversion Shares under the Sunwah Convertible Bonds. The Conversion Shares, upon issue, shall rank pari passu in all respects with the shares then in issue.

The net proceeds from the subscription are expected to be approximately HK$58,000,000, which are intended to be used (i) supplementing the working capital of the Company and (ii) developing new business of the Company if such opportunity arises.

Details of the above are set out in the Company's announcement dated 26 February 2020.

(c) Disposal of certain loan receivables and loan interest income receivables

Pursuant to the Company announcement on 26 March 2020, on 26 March 2020, the Group and Greater Bay Development (Hong Kong) Limited (the "Purchaser") entered into a debt assignment agreement, pursuant to which the Group agreed to sell, and the Purchaser agreed to purchase certain of loan receivables (the "Disposed Loan Receivables") and loan interest income receivable (the "Disposed Loan Interest Income Receivables") at a consideration of HK$51,470,000, which shall be settled by the Purchaser in a lump sum or by installments before 26 March 2021.

As at 31 December 2019, the carrying amount of Disposed Loan Receivables was HK$46,194,000, net of allowances of HK$73,650,000 while the carrying amount of Disposed Loan Interest Income Receivables was HK$3,292,000, net of allowances of HK$5,498,000.

(d) Novel Coronavirus

The wide spread of the novel Coronavirus in China since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

Save as disclosed above, the Group does not have other significant subsequent events.

MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded revenue from operations of approximately HK$103,938,000 (2018: approximately HK$99,532,000), representing a year-on-year increase of 4.4%.

Other income (losses), net

Other income of approximately HK$1,274,000 (2018: other losses approximately HK$2,440,000) was mainly attributable to net foreign exchange gain arising from appreciation of Renminbi for the year ended 31 December 2019.

Administrative expenses

Administrative expenses decreased by 20.1% to approximately HK$41,954,000 (2018: approximately HK$52,499,000). The decrease was mainly due to a decrease in staff cost by approximately HK$8,635,000.

Finance costs

Finance costs increased from approximately HK$57,605,000 for the year ended 31 December 2018 to HK$57,743,000 for the year ended 31 December 2019. The costs maintained the same level as previous year. Approximately HK$40,987,000 and approximately HK$14,075,000 were the interest and cost in relation to the Huarong loan facility with an aggregate principal amount up to US$60 million 9.7% due 2022 (as at 31 December 2019, the Company had drawn US$50 million from the facility), and senior notes with an aggregated principal of HK$180 million 8% due in the last quarter of 2019 issued on 3 November 2017 respectively.

Income tax expenses

For the year ended 31 December 2019, income tax expenses of the Group amounted to approximately HK$11,352,000 (2018: approximately HK$7,714,000). All income tax expenses were deferred tax which arose from the Land Appreciation Tax of the PRC subsidiaries.

Net loss for the year

For the year ended 31 December 2019, the Group recorded net loss attributable to owners of the Company amounted to approximately HK$402,514,000 (2018: approximately HK$67,623,000). The net loss is mainly due to (i) significant fair value loss on financial assets through profit or loss amounting to approximately HK$137,195,000 during the year ended 31 December 2019 (2018: approximately HK$26,915,000) and (ii) the expected credit loss on financial assets amounting to approximately HK$279,619,000 (2018: approximately HK$18,374,000).

Dividend

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

II. BUSINESS REVIEW

Business review on each segment are as follows:

i) Money lending

The Group has provided a wide range of loans with gross loan amount of approximately HK$252,792,000 as at 31 December 2019 (2018: approximately HK$262,210,000). Interest rates ranged from 10% to 15% (2018: 7.5% to 15%). The Group almost maintained no change in the money lending sector during the year ended 31 December 2019. Customers are mainly from corporations who have been carefully evaluated by the Group on their repayment capabilities and securities pledged. As a result, revenue generated from this segment was approximately HK$25,103,000 during the year ended 31 December 2019 (2018: approximately HK$23,594,000), representing an increase of 6.4% compared to the corresponding year.

ii) License and Financial Service Business

During the year ended 31 December 2019, the Group provided administrative services to other investment managers of funds domiciled in Cayman Island. The license and financial business has generated revenue of approximately HK$1,323,000 (2018: approximately HK$2,405,000), mainly from provision of administrative services to China Gem L.P., in which a fellow subsidiary of the Group was the general partner of the fund during the year ended 31 December 2019. The decrease in revenue from the license and financial business mainly due to the service agreement ended in June 2019 and no further agreement signed.

iii) Strategic financial investment

In order to increase the efficiency of the use of the Company's funds and match the resources with the business, the Group seizes opportunity in fund investment to build a diversified and complementary portfolio of businesses, investment and various types of assets through the subscription of private equity funds by leveraging the professional advantages, talent advantages and management advantages of the fund companies to spread risks, increase return on investment and achieve long-term capital growth for shareholders.

In respect of fund investment policies, the Group selects teams with asset management experience and sound performance as fund managers, focusing on debt investment, so as to obtain fixed income. The Group mainly targets real estate, energy and high-tech industries, with a view to achieve the expected return on investment. Considering the balance between return and risks of holding funds, the Group's investment in individual fund is limited to no more than HK$150 million, while the total size of fund investment is determined according to the financial condition and investment plan of the Company. The funds invested have an investment period of two years or more.

As at 31 December 2019, the Group held five investment funds with total subscription amount of approximately HK$646,650,000. Details of the five investments funds are as follows:

Date of announcement	Name of fund	General partner/ manager	Investment (HK$'M)	Management fee	Term of investment	Investment type	% of fund held	Name of underlying investment companies	Beneficial owner of underlying investment companies Note (c)	Major businesses of underlying investment companies	The fair value of underlying investments of the fund 31 December 2019 (HK$'M)	The proportion of the fair value of underlying investments of the fund in total assets of the Group as at 31 December 2019
18/5/2017	Wealth Creation Special Opportunities Fund LP	OBOR Fund Management Limited	100	0.3% per annum of the aggregated commitment	3 years (may extend for another 2 years)	Debt securities	100%	Baton Investment Limited	Ma Zufeng	Investment holding, mining investment	102.1	10.7%
26/7/2017	Partners Tian Wei Fund	Partners Investment Management Limited	140	0.3% per annum of the aggregated commitment	3 years (may extend for another 2 years)	Debt securities	100%	Star Keen Investment Limited	Lin Xiaosheng	Investment management	136.9	14.3%
7/11/2017	Bison Target Investment SPC — BOCI Fixed Income Focused Growth SP	BTS Investment Limited	US$17.5M (equivalent to HK$136.5M)	0.5% per annum of the aggregated commitment	3 years (may extend for another 2 years)	Debt securities	100%	Fen River Capital Limited	Huang Zhengxiong	Real estate investment, high-tech investment	130.7	13.7%
8/11/2017 & 27/12/2017	Forward Fund SPC	Full House Asset Management Company Limited	130.15	0.3% per annum of the aggregated commitment	2 years	Convertible bonds Note (a)	100%	China Ocean Industry Group Limited ("Issuer")	Note (b)	Steel structure engineering and installation, intelligent parking, automobile and electronic business	— Note (d)	—
24/11/2017	Nan Tai Investment LP	Nan Tai Investment Limited	140	0.5% per annum of the aggregated commitment	2 years (extended for another 1 year)	Debt securities	100%	Huatune International Group Limited	Qian Baohua	Industrial Investment, chemical industry and trading	130.1	13.6%
		Total	646.65								499.8	52.3%

Notes:

(a) Through the investment fund of "Forward Fund SPC", the Group subscribed the two-year convertible bonds issued by the Issuer (Stock code on the Hong Kong Stock Exchange: 0651) with a subscription amount of HK$129,000,000. The convertible bonds carry an interest of 10% per annum, payable annually in arrears. The convertible bonds were over due as at 31 December 2019. The Group did not convert any shares from the convertible bonds.

(b) For details of the beneficial owners of the Issuer, please refer to relevant information announced in its annual report of 2019.

(c) All of the beneficial owners of underlying investment companies are independent of connected person.

(d) The significant decrease in fair value of investment funds was due to the default of the convertible bonds. Further more, the Issuer is in the legal process of liquidation. For more information, please refer to announcements made by the Issuer.

The table below sets forth the results of underlying investments of the five funds during the year ended 31 December 2019:

	Wealth Creation Special Opportunities Fund LP Year ended 31 December 2019	Partners Tian Wei Fund Year ended 31 December 2019	Bison Target Investment SPC-BOCI Fixed Income Focused Growth SP Year ended 31 December 2019	Forward Fund SPC Year ended 31 December 2019	Nan Tai Investment LP Year ended 31 December 2019	Total Year ended 31 December 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Underlying investment of the funds						
Change in fair value	(820)	995	(4,940)	(124,430)	(7,994)	(137,189)
Investment income *(Note)*	10,000	13,900	16,455	11,733	16,560	68,648
Dividends received from the funds	—	—	—	—	—	—

Note: Investment income refers to the interest income recognised in the consolidated statement of profit or loss for the year ended 31 December 2019.

During the year ended 31 December 2019, no investment fund was redeemed by the Group.

iv) Property development

Revenue in this segment was derived from leasing of properties, building management fee income and sales of residential units in Shunde, the PRC. During the year ended 31 December 2019, the Group recorded the rental, management and related fee income and sales of properties of approximately HK$8,864,000 (2018: approximately HK$3,779,000). The segment profit for the year ended 31 December 2019 was approximately HK$25,415,000 (2018: approximately HK$4,893,000). The reason of an increase in profit was mainly due to fair value gains on investment properties amounted to approximately HK$22,890,000 for the year ended 31 December 2019 (2018: approximately HK$812,000).

III. FUTURE PLANS

Looking forward, the Group will continue to focus on financial investment and industrial investment. In terms of financial investment, the Group will continue to conduct money lending, license and financial service business and fund investment business, while gradually carrying out special opportunity real estate and special opportunity debt business. In terms of industrial investment, in addition to the existing property development business, the Group will pursue market opportunities in Internet plus education, construction materials and mining investment including gold mine, cooper mine and lead-zinc mine. Under the complicated macro-economic environment, the Group will adhere to the business philosophy of "Professionalism, Dedication, Devotion" and "Customer First, Efficiency Priority, Synergic Development, Pursuit of Excellence", and will strive for our overall business development by fully exploring the synergy and interconnection between our existing business segments. The Board and the management of the Company believe that, with a clear position, a team of professionals and effective execution capabilities, the Company will continue to enhance its core competitiveness and overall profitability to create greater value for the shareholders.

i) Money lending

Under the current economic environment, in order to protect shareholders' interests and avoid risks, the Group will exercise prudent approach in assessing money lending projects and conduct proper control over the scale of money lending business. Besides improving our credit policies, we will continue to optimise the overall credit quality of our loan portfolios.

ii) License and Financial Service Business

For license business, the Group will continue to study the establishment of Special Opportunity Investment Fund and actively carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

In addition, for non-license financial service business, the Group will give full play to its talent advantages and intellectual output and provide tailor-made professional and comprehensive financial service solutions for customers. The Group will seek investment and growth opportunities in order to generate additional revenue through the linkage between domestic and overseas business, and the asset-light strategy.

iii) Strategic financial investment

The Group will continue to seize opportunity in fund investments in order to utilize the Group's financial resources more efficiently and effectively. To yield better investment returns, the Group will strengthen its original investment fund management, deepen its understanding of fund operations, and fully tap into the experience and expertise of the management team and general partners in its investment funds. Meanwhile, the scale of strategic financial investment will be reduced gradually.

iv) Property development

In view of restrictions imposed on property projects in Mainland China, the Group will prepare appropriate entry and exit strategies in the interest of the Company and its shareholders as a whole. As for projects that underperform our expectations, we will elect to exit when timing is right. Furthermore, we will continue to explore other property development opportunities to expand our investment property portfolio and consolidate our revenue base, safeguarding the potential of capital appreciation for the Group.

v) Special opportunity real estate and special opportunity debt business

In 2019, the Company made some attempts in this field without substantial progress. The Group could make flexible use of various disposal methods of non-performing assets, including debt restructuring, securitisation, conversion of debt to equity to rebuild the business model of enterprises, or carry out business transformation of the subject enterprise, explore new markets, customers and business in an value-added way, and reshape the intrinsic value of enterprises, which will revitalise non-performing assets while achieving good investment returns for investors. The Company will utilise its expertise on the non-performing assets, gradually develop special opportunity real estate and special opportunity debt business and form a new asset management business mode in the future.

vi) Industrial Investment

The Company will strengthen its management on the existing investment funds and money lending business so as to develop appropriate recovery plans and proposals and strive to recover investment funds and eliminate existing risks. Meanwhile, the management has been seeking for quality investment projects and has obtained certain potential projects and corresponding investment targets in the fields of Internet plus education, construction materials, and mining investment including gold mine, copper mine and lead-zinc mine. The proportion of industrial investments will be increased through asset swaps, direct investments, and equity swaps.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2019, the Group had total cash and cash equivalents amounted to approximately HK$1,439,000 (2018: approximately HK$6,887,000), while net current liabilities amounted to approximately HK$104,737,000 (2018: net current assets approximately HK$646,724,000). The current ratio as a ratio of current assets to current liabilities was 0.87 times (2018: 2.55 times). The decrease in the current ratio is mainly due to (i) significant impairment losses on loan & interest receivables and financial assets at fair value through profit or loss; and (ii) breach of the Huarong loan agreement and thus reclasified from "non-current liabilities" to "current liabilities".

As at 31 December 2019, total debts (including loans from shareholders, other borrowings and senior notes) of the Group amounted to approximately HK$647,977,000 (2018: approximately HK$656,130,000). Of this amount, 100% is repayable within one year (2018: 46.4%). All debts are charged at fixed interest rates, denominated in the Hong Kong dollars, US dollars and Renminbi. The gearing ratio, representing the ratio of total debts to the total equity of the Group, was 672.7% (2018: 135.7%).

PLEDGE OF ASSETS

As at 31 December 2019, none of the Group's asset was pledged or charged (2018: Nil).

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Significant investments are mainly fund investments as set out in "Business review — Strategic financial investment".

In the future, the Group will continue to identify new opportunities for business development. The Group has not executed any agreement in respect of material acquisitions, investments or capital asset and does not have any other specific future plans relating to material acquisitions, investments or capital asset as at the date of this report. Nonetheless, if any potential investment opportunity arises in the future, the Group will perform feasibility studies and prepare implementation plans to assess whether it is beneficial to the Group and the Company (the "Shareholders") as a whole.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There were no material acquisitions or disposals of subsidiaries and joint ventures during the year ended 31 December 2019.

FOREIGN CURRENCY EXPOSURE

Borrowings and sales and purchases of the Group are generally transacted in Hong Kong dollars, US dollars and Renminbi. For the year ended 31 December 2019, the Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed.

CONTINGENT LIABILITIES

The Group had no material contingent liability as at 31 December 2019 (2018: Nil).

CAPITAL COMMITMENTS

The Group had no capital commitments as at 31 December 2019 (2018: Nil).

EMPLOYEES

As at 31 December 2019, the Group had 28 employees in Hong Kong and China (2018: 32) and the total staff costs amounted to approximately HK$28,076,000 for the year ended 31 December 2019 (2018: approximately HK$36,711,000). Remuneration package of the employees includes monthly salary and medical claims. The remuneration policies are formulated on the basis of their performance, duties and responsibilities with the Company and the market condition. As to our investment on human resources, education subsidies would be granted to the Group's employees, with a view to reinforcing the competence of all levels of our employees. Share options would be granted to respective employees with outstanding performance and contributions to the Group.

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

On 18 April 2019, 10,600,000 shares of the Company (the "Shares") were issued upon exercise of the share options by Director under the 2010 Share Option Scheme. On 28 May 2019, 34,740,000 Shares were issued upon exercise of the share options by Directors under the 2010 Share Option Scheme. On 6 June 2019, 52,000,000 Shares were issued upon exercise of the share options by Directors under the 2010 Share Option Scheme. On 26 August 2019, 17,300,000 Shares were issued upon exercise of the share options by Directors under the 2010 Share Option Scheme.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to establish and maintain high standards of corporate governance practices and procedures to enhance shareholders' interest and promote sustainable development. The Company has adopted the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance.

Throughout the year ended 31 December 2019, the Company has complied with the code provisions of the CG Code.

EVENTS AFTER REPORTING PERIOD

Events after reporting period are disclosed in Note 21 to the Consolidated Financial Statements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. In response to specific enquiry made by the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2019. The Company also adopted a code of conduct governing securities transactions by its employees who may access to inside information relating to the Company.

REVIEW BY AUDIT COMMITTEE

The Audit Committee was set up with the responsibilities of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Su Xihe, Mr. He Yaode and Mr. Wong Wai Chun Alex who is the chairman of this committee.

The audited consolidated results of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

SCOPE OF WORK OF EXTERNAL AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the Preliminary Announcement have been agreed by the Group's auditors, Yongtuo Fuson CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by Yongtuo Fuson CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Yongtuo Fuson CPA Limited on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2019.

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significant of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. Multiple uncertainties relating to going concern

As described in note 3 to the consolidated financial statements, during the year ended 31 December 2019, the Group reported a net loss attributable to the owners of the Company of HK$402,514,000 and had a net operating cash outflow of HK$945,000. In addition, as at 31 December 2019, the Group had net current liabilities of HK$104,737,000.

Further, as explained in notes 17 and 18, as at 31 December 2019 and up to the date of approval of these consolidated financial statements, certain of the Group's borrowings were overdue and the Group committed events of default and/or break of covenants and restriction terms and conditions stipulated in the respective borrowings and financing agreements entered into by the Group, the lenders and investors. Though the Group has not received any requests from the major lenders and investors to settle outstanding amounts due to them, the management of the Company is ongoing to negotiate and convince the lenders and investors which are scheduled to be repaid in 2019, not to exercise their contractual rights to request the Group for immediate repayment of the principal amounts and any accrued interest. Based on the latest information available to the Group, in the opinion of the directors of the Company ("Directors'"), there is no indication that the lenders and investors have any current intention to exercise their right to demand immediate repayment thereon.

These conditions, together with other matters as described in note 3 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt regarding the Group's ability to continue as a going concern.

The Directors have been undertaking a number of measures to improve the Group's liquidity and financial position, and to mitigate the liquidity pressure and to improve the Group's financial position.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including but not limited to the following:

(i) Successful in the finalisation of the Finance Reorganisation (as defined in note 3) with the lenders and investors;

(ii) Successful of the Additional Funding Plan (as defined in note 3) in obtaining of additional new sources of financing as and when needed;

(iii) Successful maintenance of relationship with the creditors, investors and lenders of the Group, in particular those in relation to the Group's existing businesses and operations such that no actions will be taken by those investors and lenders against the Group should the Group not be able to meet all the payment obligations on a timely basis; and

(iv) Successful in the Group's Business and Operation Restructuring Plan (as defined in note 3).

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2. Recover ability of loan and interest receivables including loan interest income recognised for the year

As disclosed in notes 11 and 12 to the consolidated financial statements, as at 31 December 2019, the Group has loan receivables of HK$113,770,000 and interest receivables of HK$16,621,000, which were included in loan receivables and trade and other receivables, respectively and most of them were overdue for more than 180 days, together with the fact that the loan receivables are unsecured and/or secured only by personal guarantee. In addition, during the year ended 31 December 2019, the Company recognised interest income of HK$25,103,000.

The Directors are currently reviewing the alternatives to recover the loan and interest receivables, including but not limit to dispose of the loan and interest receivables to third parties or to negotiate loan restructuring with the borrowers (collectively refer to as the "Loan Restructuring Plan"). However, as at 31 December 2019 and up to the date of approval of these consolidated financial statements, the Loan Restructuring Plan has not yet been finalised. In view of this uncertainty, the Directors are unable to reasonably assess the borrowers' ability to repay the debts and in the near future.

The assessment of the expected credit losses ("ECL") for loan and interest receivables has adopted certain key inputs and assumptions, including but not limited to (i) the amount would be recovered from the borrowers; (ii) the future cash flow, if any; and (iii) other key assumptions adopted in the ECL assessment etc. The validity of ECL assessment on loan and interest receivables depends on the outcome of certain factors, including but not limited to (i) the borrowers' ability to repay the debts; and (ii) the successful of Loan Restructuring Plan.

The management of the Company consider that the information used in the above assessment represented the best available estimates from the information available. In respect of the abovementioned condition, we were unable to obtain sufficient appropriate audit evidence or satisfactory management explanation to support the ECL assessment. There were no alternative audit procedures that we are able to obtain sufficient and appropriate audit evidence as we considered necessary to assess or corroborate the appropriateness relating to the ECL assessment on the loan and interest receivables. We are also therefore unable to satisfy ourselves whether the interest income has properly been recognised in accordance with the accounting policy of the Company during the year. Consequently, we were not able to determine whether any adjustment to these amounts and the related disclosures thereof in the consolidated financial statements were necessary.

3. Fair value measurement of Debt Securities, recoverability of investment income receivables and recognition of the investment income

As set out in notes 12 and 13 to the consolidated financial statements, as at 31 December 2019, the Group had debt securities issued by unlisted companies (the "Debt Securities") that are financial assets measured at fair value through profit or loss of approximately HK$499,849,000 and investment income receivables of HK$34,509,000, respectively. As at 31 December 2019, all of the investment income receivables relating to the Debt Securities was overdue and thus, the borrowers committed events of default and/or break of covenants and restriction terms and conditions stipulated in the respective debt securities agreements entered into by the unlisted companies and the borrowers. Accordingly, the entire Debt Securities and investment income receivable are repayment on demand. During the year ended 31 December 2019, the Group recognised the investment income of HK$68,648,000, as disclosed in note 7 to the consolidated financial statements, respectively.

As further explained in note 13 to the consolidated financial statements, the Directors have been undertaking a number of measures to recover the Debt Securities and investment income receivables, including but not limit to dispose of the Debt Securities to third parties and to negotiate debts restructuring with the borrowers (collectively referred to as the "Debt Securities Restructuring Plan"). However, as at 31 December 2019 and up to the date of approval of these consolidated financial statements, the Debt Securities Restructuring Plan has not yet been finalised. Accordingly, the Directors are unable to assess the borrowers' ability to repay the debts or in the near future.

The management of the Company has engaged an independent external valuer to perform fair value valuation of the Debt Securities using discounted cash flow method and to assess the ECL assessments of the investment income receivables. Based on the report prepared by the independent external valuer, the Group recognised a fair value loss on the Debt Securities of approximately HK$12,759,000 and also recognised ECL on investment income receivables of HK$65,391,000 for the year ended 31 December 2019.

The fair value valuation and ECL assessment have adopted certain key assumption provided by the management of the Company, including but not limited to the validity of the cash flow projection, the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) etc. The validity of fair value valuation of the Debt Securities and ECL assessment of the investment income receivables depends on the outcome of certain factors, including but not limited to (i) the borrowers' ability to repay the debts; and (ii) the successful of Debt Securities Restructuring Plan.

The management of the Company consider that the information used in the above valuation and assessment represented the best available estimates from the information available. For the purpose of our audit, we were unable to obtain sufficient appropriate audit evidence we considered necessary to assess or corroborate the appropriateness of the key inputs and key assumptions adopted by management in preparing the fair value valuation and ECL assessment, including but not limited to the future cash flow and other key assumptions adopted in the valuation and assessment, which would impact the results of the fair value valuation and ECL assessment. Thus, we were unable to obtain sufficient evidence to evaluate the reasonableness of the key assumption in preparing of the fair value valuation and ECL assessment.

Besides, management was unable to provide us with a reasonable explanation on the recoverability of the outstanding debts and investment income receivables in which most of them are default during the year ended 31 December 2019. We are therefore unable to satisfy ourselves whether the investment income has properly been recognised in accordance with the accounting policy of the Company during the year.

Given the above scope limitation, there were no other satisfactory procedures that we could perform to determine whether any adjustments to the fair values of the Debt Securities of approximately HK$499,849,000 and any further impairment on the investment income receivables of HK$34,509,000, as well as the fair value loss of approximately HK$12,759,000, the recognition of the investment income of HK$68,648,000 and the ECL impairment for the investment income receivables of HK$65,391,000 recognised for the year then ended were necessary, and the related disclosures thereof in the consolidated financial statements.

4. Insufficient audit evidence in respect of loan from a former shareholder

As disclosed in note 16 to the consolidated financial statements, the Group has a loan from a former shareholder, Linshan Limited ("Linshan") (the "Linshan Loan"). As at 31 December 2019 the carrying amounts of the Linshan Loan were of HK$49,598,000 and the related accrued interest were of HK$2,686,000, and during the year ended 31 December 2019, the Group charged interest expenses to profit or loss of HK$521,000 as disclosed in note 9 to the consolidated financial statements. We were unable to obtain sufficient appropriate audit evidence regarding the validity and occurrence of the Linshan Loan and the related accrued interest because we were unable to carry out effective confirmation procedures in relation to the carrying values of the Linshan Loan and the related accrued interest as at 31 December 2019 and 31 December 2018, and the interest expenses charged to profit or loss during the year ended 31 December 2019, for the purpose of our audit and there was inadequate documentary evidence available for us to satisfy ourselves about the validity and occurrence of the transactions which gave rise to the Linshan Loan and the related accrued interest.

There was no satisfactory alternative audit procedures that we could perform to satisfy ourselves as to whether the opening and closing balances and the movements of the Linshan Loan and accrued interest have been properly accounted for in the consolidated financial statements of the Company. Any adjustments that might have been found necessary may have a significant effect on the Group's net assets at 31 December 2019 and 31 December 2018 and its financial performance and cash flows for the year ended 31 December 2019, and the related disclosures thereof in the consolidated financial statements.

5. Fair value measurement of the Group's Tree Plantation Operations

As disclosed in note 10 to the consolidated financial statements, as at 31 December 2019, the Group had financial assets at fair value through other comprehensive income ("FVOCI") relating to the Group's interest in certain tree plantation operations situated in the Caraga region of Mindanao in the Philippines (the "Tree Plantation Operations"). Pursuant to the Company's accounting policy, in order for a financial asset to be classified and measured at FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the solely payments of principal and interest test and is performed at an instrument level. Accordingly, the Group's Tree Plantation Operations are measured at fair value through other comprehensive income. In the opinion of the Directors, in view of there have been no positive development since the investments in the former Associates (as defined in note 20, the amounts were previously reclassified as available-for-assets in 2014 and further reclassified as FVOCI from 1 January 2018) were fully impaired in 2014 and, consistent to prior years and as at 31 December 2019, the Directors believe that the value of the Tree Plant Operations was nil and that no realistic recovery of any value in the Philippine Tree Plantation Operations is presently likely or probable. The management of the Company consider that the information used in the above assessment represented the best available estimates from the information available despite of lack of the current financial and other information of the Tree Plant Operations.

During the course of our audit, we sought to perform alternative audit procedures to satisfy ourselves that the carrying value of the Group's Tree Plantation Operations was nil as at 31 December 2019 and 31 December 2018. However, in view of the lack of the financial and other information of the Group's Tree Plantation Operations, we are unable to obtain sufficient and appropriate audit evidence as we considered necessary to assess or corroborate the appropriateness relating to the nil carrying value of the Group's Tree Plantation Operations.

Given the above scope limitation, there were no other satisfactory procedures that we could perform to determine whether any adjustments to the opening and closing fair values of the Group's Tree Plantation Operations. Any adjustments that might have been found to be necessary in respect of this account balance would have a significant effect on the Group's financial position as at 31 December 2019 and 31 December 2018 and the Group's financial performance for the year then ended, and the related disclosures thereof in the consolidated financial statements.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This final results announcement is published on both the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.1191hk.com. The annual report of the Company for the year ended 31 December 2019 containing all information required by the Listing Rules will be despatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

I would like to express my sincere appreciation to our shareholders for the trust and support. I would also like to express my gratitude to our management team and all staff for their dedication and contributions in the execution of the Group's strategies and operations during the year.

By order of the Board
China Gem Holdings Limited
Chen Jie
Executive Director and Chief Executive

Hong Kong, 30 March 2020

As at the date of this announcement, the Board comprises Mr. Chen Jie as executive Director, Mr. Hong Yu as non-executive Director and Mr. Su Xihe, Mr. Wong Wai Chun Alex and Mr. He Yaode as independent non-executive Directors.