



SOMERLEY CAPITAL HOLDINGS LIMITED

新百利融資控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8439

2018/19

Third Quarterly Report

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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

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BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in providing corporate finance services in Hong Kong and through its recently-opened subsidiary in Beijing and asset management services in Hong Kong through a newly acquired subsidiary, as detailed below.

The corporate finance advisory services of the Group mainly include (i) acting as financial adviser to Hong Kong public listed companies, major shareholders and investors of these companies and parties seeking to control or invest in listed companies in Hong Kong, mostly in transactions which involve the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the GEM Listing Rules and/or the Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code"), including acting as arranger in connection with the introduction of investors to listed companies in Hong Kong and/or their major shareholders in a takeover transaction; (ii) acting as independent financial adviser to independent board committees and/or independent shareholders of listed companies in Hong Kong; (iii) acting as compliance adviser, mostly for newly listed companies in Hong Kong; and (iv) acting as sponsor to initial public offering and listings of shares of companies on the Stock Exchange in Hong Kong (the "IPO") and managing and underwriting equity issues in Hong Kong.

In addition, the acquisition of a 74.8% equity interest in Environmental Investment Services Asia Limited ("EISAL") was completed in December 2018. EISAL is a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities. Following this acquisition, Mr. HIGGS Jeremy James ("Mr. Higgs") resigned as an independent non-executive Director, as he was no longer eligible to serve this capacity since he is an executive director of EISAL. The acquisition of EISAL will generate a new revenue stream for the Group and complement the Group's progress in participating in initial public offerings and developing an equity capital markets capability.

During the third quarter ended 31 December 2018, the Group's activities included one substantial financial advisory transaction with revenue of approximately HK\$7.5 million. Together with the completion of one marquee financial advisory transaction in August 2018 and a solid performance from the rest of corporate finance advisory business, the Group recorded total revenue of approximately HK\$73.0 million for the nine months ended 31 December 2018 (the "Period") (2017: approximately HK\$53.7 million), representing an increase of approximately 35.9% as compared with the corresponding period of last year.

As a result of the increments in salaries and bonuses, the implementation of future plans and accordingly, increase in office area and the number of staff, including staff in our new Beijing subsidiary, operating expenses (excluding a fair value loss on a financial asset through profit or loss of approximately HK\$0.8 million) increased to approximately HK\$60.1 million (2017: approximately HK\$49.3 million), representing an increase of approximately 21.9% as compared with the corresponding period of last year.

The profit for the Period increased to approximately HK\$10.9 million from approximately HK\$4.3 million for the nine months ended 31 December 2017, primarily due to the increase in revenue and an improvement in operating margins.

Looking forward

Work-on-hand for the final quarter of our financial year ending 31 March 2019 looks somewhat less buoyant than our experience in the first nine months of the financial year. It is too early at the moment to say whether this will affect the results for the full year ending 31 March 2019.

FINANCIAL REVIEW

Revenue

The Group's total revenue increased by approximately 35.9% to approximately HK\$73.0 million for the Period from approximately HK\$53.7 million for the nine months ended 31 December 2017.

Revenue generated from acting as financial adviser and as independent financial adviser for the Period amounted to approximately HK\$58.5 million (2017: approximately HK\$41.7 million), accounting for approximately 80.1% of the Group's total revenue (2017: approximately 77.7%). The increase was largely due to the completion of one marquee financial advisory transaction with revenue of approximately HK\$9.2 million and one substantial financial advisory transaction with revenue of approximately HK\$7.5 million during the Period. These cornerstone activities are expected to remain the major source of the Group's revenue in the immediate future.

Revenue generated from acting as compliance adviser for the Period amounted to approximately HK\$7.6 million (2017: approximately HK\$5.3 million), accounting for approximately 10.4% of the Group's total revenue (2017: approximately 9.9%). Based on Report on Initial Public Offering Applications, Delisting and Suspensions as at 31 December 2018 published by Hong Kong Exchanges and Clearing Limited, the number of newly listed companies in Hong Kong (excluding transfer from GEM to Main Board) was 224 in 2018 (2017: 184). The Group has been successful in securing additional compliance advisory mandates which led to the increase in revenue from acting as compliance advisor for the Period.

Revenue generated from acting as sponsor and underwriter for the Period amounted to approximately HK\$4.2 million (2017: approximately HK\$6.5 million), accounting for approximately 5.8% of the Group's total revenue (2017: approximately 12.1%). As at 31 December 2018, the Group had 3 work-in-progress sponsorship engagements (2017: 1).

Other revenue, mainly arising from the provision of litigation support services, pitch support services and merger & acquisition advisory services during the Period, amounted to approximately HK\$2.7 million (2017: approximately HK\$0.2 million).

Other Income

Other income mainly represented bank interest income, reimbursement of out-of-pocket expenses from customers, management service fee income from Somerley Group Limited (“SGL”), rental income and reimbursement of other premise expenses from SGL.

Employee Benefits Costs

The Group’s employee benefits costs primarily consist of salaries, bonuses, share-based payments and allowances as well as contributions to the mandatory provident fund for the Directors and employees of the Group.

	For the nine months ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Salaries, allowances and other benefits	34,048	30,423
Discretionary bonuses	9,800	5,400
Share-based payments	325	552
Retirement benefits scheme contributions	550	483
	44,723	36,858

Employee benefits costs increased by approximately 21.1% to approximately HK\$44.7 million for the Period from approximately HK\$36.9 million for the nine months ended 31 December 2017, primarily due to the combined effects of (i) the increments in basic salaries and additional executives hired during the Period; (ii) an increase in bonuses; and (iii) establishment of a new subsidiary in Beijing.

Other Operating Expenses

Other operating expenses were mainly rental expenses, recurring GEM listing expenses, travelling expenses, professional fees and other expenses, including utility expenses, building management fees, telecommunication expenses, information technology related expenses, data intelligence service subscription fees and insurance expenses.

	For the nine months ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Rental expenses and other premises expenses	7,714	5,951
Travelling expenses	626	545
Bad debt in respect of trade receivables	—	180
Impairment loss recognised in respect of trade receivables	43	—
Recurring GEM listing expenses (excluding remuneration of independent non-executive directors)	1,750	1,632
Others	3,625	2,826
	13,758	11,134

The Group's other operating expenses increased by approximately 24.3% to approximately HK\$13.8 million for the Period from approximately HK\$11.1 million for the nine months ended 31 December 2017. The increase was mainly due to (i) the increase in rental expenses as a result of (a) the office expansion and the execution of new lease in Hong Kong and (b) a new office in Beijing; (ii) the recognition of business continuity plan expenses; (iii) the increase in legal and professional expenses due to specific needs of certain advisory engagements; and (iv) the increase in general operating expenses as a result of establishment of a new subsidiary in Beijing.

Income Tax Expenses

The Group's income tax expenses primarily included provision for Hong Kong current and deferred income tax expenses. The effective tax rate for the Period was approximately 17.4% (2017: approximately 15.7%) and was higher than the Hong Kong profits tax rate of 16.5% because the fair value loss on financial asset at fair value at profit or loss is not deductible for tax purpose in Hong Kong.

Profit for the Period

For the Period, the Group made a profit before tax of approximately HK\$13.2 million (2017: approximately HK\$5.1 million) and after-tax profit was approximately HK\$10.9 million (2017: approximately HK\$4.3 million). The net increase was primarily due to the combination of positive and negative effects of (i) approximately HK\$19.3 million increase in revenue; (ii) approximately HK\$7.8 million increase in employee benefits costs; (iii) the increase in other operating expenses; and (iv) the recognition of fair value loss on financial asset at fair value through profit or loss.

INTERIM DIVIDEND

The board of Directors (the "Board") does not recommend the payment of an interim dividend for the Period (2017: nil).

SIGNIFICANT INVESTMENTS HELD

During the Period, the Company and EISAL have agreed the terms and conditions (the "Agreements") for the Company to become the majority shareholder in EISAL. EISAL is a Hong Kong-based investment management company specialising in the Asian low carbon environmental sector and manages the Green Dragon Fund which invests in companies with significant exposure to that sector operating within the Asia Pacific region. EISAL is a licensed corporation under the SFO to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities. EISAL is a founding member of the Hong Kong Green Finance Association.

The Agreements are structured through:

- (i) the cash subscriptions of 1,140,000 new ordinary shares in EISAL ("EISAL Shares") at an issue price of US\$0.60 per EISAL Share; and
- (ii) the acquisitions of 1,333,334 existing EISAL Shares from certain existing shareholders at a consideration of US\$0.60 per EISAL Share which were settled in US\$0.30 cash and 1.14 new shares issued by the Company.

On 10 July 2018, the first subscription of 240,000 new EISAL Shares was completed. On 14 December 2018, the second subscription of 900,000 new EISAL Shares and the acquisition of 1,333,334 existing EISAL Shares were completed. Following the completion, the Company holds 2,473,334 EISAL Shares, representing 74.8% of the share capital of EISAL as enlarged by the completion of the first subscription and the second subscription.

For details of the transaction, please refer to the Company's announcements dated 10 July 2018 and 14 December 2018.

Except for investments in subsidiaries and the investment in EISAL as stated above, the Group did not hold any significant investments during the Period (2017: nil).

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred subsequent to 31 December 2018 and up to the date of this report.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 31 December 2018

The Board is pleased to present the unaudited condensed financial information of the Group for the three months and nine months ended 31 December 2018 (the "Period"), together with the unaudited comparative figures for the three months and nine months ended 31 December 2017, as follows:

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	5	27,618	18,946	73,011	53,733
Other income	6	413	90	1,119	292
		28,031	19,036	74,130	54,025
Employee benefit costs		(18,502)	(12,460)	(44,723)	(36,858)
Fair value (loss) gain on financial asset at fair value through profit or loss		(1)	—	(791)	319
Depreciation for property and equipment		(479)	(200)	(1,126)	(521)
Introduction expenses		(180)	(440)	(485)	(776)
Other operating expenses		(4,720)	(4,201)	(13,758)	(11,134)
Profit before tax	7	4,149	1,735	13,247	5,055
Income tax expenses	8	(857)	(269)	(2,320)	(771)
Profit for the period		3,292	1,466	10,927	4,284
Profit (loss) for the period attributable to:					
Owners of the Company		3,334	1,466	10,969	4,284
Non-controlling interests		(42)	—	(42)	—
		3,292	1,466	10,927	4,284
Earnings per share					
— basic (HK cents)	10	2.36	1.06	7.84	3.11
— diluted (HK cents)	10	2.35	1.05	7.81	3.06

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 31 December 2018

	Three months ended 31 December		Nine months ended 31 December	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit for the period	3,292	1,466	10,927	4,284
<i>Other comprehensive expense</i>				
Item that will not be reclassified subsequently to profit or loss:				
Fair value loss on financial asset at fair value through other comprehensive income	(256)	—	(256)	—
Item that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of financial statements of foreign operations	(8)	—	(8)	—
Other comprehensive expense for the period	(264)	—	(264)	—
Total comprehensive income for the period	3,028	1,466	10,663	4,284
Total comprehensive income (expense) for the period attributable to:				
Owners of the Company	3,070	1,466	10,705	4,284
Non-controlling interests	(42)	—	(42)	—
	3,028	1,466	10,663	4,284

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2018

	Attributable to the owners of the Company			
	Share capital HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Shareholder contribution reserve HK\$'000
At 31 March 2018 (Audited)	1,386	67,270	19,506	4,179
Impact of adopting HKFRS 9	—	—	(41)	—
At 1 April 2018	1,386	67,270	19,465	4,179
Profit for the Period	—	—	10,969	—
Other comprehensive expenses:				
Exchange differences arising from translation of foreign operation	—	—	—	—
Fair value loss on financial asset at fair value through other comprehensive income	—	—	—	—
Total comprehensive income (expenses) for the Period	—	—	10,969	—
Issues of shares upon exercise of share options	8	488	—	—
Deemed disposal of financial asset at fair value through other comprehensive income	—	—	(256)	—
Acquisition of a subsidiary	16	1,971	—	—
Dividends recognised as distribution	—	(4,882)	—	—
Recognition of share-based payments	—	—	—	—
Lapse of share options	—	—	37	—
At 31 December 2018 (Unaudited)	1,410	64,847	30,215	4,179
At 1 April 2017 (Audited)	1,350	65,180	13,618	4,179
Profit and total comprehensive income for the period	—	—	4,284	—
Issue of shares upon exercise of share options	36	2,090	—	—
Recognition of equity-settled share-based payments	—	—	—	—
At 31 December 2017 (Unaudited)	1,386	67,270	17,902	4,179

Note: Other reserve represented the difference between the nominal amount of the share capital of Somerley Capital Limited ("Somerley Capital") and the nominal amount of the share capital issued by the Company pursuant to a group reorganisation.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2018

Attributable to the owners of the Company						
Share option reserve	Translation reserve	Investment revaluation reserve	Other reserve (note)	Total	Non-controlling interests	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1,837	—	—	9,900	104,078	—	104,078
—	—	—	—	(41)	—	(41)
1,837	—	—	9,900	104,037	—	104,037
—	—	—	—	10,969	(42)	10,927
—	(8)	—	—	(8)	—	(8)
—	—	(256)	—	(256)	—	(256)
—	(8)	(256)	—	10,705	(42)	10,663
(261)	—	—	—	235	—	235
—	—	256	—	—	—	—
—	—	—	—	1,987	2,717	4,704
—	—	—	—	(4,882)	—	(4,882)
325	—	—	—	325	—	325
(37)	—	—	—	—	—	—
1,864	(8)	—	9,900	112,407	2,675	115,082
2,228	—	—	9,900	96,455	—	96,455
—	—	—	—	4,284	—	4,284
(1,110)	—	—	—	1,016	—	1,016
552	—	—	—	552	—	552
1,670	—	—	9,900	102,307	—	102,307

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

1. GENERAL

The Company was incorporated on 21 April 2016 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the shares of the Company are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent is Somerley Group Limited ("SGL"), a company incorporated in Hong Kong with limited liabilities. The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hustchison Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and 20th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong, respectively.

The Company is principally engaged in investment holding. The Group's operating subsidiaries are mainly engaged in the provision of corporate finance advisory services and asset management services.

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$") which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

2. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2018 have not been audited by the Company's independent auditors, but have been reviewed by the Company's Audit Committee.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

3. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 - 2016 Cycle
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and on the disclosures set out in these unaudited condensed consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement and brings together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied HKFRS 9 on 1 April 2018 in accordance with the transition requirements. The Group has not restated comparative information for financial instruments in the scope of HKFRS 9. Therefore, the comparative information was reported under HKAS 39 and was not comparable to the information presented as at 31 December 2018 and for the nine-month period then ended. Differences arising from the adoption of HKFRS 9 have been recognised directly in retained earnings as of 1 April 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

3. CHANGE IN ACCOUNTING POLICIES (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 April 2018. In accordance with the transition provisions in HKFRS 15, the Group has adopted the modified retrospective approach for the new rules.

Further details of the nature and effect of the changes on previous accounting policies are set out in the section headed "Change in Accounting Policies" of the Interim Report 2018 published on 13 November 2018.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of unaudited condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual report for the year ended 31 March 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

5. REVENUE

Revenue represented revenue arising on provision of corporate finance advisory services during the Period.

	Nine months ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fee income from acting as financial adviser	29,692	16,347
Fee income from acting as independent financial adviser	28,854	25,365
Fee income from acting as compliance adviser	7,553	5,290
Fee income from acting as sponsor and underwriter	4,200	6,532
Others	2,712	199
	73,011	53,733

6. OTHER INCOME

	Nine months ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Exchange gain, net	—	64
Bank interest income	415	137
Management fee income from ultimate holding company	73	91
Office sharing income and reimbursement of other premises expenses from ultimate holding company	345	—
Reimbursement of out-of-pocket expenses from customers	286	—
	1,119	292

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

7. PROFIT BEFORE TAX

	Nine months ended 31 December	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' emoluments		
Fees	528	540
Other emoluments	7,542	7,452
Share-based payments	208	208
Contributions to retirement benefits scheme	27	27
	8,305	8,227
Other staff costs	35,768	27,863
Provision (reversal of provision) for long service payment	10	(32)
Share-based payments	117	344
Contributions to retirement benefits scheme	523	456
Total staff costs	44,723	36,858
Auditor's remuneration	438	418
Exchange loss, net	45	—
Bad debt expenses in respect of trade receivables	—	180
Impairment loss recognised in respect of trade receivables	43	—
Operating lease rental payments for rented premises	6,385	4,736

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

8. INCOME TAX EXPENSES

	Nine months ended 31 December	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	2,353	486
Over provision in prior years:		
Hong Kong	(22)	(19)
Deferred taxation	(11)	304
	<u>2,320</u>	<u>771</u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Period (2017: 16.5%).

9. DIVIDENDS

The Directors do not recommend the payment of interim dividend for the Period (2017: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

10. EARNINGS PER SHARE

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

	Nine months ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	10,927	4,284
Shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation ('000)	139,292	137,720
Effect of dilutive potential ordinary shares ('000)	619	2,324
Weighted average number of ordinary shares in issue during the period, used in the diluted earnings per share calculation ('000)	139,911	140,044

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to achieving good corporate governance practices and procedures. The Directors believe that good corporate governance practices are essential to enhance stakeholders' confidence and support. During the Period, the Company has complied with the code provisions prescribed in the establishment and implementation of the corporate governance guidelines containing principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules except as regards the following:—

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive of the Company should be separate and should not be performed by the same individual. During the Period, the role of the chairman of the Company was performed by Mr. SABINE Martin Nevil ("Mr. Sabine"). The office of the chief executive of the Company was not filled; Mr. CHOW Wai Hung Kenneth ("Mr. Chow") performed the role of managing director of the Company's operating subsidiary in Hong Kong, Somerley Capital, and the chairman of the Company's operating subsidiary in China, Somerley Capital (Beijing) Limited. Within the Company, decisions are made collectively by the executive Directors and are discussed with senior management from time to time. The Board believes that this arrangement enables the Company to make decisions and implement follow up actions quickly and helps achieve the Company's objectives efficiently and effectively in response to the changing environment. The Board also believes that the Company has a strong corporate governance structure in place to ensure effective oversight of management. The Board will review the current structure of the Board from time to time.

Following the resignation of Mr. Higgs on 14 December 2018, the audit committee of the Company (the "Audit Committee") no longer comprises three members and the nomination committee of the Company (the "Nomination Committee") no longer comprises three members with a majority of independent non-executive Directors, which deviates from rule 5.28 of the GEM Listing Rules and the code provision A.5.1 of the CG Code respectively. The Company has identified a suitable candidate as an independent non-executive Director to fill the casual vacancy due to the resignation of Mr. Higgs and will comply with the requirements in GEM Listing Rules after making the appointment within three months from the date of Mr. Higgs ceasing to be an independent non-executive Director.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required Standard of Dealings").

Following specific enquiries to all the Directors, each of them has confirmed that they have complied with the Required Standard of Dealings throughout the Period.

COMPETING INTERESTS

The Directors are not aware of any of the Directors, the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) competes or may compete with the business of the Group and has or may have any other conflict of interest with the Group during the Period.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company (the "Shares") during the Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2018, the Directors and chief executive of the Company (the "Chief Executive") and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules were as follows:

Long position in ordinary shares of the Company

Name of Directors	Capacity/Nature of interests	Number of ordinary share(s) held	Number of underlying shares held pursuant to share options	Approximate percentage of the total number of issued shares of the Company
SABINE Martin Nevil	Interest of a controlled corporation	92,913,350 (Note 1)	—	65.90%
	A concert party to an agreement to buy shares described in s317(1)(a)	2,233,440 (Note 2)	—	1.58%
		—	645,717 (Notes 2 & 3)	0.46%
CHEUNG Tei Sing Jamie ("Mr. Cheung")	Beneficial owner	2,233,440	—	1.58%
		—	645,717 (Note 3)	0.46%
	A concert party to an agreement to buy shares described in s317(1)(a)	92,913,350 (Notes 1&2)	—	65.90%
CHOW Wai Hung Kenneth	Beneficial owner	3,754,170	—	2.66%
		—	1,877,083 (Note 3)	1.33%

Notes:

1. SGL is directly interested in 92,913,350 Shares. SGL is wholly-owned by Mr. Sabine, Mr. FLETCHER John Wilfred Sword ("Mr. Fletcher"), Mr. Cheung and Ms. FONG Sau Man Cecilia.
2. Mr. Sabine, Mr. Fletcher and Mr. Cheung are acting in concert in respect of their interests in the Company and therefore each of Mr. Sabine, Mr. Fletcher and Mr. Cheung is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.
3. These share options were granted by the Company on 19 May 2016 under the share option scheme approved and adopted by the Company on 11 May 2016. The Shares comprised in the options shall vest unto the grantees and become exercisable during the period commencing on (i) the date on which the listing of the Shares is transferred to the Main Board; or (ii) 1 January 2020, whichever is earlier, and ending on the expiry of the option period(s). The exercise price of the options is HK\$0.28 per Share.

Long position in the ordinary shares of the associated corporations

Name of Directors	Name of the associated corporations	Capacity/ Nature of interests	Number of ordinary share(s) held	Approximate percentage of the total number of issued shares of the associated corporations
SABINE Martin Nevil (Note)	Somerley China Associates Limited (Note)	Interest of a controlled corporation	2	100%
	Somerley Group Limited (Note)	Beneficial interest; A concert party to an agreement to buy shares described in s317(1)(a)	9,500,000	90.48%
CHEUNG Tei Sing Jamie (Note)	Somerley China Associates Limited (Note)	Interest of a controlled corporation	2	100%
	Somerley Group Limited (Note)	Beneficial interest; A concert party to an agreement to buy shares described in s317(1)(a)	9,500,000	90.48%

Note: SGL is the holding company of the Company and it is an associated corporation of the Company by virtue of the SFO. SGL wholly owns Somerley China Associates Limited so Somerley China Associates Limited is also an associated corporation by virtue of the SFO. Mr. Sabine, Mr. Fletcher and Mr. Cheung are acting in concert in respect of their interests in the Company and they hold approximately 90.48% of the shares of SGL. Therefore, Mr. Sabine and Mr. Cheung are interested in SGL and Somerley China Associates Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors or Chief Executive and/or any of their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Save as disclosed above, at no time during the Period had the Directors and the Chief Executive (including their spouses and children under 18 years of age) any interest in, or been granted or exercised, any rights to subscribe for the shares (or warrants or debentures, as applicable) of the Company or any of its associated corporations (within the meaning of the SFO).

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

As at 31 December 2018, substantial shareholders (not being the Directors or Chief Executive) had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, as follows:

Long position in ordinary shares of the Company

Name of substantial shareholders	Capacity/Nature of interests	Number of ordinary share(s) held	Number of underlying shares held pursuant to share options	Approximate percentage of the total number of issued shares of the Company
Somerley Group Limited	Beneficial owner	92,913,350 (Note 1)	—	65.90%
SABINE Maureen Alice ("Dr. Sabine")	Interest of a spouse	95,146,790 (Note 2)	—	67.49%
		—	645,717 (Note 2)	0.46%
FLETCHER John Wilfred Sword	A concert party to an agreement to buy shares described in s317(1)(a)	95,146,790 (Note 1)	—	67.49%
		—	645,717 (Note 1)	0.46%
FLETCHER Jacqueline ("Mrs. Fletcher")	Interest of a spouse	95,146,790 (Note 3)	—	67.49%
		—	645,717 (Note 3)	0.46%
CHOI Helen Oi Yan ("Mrs. Cheung")	Interest of a spouse	95,146,790 (Note 4)	—	67.49%
		—	645,717 (Note 4)	0.46%

Notes:

1. SGL is directly interested in 92,913,350 Shares and SGL is wholly-owned by Mr. Sabine, Mr. Fletcher, Mr. Cheung and Ms. FONG Sau Man Cecilia. Mr. Sabine, Mr. Fletcher and Mr. Cheung are acting in concert in respect of their interests in the Company and therefore each of Mr. Sabine, Mr. Fletcher and Mr. Cheung is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.
2. Dr. Sabine is the spouse of Mr. Sabine. By virtue of the SFO, Dr. Sabine is deemed to be interested in the Shares held by Mr. Sabine.
3. Mrs. Fletcher is the spouse of Mr. Fletcher. By virtue of the SFO, Mrs. Fletcher is deemed to be interested in the Shares held by Mr. Fletcher.
4. Mrs. Cheung is the spouse of Mr. Cheung. By virtue of the SFO, Mrs. Cheung is deemed to be interested in the Shares held by Mr. Cheung.

Save as disclosed above, the Directors and Chief Executive are not aware that there is any party who, as at 31 December 2018, had an interest or short position in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPLIANCE ADVISER'S INTERESTS

Neither Halcyon Capital Limited nor any of its directors or employees or close associates had any interest in the shares of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2018.

Pursuant to the agreement dated 31 May 2016 entered between Halcyon Capital Limited and the Company, Halcyon Capital Limited received and will receive fees for acting as the Company's compliance adviser.

AUDIT COMMITTEE

The Company has established the Audit Committee with specific written terms of reference formulated in accordance with the requirements of rules 5.28 to 5.29 of the GEM Listing Rules. The Audit Committee currently consists of two independent non-executive Directors, namely Mr. CHENG Yuk Wo and Mr. YUEN Kam Tim Francis. Mr. CHENG Yuk Wo is the chairman of the Audit Committee. The primary duties of the Audit Committee are mainly reviewing the annual reports and accounts, half-year reports and quarterly reports of the Group, making recommendations to the Board on the appointment and dismissal of external auditors, providing advice in respect of financial reporting, supervising risk management and internal control systems of the Group, reviewing the effectiveness of the internal audit function and monitoring any continuing connected transactions.

The Audit Committee has reviewed the unaudited consolidated results of the Group for the Period with the management and is of the view that such results comply with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the date of this report.

By order of the Board
Somerley Capital Holdings Limited
SABINE Martin Nevil
Chairman

Hong Kong, 14 February 2019

As at the date of this report, the executive Directors are Mr. SABINE Martin Nevil, Mr. CHEUNG Tei Sing Jamie and Mr. CHOW Wai Hung Kenneth; the independent non-executive Directors are Mr. CHENG Yuk Wo and Mr. YUEN Kam Tim Francis.