# Loco Hong Kong Holdings Limited
# 港銀控股有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 8162)**

Annual Report

2019

**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

*This report shall remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the Company's website at www.locohkholdings.com.*

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# CORPORATE INFORMATION

## Directors

### Executive Directors

Mr. Wang Wendong
*(Chairman and Chief Executive Officer)*
Mr. Fung Chi Kin

### Independent Non-Executive Directors

Mr. Lau Yuen Sun Adrian
Ms. Wong Susan Chui San
Mr. Zhou Tianshu
Ms. Wu Liyan

## Audit Committee

Mr. Zhou Tianshu *(Chairman)*
Mr. Lau Yuen Sun Adrian
Ms. Wong Susan Chui San
Ms. Wu Liyan

## Executive Committee

Mr. Wang Wendong *(Chairman)*
Mr. Fung Chi Kin
Mr. Kwan Fai

## Remuneration Committee

Ms. Wu Liyan *(Chairlady)*
Mr. Wang Wendong
Mr. Lau Yuen Sun Adrian
Ms. Wong Susan Chui San
Mr. Zhou Tianshu

## Nomination Committee

Mr. Wang Wendong *(Chairman)*
Mr. Lau Yuen Sun Adrian
Ms. Wu Liyan

## Company Secretary

Mr. Kwan Fai

## Compliance Officer

Mr. Fung Chi Kin

## Auditors

HLB Hodgson Impey Cheng Limited
*Certified Public Accountants*

## Share Registrar and Transfer Office

Union Registrars Limited

## Registered Office

Unit 401, 4/F., Fairmont House,
8 Cotton Tree Drive, Admiralty, Hong Kong

## Listing

GEM of The Stock Exchange of Hong Kong Limited

## Stock Code

8162

## Authorised Representatives to the Stock Exchange

Mr. Wang Wendong
Mr. Kwan Fai

## Website

www.locohkholdings.com

## Email

info@locohkholdings.com

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Loco Hong Kong Holdings Limited (the "**Company**", together with its subsidiaries, collectively referred to as the "**Group**"), I would like to present the annual report of the Group for the year ended 31 December 2019.

Affected by factors such as the international economic downturn, Sino-US trade disputes and social unrest in Hong Kong, 2019 was a very challenging year. The Group's sales of metal business was inevitably greatly affected, and its revenue was significantly reduced.

Thanks to the trust placed by each of the shareholders, I was appointed as Chief Executive Officer and Chairman of the Board of the Company in late 2018 and early 2019 respectively. During the year 2019, on the one hand, I actively adjusted the members of the Board and management team, improved the corporate governance system, and strengthened the supervision of internal control; on the other hand, I successfully introduced the education management services business for the Group. Such business has contributed a revenue of approximately Hong Kong dollars ("**HK$**") 25.2 million and a profit of approximately HK$16.7 million to the Group during the year 2019, which also mitigated the negative impact from the decline in the sales of metal business. In addition to making actual contributions to the Group's performance, the education management services business also attracted positive attention of all parties in the market and the Group's market value received a positive and good response during the year 2019.

Due to the outbreak of the novel coronavirus epidemic and other factors, the performance of the mainland market and the international economy is not optimistic. It is expected that the Group will continue to experience challenges in the year 2020, but the existing management and myself are confident to reverse the disadvantages, and will accelerate the development of education management services business, actively seek opportunities for cooperation with well-known domestic and/or international companies, expand new business areas, strive for sustainable development, and generate greater returns for all the shareholders.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and business partners for their continuous support and to our staff members for their diligence, dedication and contribution to the growth of the Group.

**Wang Wendong**
*Chairman and Chief Executive Officer*

Hong Kong, 29 April 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## Corporate Strategy and Business Model

The Group is principally engaged in trading of metal in Hong Kong accompanied with trading of commodity forward contracts for hedging purpose. Besides, the Group is also engaged in provision of education management services and provision of money lending services, which are conducted in Hong Kong and mainland of the People's Republic of China (the "**PRC Mainland**"), during the year.

The Group purchases silver raw material when we have sufficient capital and source of silver raw material. For other metals, whenever we can secure the sale, we proceed with the purchase of other metals. In order to ensure a sufficient supply of silver products to our customers, we maintain a target inventory level, by taking into account silver supplies and our processing capacity. A sales contract is originated by an inquiry from and/or a negotiation with our customers. The purchase or sales price is expressed as a discount to or a premium over the prevailing market price at a date to be agreed. Such discount or premium is negotiated on a case by case basis between us and our suppliers or customers, after taking into account various factors such as prevailing market conditions, order sizes and business relationships with our suppliers or customers.

We operate the silver processing facilities with a view to enhancing the marketability as well as facilitating the trading of our silver products. Our processing involves melting silver raw materials and moulding them into the shapes and forms required by our customers. The business models of our direct trading of silver and other metals are essentially identical to the trading of silver products which involve processing, except that we do not process the products sold under our direct trading.

The Group adopts hedging strategies to avoid adverse impact on our income arising from price fluctuation of metals. Such strategies mainly include entering into forward contracts with our commodity dealers to fix the forward price contemporaneously upon our fixing the purchase or sales price with our suppliers or customers, in order to mitigate the impact from price fluctuation.

The sales and purchase price of our silver and gold products and the hedging arrangements are determined with reference to a benchmark price quoted on the website of London Bullion Market Association and live prices published and distributed by various data vendors.

## Business Review

### Sales of metal

The Group's income was mainly generated from the sales of silver products. Since the first quarter of the year, there has been a marked shortage of silver scrap supply in the market. Due to fierce competition among the industry players, the gross margin from trading of silver products is not attractive, and related risks increased accordingly. Based on the principle of steady operation, the Group has restructured the relationships with customers and industry players, after the change in management of the sales of metal business, in the middle of the year. Under the precondition of risks under control, the Group will expand the business in trading of other metals, such as gold. The revenue from sales of metal is expected to improve in the coming year.

The Group processed approximately 48 tonnes (2018: approximately 264 tonnes) of silver scrap for the year ended 31 December 2019 of which represented a decrease of approximately 81.8% as compared with 2018.

For the year ended 31 December 2019, the Group recorded a revenue from sales of metal of approximately HK$185.7 million (2018: approximately HK$1,075.9 million), representing a decrease of approximately 82.7%. For the year ended 31 December 2019, 98% (2018: 99%) of the revenue from sales of metal was contributed by sale of silver products and the remaining was contributed by sale of gold (2018: gold).

### Provision of education management services

The Group has launched the education management services business since July 2019, mainly providing exclusive management and consulting services to various schools by our subsidiary, 四川港銀雅滙教育管理有限公司 (Sichuan Loco Yahui Education Management Limited*) ("**Loco Yahui**") in the PRC Mainland. During the year, Loco Yahui has signed education management services agreements with nine schools and contributed approximately HK$25.2 million revenue to the Group. The Group will continue to strive to expand the business in the future.

### Provision of money lending services

United Worth Finance Limited, a subsidiary of the Group has obtained a money lenders license (under Money Lenders Ordinance, Chapter 163 of the Laws of Hong Kong) since 2017 and is lawfully engaged in provision of money lending services in Hong Kong. During the year, the size of the business was still small as the Group stands in prudent approach on money lending business to earn interest from our borrowers. As at 31 December 2019, there was one credit-impaired loan receivable and loan interest receivable amounted to approximately HK$7.6 million and approximately HK$0.9 million respectively, due from a customer, which is secured by third mortgage on a property in Hong Kong. A total provision of loss allowance of approximately HK$3.1 million was provided on the credit-impaired loan receivable and loan interest receivable.

## Outlook

The Group will continue to carry on sales of metal, provision of education management services and provision of money lending services in Hong Kong and the PRC Mainland. Especially, the Group will further expand the provision of education management services business in the coming years.

The shortage of silver raw material supply, fierce competition among the industry players and the significantly fluctuation of the market price of silver may affect the silver industry of Hong Kong and our Group as we encountered in the past few years. Under the precondition of risk under control, the Group will expand the business in trading of other metals, such as gold. The revenue from trading of metal segment is expected to be improved. Besides, the Group would actively seek for new market opportunities and extend the business to investment, finance and trade on other commodities. Besides, we have started new sector of business of provision of education management services, cooperating with several well-known education organizations in Sichuan province of the PRC Mainland during the year.

* *English name for identification purpose only*

The Group will keep looking for any opportunity for the development of new business, study cooperation opportunities with Chinese or international well-known companies, use of financial and capital instruments; extend new business areas; strive for sustainable development; and strive to generate better returns for all the shareholders.

## Financial Review

For the year ended 31 December 2019, the Group had a total revenue of approximately HK$216.6 million (2018: total revenue from continuing and discontinued operations of approximately HK$1,098.0 million), representing a decrease of approximately 80.3% as compared with 2018. The Group recorded loss of approximately HK$26.3 million (2018: approximately HK$27.7 million) for the year ended 31 December 2019, representing a decrease of approximately 5.1% as compared to 2018. The decrease in loss was mainly attributable to net effect of:

(i) a significant decrease in revenue of approximately 82.7% from sales of metal as discussed in the "Business Review" section;

(ii) increase in employee costs of approximately HK$5.6 million compared to total employee costs for continuing and discontinued operations of approximately HK$18.5 million in 2018, in particular expenses related to the share options granted to the Directors and employee on 27 August 2019 of approximately HK$4.0 million;

(iii) increase in other operating expenses of approximately HK$3.3 million, in particular professional fees incurred for new projects;

(iv) fair value losses on investments in unlisted equity securities of approximately HK$3.1 million;

(v) provision of loss allowance of approximately HK$2.7 million and approximately HK$0.7 million provided on loan receivable and trade and other receivables, respectively; and

(vi) profit contributed by the newly established education management services business of approximately HK$16.7 million.

For the year ended 31 December 2019, the Group's loss attributable to owners of the Company was approximately HK$34.0 million, as compared to the loss attributable to owners of the Company of approximately HK$27.4 million for 2018.

The key performance indicators of the Group include those provided above and in the sections "Environmental, Social and Governance Report", "Business Review", "Capital Structure, Liquidity and Financial Resources" and "Financial Summary" of this annual report. They help the management to set, evaluate, implement and control strategies so as to improve our performance.

## Capital Structure, Liquidity and Financial Resources

As at 31 December 2019, the Group had cash and bank balances of approximately HK$28.7 million (2018: approximately HK$82.3 million) and net current assets of approximately HK$52.6 million (2018: approximately HK$76.2 million). As at 31 December 2019, the current ratio stood at 6.69 times (2018: 1.88 times).

The Group generally finances its operations primarily with internally generated cash. The decrease in cash balance of approximately HK$53.6 million mainly represented the investments in an associate and other financial assets, repayment of deposits received, borrowing, amounts due to related companies and loan from a related company, netting off the proceed from issue of placing shares.

As at 31 December 2019, the Group had no outstanding borrowings (2018: loan from a related company of approximately HK$27.2 million and loan from a shareholder of approximately HK$4.1 million).

As at 31 December 2019, no banking facilities were granted to the Group (2018: nil). The Directors believed that the Group has adequate financial resources to fulfill its commitments and working capital requirements.

## Placing of New Shares under General Mandate

As disclosed in the Company's announcements dated 7 February 2019 and 25 February 2019, the Company had completed placing of 96,000,000 ordinary shares of the Company at a placing price of HK$0.241 per placing share on 25 February 2019.

The placing price represents (i) a discount of approximately 19.67% to the closing price of HK$0.300 per share as quoted on the Stock Exchange on 4 February 2019, being the last trading day for the shares prior to the date of the placing agreement, and (ii) a discount of approximately 8.02% to the average closing price of approximately HK$0.262 per share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the placing agreement.

The net proceeds from the placing was approximately HK$21.6 million, after deducting relevant expenses incurred in relation to the placing, which was used as the general working capital of the Group.

As at 31 December 2019, the aforesaid net proceeds use which are consistent with the intended use of proceeds has been applied as follows:

| | **Intended use of proceeds** HK$'000 | **Utilized amount of proceeds** HK$'000 | **Unutilized amount of proceeds** HK$'000 |
|---|---|---|---|
| General working capital | 21,582 | 21,582 | – |

## Capital Commitment

As at 31 December 2019, the Group did not have any significant capital commitment.

## Employees and Remuneration Policy

As at 31 December 2019, the Group employed a total of 28 staff. The total employee costs, including remuneration of the Directors, for the year ended 31 December 2019 amounted to approximately HK$24.1 million.

The remuneration policy and package of the Group's employees are periodically reviewed. Share options and bonuses are also available to employees of the Group at the discretion of the Board and depending upon the financial performance of the Group.

## Charge on the Group's Assets

As at 31 December 2019, no assets of the Group were pledged as security.

## Future Plan for Material Investments and Capital Assets

The Group does not have any concrete plan for material investments or capital assets for the coming year. Nonetheless, if any potential investment opportunity arises in the coming year, the Group will prepare the feasibility study and implementation plan when it is beneficial to the Group and its shareholders as a whole.

## Significant Investments, Acquisitions and Disposals

On 7 May 2019, an inactive wholly-owned subsidiary of the Group, Loco Precious Metal Limited ("**LPM**") allotted and issued a total of 19,990,000 fully paid new shares at price of HK$1 per share. 7,990,000 shares were allotted to the Group and 12,000,000 shares were allotted to an independent third party. As a result, the issued shares of LPM was increased to 20,000,000 shares and the Group held 8,000,000 shares, representing 40% equity interest in LPM. The Group ceased to has the control over LPM, however, the Group still has significant influence over LPM and thus is accounted for as an associate since 7 May 2019.

On 30 April 2019, the Group acquired 7,920,000 shares of Lexus Group (Asia) Limited ("**Lexus Group**"), representing 18% equity interest in Lexus Group at consideration of approximately HK$7,920,000.

On 16 May 2019, the Group acquired further 1,200 new shares of Grand Max Enterprises Limited ("**Grand Max**"), representing 10% equity interest in Grand Max at consideration of approximately HK$7,500,000. As a result, the Group held 2,000 shares, representing 16.67% equity interest in Grand Max.

As Mr. Felipe Tan, the executive Director solely responsible for the above investments, has resigned on 20 July 2019, the management is following up actively and in assessment for the status and business prospects of the above investments. During the year ended 31 December 2019, fair value losses of approximately HK$1.1 million and approximately HK$2.0 million were recorded for Lexus Group and Grand Max, respectively, based on independent professional valuations.

Save as disclosed above, there were no significant investments held as at 31 December 2019, nor other material acquisition and disposal of subsidiary during the year ended 31 December 2019.

## Dividends

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

## Gearing Ratio

The Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by total capital.

As at 31 December 2019, no gearing ratio is presented as the Group has net cash surplus (2018: net cash surplus).

## Foreign Exchange Exposure

Our sales, purchase and borrowings are predominantly denominated in HK$, United States dollars and Renminbi. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, management will continue to monitor the foreign exchange exposure position and will take any future measures if appropriate.

## Contingent Liabilities

The Group did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any member of our Group as at 31 December 2019 and there has not been any material change in the contingent liabilities of the Group since 31 December 2019.

## Events after the Reporting Period

The outbreak of the novel coronavirus ("**COVID-19**") in late January 2020 has adversely affected the Group's daily operation and patronage of local and cross-boundary transport. The Group has been implementing a number of measures to lessen the impact and will continue to closely monitor further effect that could be caused by COVID-19 on the business operation and financial position of the Group.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Wang Wendong** (“**Mr. Wang**”), aged 52, has been appointed as an executive Director in May 2018 and re-designated as chief executive officer of the Company in October 2018. Mr. Wang was also appointed as the chairman of the Company since January 2019. Mr. Wang has more than 25 years of extensive experience in real economy investment. Since the 1990s, Mr. Wang has served as a group vice president in an international group of companies. Such group has significant footprint in the PRC Mainland and Hong Kong including international trade, farming, education, culture industry, real estate and consumer goods.

Since his appointment as the chairman of the Board at the beginning of 2019, Mr. Wang has continuously adjusted and enhanced the composition of the Board and management members of the Company to ensure the healthy development of the precious metal industry, and successfully introduced a new industry (the educational management service industry) to obtain returns and profits in the year of investment. Positive and favourable responses have been received given the robust market capitalisation of the Company. With the continuous efforts of Mr. Wang in improving and strengthening the management and internal control, the Company is in a more sound financial position with significant potential in industrial development.

**Mr. Fung Chi Kin** (“**Mr. Fung**”), aged 70, has been appointed as an executive Director since June 2019 and also appointed as the compliance officer of the Company in August 2019. Mr. Fung is the honorary permanent president of the Chinese Gold & Silver Exchange Society and director of Fung Chi Kin Consulting Limited. Mr. Fung has over 33 years of experience in banking and finance. Prior to his retirement, he was the director and deputy general manager of Po Sang Bank Limited (merged into Bank of China (Hong Kong) Limited in 2001), managing director of BOCI Securities Limited and chief administration officer of BOC International Holdings Limited. From October 1998 to June 2000, Mr. Fung served as a council member of the first Legislative Council of the HKSAR. He also held offices in various public organizations and was the vice chairman of the Stock Exchange, director of the Hong Kong Futures Exchange Limited, director of Hong Kong Securities Clearing Company Limited and Hong Kong Affairs Advisor. Mr. Fung is appointed as a non-executive director of Sang Hing Holdings (International) Limited (Stock Code: 1472) since July 2018, the shares of which are recently listed on the Main Board of the Stock Exchange from 17 March 2020. Mr. Fung also served as an executive director and compliance officer of China Trustful Group Limited (formerly known as Powerwell Pacific Holdings Limited) (Stock Code: 8265) from March 2019 to October 2019 and from September 2014 to May 2017, the shares of which are listed on GEM of the Stock Exchange. Mr. Fung has been an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (Stock Code: 682) since September 2003 and Geotech Holdings Ltd. (Stock Code: 1707) since September 2017 respectively. Mr. Fung has also been an independent non-executive director of China Overseas Nuoxin International Holdings Limited (formerly known as Kenford Group Holding Limited) (Stock Code: 464) from August 2017 to April 2019. Each of the shares of Chaoda Modern Agriculture (Holdings) Limited, Geotech Holdings Ltd. and China Overseas Nuoxin International Holdings Limited are listed on the Main Board of the Stock Exchange.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

**Mr. Lau Yuen Sun Adrian** ("**Mr. Lau**"), aged 65, has been appointed as an independent non-executive Director since January 2019. Mr. Lau holds a Bachelor Degree in Commerce from University of Windsor in Canada, has extensive experience in banking and investment. Mr. Lau had worked for the National Bank of Canada as the vice president of Asia region as well as the chief executive of the Hong Kong branch from September 1994 to December 1996. Mr. Lau has served directorships in various listed companies in Hong Kong, he was an independent non-executive director of PT International Development Corporation Limited (Stock Code: 372), a company listed on the Main Board of the Stock Exchange from March 2017 to April 2018. Mr. Lau is currently an independent non-executive director of Yeebo (International Holdings) Limited (Stock Code: 259), a company listed on the Main Board of the Stock Exchange.

**Ms. Wong Susan Chui San** ("**Ms. Wong**"), aged 46, has been appointed as an independent non-executive Director since February 2019. Ms. Wong has been a certified practising accountant of the Australian Society of Certified Practising Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants since May 1999 and May 2000, respectively. She is also a member of The Society of Chinese Accountants and Auditors, a fellow and a certified tax adviser of the Taxation Institute of Hong Kong. Ms. Wong has more than 20 years of experience in auditing, accounting and taxation. She is the founder of Messrs. C.S. Wong & Co. and a director of Pan-China (H.K.) CPA Limited. Ms. Wong has been an independent non-executive director of Ban Loong Holdings Limited (Stock Code: 30) which is listed on the Main Board of the Stock Exchange since October 2014. From January 2015 to September 2019, Ms. Wong was the chief financial officer and company secretary of Astrum Financial Holdings Limited (Stock Code: 8333) which is listed on GEM of the Stock Exchange. From April 2012 to August 2015, Ms. Wong was as the company secretary of Yin He Holdings Limited (formerly known as Zebra Strategic Holdings Limited) (Stock Code: 8260) which is listed on GEM of the Stock Exchange. From November 2014 to June 2017, Ms. Wong was also the company secretary of Youth Champ Financial Group Holdings Limited (formerly known as Grand Investment International Limited) (Stock Code: 1160) which is listed on the Main Board of the Stock Exchange.

**Mr. Zhou Tianshu** ("**Mr. Zhou**"), aged 44, has been appointed as an independent non-executive Director since September 2018. Mr. Zhou is currently the senior vice president of 深圳雲怡通航科技有限公司 (Shenzhen Yunyi General Aviation Technology Limited*) and was the executive CEO of Skyho Aviation Technology Co., Ltd.. Mr. Zhou received a bachelor's degree in engineering from Civil Aviation University of China and a master's degree in law from Wuhan University. Mr. Zhou has over 20 years of experience in enterprise planning, business investment and risk control. Mr. Zhou has worked in a major state-owned aviation enterprise in the PRC Mainland for over 17 years, mainly in enterprise planning and management positions. Mr. Zhou also held management positions in China Aircraft Leasing Group Holdings Limited (Stock Code: 1848), which is listed on the Main Board of the Stock Exchange and its subsidiary, Aircraft Recycling International Limited.

**Ms. Wu Liyan** ("**Ms. Wu**"), aged 34, has been appointed as an independent non-executive Director since September 2018. Ms. Wu is currently the marketing director of Pacific International Securities Limited. Ms. Wu received a bachelor's degree in science from University of Minnesota and a master's degree in science from New York University. Ms. Wu has more than 10 years of marketing and business development experiences in renowned investment management companies.

* *English name for identification purpose only*

## Compliance Officer

**Mr. Fung Chi Kin** is the compliance officer of the Company.

## Company Secretary

**Mr. Kwan Fai** ("**Mr. Kwan**"), aged 34, has been appointed as the company secretary of the Company since August 2018. Mr. Kwan has more than 9 years of accounting and auditing experiences in reputable international accounting firms. Prior to joining the Company, he served as a manager in an international accounting firm. Mr. Kwan received a degree of Bachelor of Business Administration in Accountancy from the Hong Kong Polytechnic University in October 2009. Mr. Kwan has been admitted as a member of the Hong Kong Institute of Certified Public Accountants since March 2015.

# CORPORATE GOVERNANCE REPORT

The Group is committed to attain a high standard of corporate governance practices to safeguard the interests of its shareholders and enhance the shareholder value.

## Code on Corporate Governance Practices

During the year ended 31 December 2019, the Group has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 to the GEM Listing Rules (the "**Code Provisions**") except the deviation from A.2.1 of the Code Provisions. The Board reviews and improves its corporate governance practices from time to time so as to ensure that they comply with the statutory requirements and the Code Provisions.

## Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions carried out by Directors, that is not laxer than relevant standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all Directors, they confirmed they have complied with the standards of dealings and the code of conduct regarding securities transactions carried out by Directors, adopted by the Company throughout the year ended 31 December 2019.

## Board of Directors

### (a) Board Composition

The Board currently consists of six Directors including two executive Directors, namely Mr. Wang Wendong and Mr. Fung Chi Kin; and four independent non-executive Directors, namely Mr. Lau Yuen Sun Adrian, Ms. Wong Susan Chui San, Mr. Zhou Tianshu and Ms. Wu Liyan.

The biographical details of all Directors and senior management of the Company are set out on pages 11 to 13 of this annual report. To the best knowledge of the Company, save as disclosed under the section "Biographical Details of Directors and Senior Management", there is no financial, business, family or other material or relevant relationships among members of the Board.

### (b) Function of the Board

The Board considers, oversees and approves the overall businesses, strategic direction and financial performance of the Group; develops and performs the corporate governance duties of the Group; monitors the implementation of these policies and strategies and responsible for the management of the Group. The Board is the ultimate decision-making body of the Company except for matters requiring shareholder approval pursuant to the Articles of Association of the Company (the "**Articles**"), the GEM Listing Rules and other applicable laws and regulations.

Daily operation of the Company is delegated to the management team with substantial experience and expertise to which the Board delegates the authority and responsibility for implementing the policies and strategies of the Group.

### (c) Board Meetings

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles.

The Board schedules four meetings a year at approximately quarterly intervals and will meet as necessary. The Company Secretary prepares minutes to record matters discussed and decisions resolved at the Board meetings. Minutes are kept by the Company Secretary with copies circulated to all Directors for information and records.

The Board held 15 meetings during the year ended 31 December 2019. The Directors' attendance to the Board meetings is listed out on page 21.

### (d) Appointment, Re-election and Removal of Directors

Under A.4.1 of the Code Provisions, independent non-executive directors should be appointed for a specific term, subject to re-election. Each of the independent non-executive Directors have entered into a service contract with the Company for a term of one year commencing from date of appointment or re-appointment subject to termination, among others, by giving not less than one month's written notice.

Each of the executive Directors have entered into a service contract with the Company for a term of one year commencing from date of appointment or re-appointment to termination in certain circumstances as stipulated in the relevant service contract.

In compliance with A.4.2 of the Code Provisions, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. By virtue of article 68 of the Articles, the Board may, at any time, and from time to time, appoint any person to be a Director, either to fill a casual vacancy or by way of addition to their number so long as the number of Directors does not exceed the maximum number determined from time to time (if any) by the shareholders in any general meeting. Any Director so appointed to fill a casual vacancy shall hold office until the first general meeting of members after the appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for reappointment, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.

In compliance with A.4.2 of the Code Provisions, every director, should be subject to retirement by rotation at least once every three years. Further, pursuant to article 69 of the Articles, at each annual general meeting, one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number of Directors nearest to but not greater than one third of the total number of Directors (or such other number as may be required under applicable legislation), shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who become Directors on the same day, the Directors to retire shall be (unless otherwise agreed amongst themselves) in order by which such Directors were appointed on the day of their last election.

### (e) Independent Non-Executive Directors

The Company has four independent non-executive Directors which complies with Rule 5.05(1) of the GEM Listing Rules. Among the four independent non-executive Directors, Ms. Wong Susan Chui San has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 5.05(2) of the GEM Listing Rules. The independent non-executive Directors represent at least one-third of the Board in compliance with Rule 5.05A of the GEM Listing Rules.

The Company has received from each of the independent non-executive Directors a written confirmation or an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors are or have been remained independent.

### (f) Chairman and Chief Executive Officer

A.2.1 of the Code Provisions stipulates that the roles of chairman and chief executive officer should be separated. Currently, Mr. Wang Wendong holds both positions. Since Mr. Wang Wendong joined the Company in May 2018, he has held the key leadership position of the Group and has been involved in the formulation of corporate strategies and management of business and operations of the Group gradually. Taking into account the consistent leadership within the Group and in order to enable more effective and efficient overall strategic planning and continuation of the implementation of such plans, the Directors (including independent non-executive Directors) consider that Mr. Wang Wendong is the best candidate for both positions and the present arrangements are beneficial and in the interests of the Group and the shareholders as a whole.

### (g) Directors' Participation in Continuous Professional Trainings

According to A.6.5 of the Code Provisions, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the GEM Listing Rules and other relevant regulatory requirements. During the year, the Company has arranged and/or introduced some training courses/ relevant reading materials for the Directors to develop and explore their knowledge and skills in relation to the updates on laws, rules and regulations which might be relevant to their roles.

The Directors confirmed that they have complied with A.6.5 of the Code Provisions on the directors' training. During the year, all Directors who were in office as at 31 December 2019 have participated in continuous professional development by attending seminars or reading materials to develop and refresh their knowledge and skills.

| Name of Directors | Attending training courses/reading relevant materials in relation to the business, GEM Listing Rules or directors' duties |
|---|---|
| **Executive Directors:** | |
| Mr. Wang Wendong | Yes |
| Mr. Fung Chi Kin (appointed on 26 June 2019) | Yes |
| **Independent Non-Executive Directors:** | |
| Mr. Lau Yuen Sun Adrian (appointed on 30 January 2019) | Yes |
| Ms. Wong Susan Chui San (appointed on 27 February 2019) | Yes |
| Mr. Zhou Tianshu | Yes |
| Ms. Wu Liyan | Yes |

### (h) Directors' and Officers' Liabilities Insurance and Indemnity

The Company has arranged for appropriate liability insurance and indemnity covering the liabilities in respect of the legal action against the Directors that may arise out in the corporate activities which has been complied with the Code Provisions. The insurance coverage is reviewed on an annual basis.

### (i) Board Diversity Policy

The Board has adopted a board diversity policy, setting out the approach to achieve diversity within the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, culture and education background, professional experience, skills, knowledge and length of service. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The nomination committee of the Company (the "**Nomination Committee**") is responsible for reviewing the board diversity policy and monitor the progress on achieving the objectives set for implementing the said policy from time to time. The Nomination Committee shall review this policy and the measurable objectives at least annually, and as appropriate, to ensure the continued effectiveness of the Board.

## Board Committees

### (a) Audit Committee

We established our audit committee (the "**Audit Committee**") on 22 July 2014 with written terms of reference that was amended and adopted with effect from 2 January 2019 in compliance with C.3 of the Code Provisions. The duties of the Audit Committee include, amongst others, reviewing, in draft form, our annual report and accounts, half-year report and quarterly report and providing advice and comments to the Board. In this regard, members of the Audit Committee will liaise with the Board, our senior management and the Company's auditors. Our Audit Committee will also consider any significant or usual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by our accounting staff, compliance officers or auditors. Members of our Audit Committee are also responsible for reviewing our Company' s financial reporting system, risk management and internal control systems.

Our Audit Committee currently comprises four independent non-executive Directors, namely Mr. Zhou Tianshu, Mr. Lau Yuen Sun Adrian, Ms. Wong Susan Chui San and Ms. Wu Liyan. Mr. Zhou Tianshu is the chairman of the Audit Committee.

During the year ended 31 December 2019, the Audit Committee held 9 meetings, at which it has reviewed the annual, interim and quarterly results, evaluated the Group's financial reporting process and made recommendations to improve the Company's risk management and internal control systems, discussed with the external auditors the nature and scope of the audit and reporting obligations before the audit commences, and made recommendation to the Board on re-appointment and change of the external auditors. The members' attendance to the Audit Committee meetings is listed out on page 21.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2019 which were audited by HLB Hodgson Impey Cheng Limited, whose term of office will expire upon the coming annual general meeting. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited will be re-appointed as the auditors of the Company at the coming annual general meeting. During the year, the Board did not take different view from the Audit Committee on the appointment of external auditors.

### (b) Executive Committee

We established our executive committee (the "**Executive Committee**") on 19 December 2016 with written terms of reference. The Executive Committee is mainly responsible for monitoring the formulation, revision and implementation of the Company' s strategic plan and monitor the operation of its subsidiaries.

Our Executive Committee currently comprises two executive Directors, namely Mr. Wang Wendong, Mr. Fung Chi Kin and one key personnel of the Company, Mr. Kwan Fai. Mr. Wang Wendong is the chairman of the Executive Committee.

During the year ended 31 December 2019, no meetings were held by the Executive Committee.

### (c) Remuneration Committee

We established our remuneration committee (the "**Remuneration Committee**") on 22 July 2014 with written terms of reference in compliance with B.1 of the Code Provisions. Amongst other things, the primary duties of the Remuneration Committee are to make recommendations to the Board on remuneration packages of all of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on remuneration of independent non-executive Directors.

Our Remuneration Committee currently comprises four independent non-executive Directors, namely Ms. Wu Liyan, Mr. Lau Yuen Sun Adrian, Ms. Wong Susan Chui San and Mr. Zhou Tianshu and one executive Director, Mr. Wang Wendong. Ms. Wu Liyan is the chairlady of the Remuneration Committee.

During the year ended 31 December 2019, the Remuneration Committee held 4 meetings, at which it has reviewed the remuneration of each Director and made recommendations to the Board, and made recommendations to the Board on remuneration of each newly appointed Director. The members' attendance to the Remuneration Committee meetings is listed out on page 21.

Details of the Directors' emoluments for the year ended 31 December 2019 are set out in note 8 to the consolidated financial statements.

Pursuant to B.1.5 of the Code Provisions, the remuneration of the senior management (excluding the Directors) by band for the year ended 31 December 2019 is set out below:

| Emolument bands | Number of Individuals |
|---|---|
| HK$1,000,001 to HK$1,500,000 | 1 |

## (d) Nomination Committee

We established the Nomination Committee on 22 July 2014 with written terms of reference that was amended and adopted with effect from 2 January 2019 in compliance with A.5 of the Code Provisions. The Nomination Committee is mainly responsible for making recommendations to the Board on appointment and succession planning of our Directors. During the year, the diversity of the Board members was achieved by considering of a number of aspects, including but not limited to gender, age, culture and education background, professional experience, skills, knowledge and length of service of each Director. The Company recognizes and embraces the benefits of diversity of the Board members. It endeavors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company' s business.

Our Nomination Committee currently comprises two independent non-executive Directors, namely Mr. Lau Yuen Sun Adrian and Ms. Wu Liyan and one executive Director, Mr. Wang Wendong. Mr. Wang Wendong is the chairman of the Nomination Committee.

During the year ended 31 December 2019, the Nomination Committee held 5 meetings, at which it has reviewed the structure, size and composition of the Board, and made recommendations on proposed changes to the Board to complement the Company's corporate strategy. The members' attendance to the Nomination Committee meetings is listed out on page 21.

### (e) Attendance at Board Meetings, Board Committee Meetings and General Meetings

Details of the attendance of the Directors at the Board meetings, Board committee meetings and general meetings during the year are as follows:

| | Number of Meetings Attended/Held During the Year | | | | | |
|---|---|---|---|---|---|---|
| **Name of Directors** | **Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **Executive Committee Meeting** | **Annual General Meeting** |
| **Executive Directors** | | | | | | |
| Mr. Wang Wendong (Note 1) | 15/15 | N/A | 4/4 | 5/5 | 0/0 | 1/1 |
| Mr. Fung Chi Kin (Note 2) | 6/6 | N/A | N/A | N/A | 0/0 | N/A |
| Mr. Zhu Hongguang (Note 3) | 11/11 | N/A | N/A | 5/5 | 0/0 | 0/1 |
| Mr. Felipe Tan (Note 4) | 8/10 | N/A | N/A | N/A | N/A | 1/1 |
| **Independent Non-Executive Directors** | | | | | | |
| Mr. Lau Yuen Sun Adrian (Note 5) | 12/12 | 8/8 | 3/3 | 3/3 | N/A | 1/1 |
| Ms. Wong Susan Chui San (Note 6) | 8/9 | 7/7 | 1/2 | N/A | N/A | 1/1 |
| Mr. Zhou Tianshu | 15/15 | 9/9 | 4/4 | N/A | N/A | 1/1 |
| Ms. Wu Liyan | 15/15 | 9/9 | 4/4 | 5/5 | N/A | 1/1 |
| Ms. Tsang Wai Chun Marianna (Note 7) | 9/9 | 5/5 | 4/4 | 5/5 | N/A | 1/1 |
| Ms. Dai Meihong (Note 8) | 5/5 | 2/2 | 1/1 | 2/2 | N/A | N/A |

Note 1: appointed as chairman of the Board on 11 January 2019

Note 2: appointed as Director and member of the Executive Committee on 26 June 2019; appointed as compliance officer on 20 August 2019

Note 3: resigned as chairman of the Board on 11 January 2019; resigned as Director, compliance officer, member of each of the Nomination Committee and the Executive Committee on 20 August 2019

Note 4: resigned as Director on 20 July 2019

Note 5: appointed as Director, member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee on 30 January 2019

Note 6: appointed as Director, member of each of the Audit Committee and the Remuneration Committee on 27 February 2019

Note 7: resigned as Director, member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee on 28 June 2019

Note 8: resigned as Director, member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee on 27 February 2019

## Auditors' Remuneration

For the year ended 31 December 2019, the fees paid/payable to the Company's external auditors in respect of the audit and non-audit services were as follows:

| **Type of services** | HK$ |
|---|---|
| Audit services | 600,000 |
| Non-audit services | 64,000 |
| Total | 664,000 |

The non-audit services mainly included tax compliance and other tax services.

## Directors' and Auditors' Responsibility for the Financial Statements

Statements of the Directors' responsibility for preparing the consolidated financial statements and the auditors of the Company about their reporting responsibilities are set out in the Independent Auditors' Report of this annual report.

## Risk Management and Internal Control

The Board acknowledges its responsibility for the effectiveness of the Group' s internal control and risk management systems. The Audit Committee assists the Board in meeting its responsibilities for maintaining an effectiveness of the systems of internal control and risk management of the Group, covering all material controls, including financial and operation. The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failures to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group would choose certain material risk events in its field every year and assess and grade the possibility of occurrence and influence of risk events to determine the scope of material risk of the year together with the management of the Group. Procedures have been designed to facilitate the effectiveness and efficiencies of operations, safeguard assets against unauthorized use and disposition, ensuring the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensuring compliance of applicable laws, rules and regulations. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Group does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. The Board engaged an independent consultant company to conduct internal audit function in order to review the effectiveness of the Group's risk management and internal control systems during the year and is of the view that the systems of risk management and internal control adopted for the year ended 31 December 2019 were assessed to be satisfactory and were functioning properly, to a large extent, in safeguarding the assets employed by the Group.

The Audit Committee reviewed the internal control review report issued by the independent consultancy company on the Company's risk management and internal control systems in respect of the year ended 31 December 2019 and considered that they are effective and adequate. The Board assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the Audit Committee and concurred the same. It also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

## Company Secretary

The Company Secretary is an employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on governance matters. The Company Secretary, Mr. Kwan Fai, has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out on page 13 of this annual report.

## Changes in Constitutional Documents

During the year ended 31 December 2019, there was no change in the constitutional documents.

## Shareholders' Rights

Shareholders holding at the date of deposit of the requisition not less than 5% of the total voting rights of all the members having a right to vote at general meetings of the Company and shall at all times have the right, by written requisition to the Board, to require an extraordinary general meeting ("**EGM**") to be convened by the Board. Such requisition, signed by the shareholders concerned, must state the general nature of the business to be dealt with at the meeting and may include a text of resolution that is intended to be moved at the meeting. If within 21 days from the date of such deposit, the Board fails to proceed to such meeting the shareholders concerned may themselves convened an EGM, but any EGM so convened shall not be held after the expiration of three months after the date on which the Directors become subject to the requirement to call a meeting.

If a shareholder (other than the candidate) wishes to propose any candidate as director of the Company, the following documents should be duly lodged at the head office of the Company at Unit 401, 4/F., Fairmont House, 8 Cotton Tree Drive, Admiralty, Hong Kong for the attention of the Company Secretary, not earlier than the day after the dispatch of the notice of the general meeting and not later than seven days prior to the date fixed for the meeting:

(a) a written notice by the shareholder of his intention to propose a resolution for the appointment or reappointment of that candidate, duly signed by the shareholder with his/her name and address stated clearly in an eligible manner, the validity of which is subject to verification and confirmation by the Company's share registrar according to its records;

(b) a written notice duly executed by the candidate of his willingness to be appointed or re-appointed;

(c) written consent of the publication of the candidate's information together with the candidate's biographical information as required by Rule 17.50(2) of the GEM Listing Rules; and

(d) the candidate's written consent to the publication of his/her personal data.

## Communication with Shareholders

The Company recognizes the importance of maintaining an on-going communication with shareholders to ensure that shareholders are kept well informed of the business activities and direction of the Group.

The Company uses a range of communication tools including various notices, announcements, circulars, annual report and annual general meeting to disclose relevant information to shareholders. Separate resolutions are proposed at general meeting on each substantially separate issue, including the re-election of Directors. The Chairman and the chairmen of all board committees, together with the external auditors, shall attend the annual general meeting to answer the enquiries of shareholders. In compliance with the Code Provision E.1.3, the notice of annual general meeting will be sent to shareholders at least 20 clear business days before the meeting.

To further promote the effective communication with shareholders and the public, the corporate website is maintained to disseminate the information of the Group electronically on a timely basis.

## Policy on Payment of Dividends

The Company currently do not have a fixed dividend policy and may declare dividends by way of cash or by other means that the Directors consider appropriate. A decision to declare any interim dividend or recommend any final dividend would require the approval of the Board and depend upon the following factors:

(a) the Group’s financial results;

(b) the shareholders’ interests;

(c) general business conditions, strategies and future expansion needs;

(d) the Group’s capital requirements;

(e) the payment by its subsidiaries of cash dividends to the Company;

(f) possible effects on liquidity and financial position of the Group; and

(g) other factors as the Board may consider relevant.

## Voting by Poll

All resolutions put to the general meeting will be voted by poll at the meeting in accordance with the requirements of the GEM Listing Rules.

To ensure that shareholders are familiar with the detailed procedures for conducting a poll, the chairman of the meeting will explain the detailed procedures for conducting a poll at the commencement of the meeting and then answer any questions from shareholders regarding voting by way of a poll.

At the conclusion of the general meeting, the poll results will be published on the GEM website and the Company’s website.

## Enquiries to the Board

Enquiries from shareholders to the Board can be sent in writing to the Company at the registered office in Hong Kong or by email to info@locohkholdings.com as stated on the Company’s website.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This report is the fourth Environmental, Social and Governance Report (the "**ESG Report**") published by the Group, which enables stakeholders to know more about the Group's progress and direction in sustainability aspects by reporting on its policies, measures and performance in various sustainability issues.

The ESG Report is prepared and published in both Chinese and English at the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.locohkholdings.com). In the event of contradiction or inconsistency between the Chinese version and the English version, the English version shall prevail.

### Reporting Scope

The ESG Report is consistent with the last report, covering the Group's business activities in the PRC Mainland offices, Hong Kong office and metal processing facility, which represent the Group's major sources of revenue. The ESG key performance indicators ("**KPI**") data is gathered and included subsidiaries under the Group's direct management control. The Group has reported the following core business:

1) Trading of metal and commodity forward contracts;

2) Provision of money lending services; and

3) Provision of education management service.

The businesses of trading of metal and commodity forward contract and the provision of money lending services are operating in Hong Kong for the year ended 31 December 2019, i.e. the reporting year. The education management services business was launched in second half of 2019, the business is to provide exclusive education management and consulting services to various schools in Chengdu, the PRC Mainland.

To enable comparison of the Group's yearly performance and progress in sustainability, the reporting methodologies of the two consecutive reports are aligned.

All our core businesses mentioned are covered in the ESG Report.

### Reporting Standards

The ESG Report is prepared in accordance with all applicable provisions set out in the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") under Appendix 20 of the GEM Listing Rules of the Stock Exchange.

All the information cited in this report was derived from the Group's official documents, statistical data as well as management and operational information collected in accordance with the Group's policies. The ESG Report has been confirmed and approved by the Board on 29 April 2020.

### Feedback

Stakeholder opinions matter as they facilitate the Group to map out important environmental, social and governance ("**ESG**") issues, and give the Group inspiration on how to improve its ESG performance. If you have any comments about the report, please contact the Group via the following channels:

Mail: Unit 401, 4/F Fairmont House, 8 Cotton Tree Drive, Admiralty, Hong Kong
Email: info@locohkholdings.com
Phone: 2203 0999
Fax: 2205 0099

### Stakeholder Engagement

The Group is committed to operating in a socially responsible and transparent manner with regards to all stakeholders, including employees, customers, shareholders, suppliers, regulatory authorities and the general community. To maintain and develop good corporate citizenship, we aim to engage fully and openly with all stakeholders through a diverse array of effective communication channels.

| | |
|---|---|
| Employees | • Annual performance appraisal system<br>• Training, seminars and briefing sessions<br>• Staff communication |
| Customers | • Client relationship contacts<br>• Company website<br>• Customer service hotline |
| Shareholders | • Annual general meeting and other general meetings<br>• Investor and press conferences and briefings<br>• Company website<br>• Corporate communications including announcements, press releases, circulars, interim and annual reports |
| Suppliers | • Regular supplier communications and reviews |
| Regulators | • Regular meetings and communications<br>• On-site review<br>• Compliance reports<br>• Training, focus groups and other events |
| Community | • Sponsorships and donations |

### Materiality Assessment

The Group directly engaged with our stakeholders as part of the materiality assessment process for developing the report. Materiality is determined by considering Group's most significant economic, environmental, social impacts and stakeholders' concerns.

Based on the results of the assessment, the Company will review its longer-term strategy for addressing specific sustainability issues and explore future opportunities for improving the sustainability performance and reporting.

The Group's material ESG issues summaries as follows:

Material environmental aspects:

- Use of electricity
- Hazardous waste
- Air emissions

Material social aspects

- Product responsibility
- Health and safety
- Anti-corruption

## (A) ENVIRONMENTAL ASPECTS

The Group is principally engaged in the trading of metals in Hong Kong. Silver scrap is purchased as raw material for processing into finished silver products in our scrap metal processing facility in Kwai Chung. Its operation enhances the marketability and facilitates the trading of our silver products. The metal processing facility in Kwai Chung occupying 7,500 sq. ft. houses the fully integrated metal melting plant.

Hong Kong has a very stringent control regime on matters which are covered by the ESG Report and especially on pollution and water discharge. The Group, in order to develop a sustainable business and striving for a higher level of product quality and business return, undertakes environmental protection in a very serious and responsible manner. The Group is determined and committed to developing a sustainable business and have taken initiatives to secure a sustainable and environmentally-friendly production and operating processes by taking all practicable and possible measures to comply with the relevant applicable statutory provisions. Abiding by the law and complying with regulatory standards are the guiding principle of the Group.

## A1. Emissions

### (a) Policy

Most of the Group's business activities are of a general office nature and do not generate air emission which has a significant impact or materiality to the environment as far as the Group is concerned with the exception of the scrap metal processing facility. Silver scrap is melted in our scrap metal processing facility and processed into various sizes, shapes and forms as specified by our customers. In this process, water is used for cooling after which is then discharged as wastewater.

Except for this wastewater, there are no other significant air emissions and hazardous wastes generated from our operations. As for wastewater discharge, the Group strictly complies with the stipulations of the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) and the terms and conditions per the license issued pursuant to Section 20 of the Ordinance. The Group attaches serious concern and attention to this area and abides by all applicable laws and statutory provisions and takes all measures to ensure strict compliance.

### (b) Compliance with relevant laws and regulations that have a significant impact on the Group

The operations and activities of the scrap metal processing facility are subject to the statutory control regime of pollution control. The Group has obtained all the required statutory registrations and licenses required of the metal processing facility: (i) Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) – Waste Disposal (Chemical Waste) (General) Regulation and (ii) Registration as a Chemical Waste Producer and (iii) Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) – Victoria Harbour (Phase One) Water Control Zone.

In order to obtain relevant registrations or licenses, the Group must ensure its chemical wastes (e.g. residual acidic solution, if any) will undergo proper treatment before final disposal. This process is under the supervision and monitoring of third-party companies registered with government and subject to the inspection of the law enforcers.

The Group adopts all appropriate measures to ensure that the quantity, quality and composition of any discharge from our metal processing facility shall not exceed the limits stipulated by the Environmental Protection Department of government. The Group strictly complies with all stipulations of the laws, regulations and policies on disposal.

Our metal processing facility is subject to the unannounced visits and inspection of the government authority. During the year, the Group has not received any fines, complaints or warnings with regard to any hazardous gas emissions or pollutions in air, noise, water or waste discharge.

Besides non-toxic cooling water, other wastes produced which are of a general office nature are properly disposed of by licensed waste collector after undergoing the required treatment.

For the year ended 31 December 2019, the Group is straightly in compliance with relevant laws and regulations in this regard.

**The types of emission and emission data of the Group (KPI A1.1)**

General business operations and activities of the Group are no different from an ordinary office. With the exception of the metal processing facility, we do not generate complicate emission which is considered of significant impact or materiality to the environment, our operations or the control regime. Hazardous and non-hazardous emissions are identified and reported in below.

**Greenhouse Gas Emission (KPI A1.2)**

The Group generates greenhouse gas indirectly through the use of electricity in the offices and the metal processing facility.

For the year ended 31 December 2019, the Group emitted approximately 32.41 tonnes of carbon dioxide equivalent ("**$CO_2$-e**") through the use of electricity (2018: approximately 86.67 tonnes $CO_2$-e). The greenhouse gas emission from our Hong Kong metal processing facility and office had been drastically reduced by 63% against year 2018, however, the greenhouse gas emissions per million HK$ revenue increased more than 100%, which was the result of the decrease in the business turnover of the Group especially in the metal sector.

**Total hazardous waste produced (KPI A1.3)**

Only the operation of the scrap metal processing facility generates a small amount of chemical wastes, which we consider to have impact on the environment and our business operations. Such wastes are mainly chemical in nature and disposal is made through a third-party collector under the close supervision and control of the government. These wastes are required to comply with its chemical requirements as specified by the collectors and the law enforcers.

**Total non-hazardous waste produced (KPI A1.4)**

Water is mainly consumed for cooling in the metal processing operation, thus wastewater is generated. For the year ended 31 December 2019, the scrap metal processing facility recorded a total of 361 tonnes of wastewater (2018: 1,656 tonnes), which decreased by 78% against the year 2018. The decrease was due to a decrease in business turnover, especially in the metal sector.

All wastewater discharged by the Group is in compliance with the Water Pollution Control Ordinance. The Group continues to stay vigilant on the use and application of modern technologies and installations to improve our performance in this regard.

The other types of non-hazardous wastes are general office wastes. For the year ended 31 December 2019, the consumption of office paper was 0.25 tonnes of office papers (2018: 0.17 tonnes), which increased by 47%. This was due to increased amount of project sourcing activities and office utensils, the amount of which is insignificant and they are collected by the cleaning workers of the building management offices on a daily basis.

**Mitigation measures on emission and results (KPI A1.5)**

The emissions generated by the Group has insignificant impact and materiality on the environment due to our operational nature. The indirect emission of greenhouse gas, through the use of electricity, can be deemed to be our major emission. Electricity consumption has cost implications and is under close monitoring. The Group also stays abreast on any technological advancement which can be used for reducing emissions.

**Handling and reduction of hazardous and non-hazardous waste (KPI A1.6)**

Hazardous wastes from the metal processing facility are required to be collected by a designated waste collector for ultimate disposal. Our metal processing facility has to follow all the prescribed steps, standards and measures to properly handle the wastes before disposal. The Group believes that by having complied fully and without deviation from the prescribed norm and standard, our hazardous wastes are properly and duly handled. Our focus is therefore on emphasizing adherence closely to prescribed procedures.

## A2. Use of Resources

### Policy on efficient use of resources including energy, water and other raw materials

Water, electricity, and packaging materials (paper and plastic bags) are the three major types of resources which the Group uses. In respect of effective use of resources (including energy, water and packaging materials), the Group is committed to improving on energy efficiency, conserving resources for our operations and activities and raising the awareness of our employees in these areas.

### Direct and indirect energy consumption by type (KPI A2.1)

Electricity is the direct and only source of energy which the Group uses. It is vital to and has significant impact on the operation of our metal processing facility.

For the year ended 31 December 2019, a total of 57,912 kilowatt-hour ("**kWh**") (2018: 161,432 kWh) electricity was consumed by our material business units (including metal processing facility and Hong Kong office). Overall electricity consumption of the Group had a decrease of 64% compared to the year 2018, which was mainly due to the decrease in the business turnover. Overall, the usage of electricity in various offices and metal processing facility of the Group is considered normal and consistent with our production and turnover levels.

### Water Consumption in total and intensity (KPI A2.2)

Freshwater is sourced from the city's central supply network and is mainly used by our metal processing facility for cooling purpose during smelting of the metal. For the year ended 31 December 2019, the aggregate water consumption of the Group was 355 tonnes (2018: 1,672 tonnes), representing a decrease of 79% against the year 2018, as result of the decrease in business turnover especially in the metal sector.

### Description of energy use efficiency initiatives and results achieved (KPI A2.3)

Driven by electricity conservation and cost saving incentives, the Group has implemented measures and initiatives to encourage employees avoid unnecessarily energy consumption. The Group have reminded our staff to turn off electrical appliances especially computers when not in use, to set the offices room temperature to 24°C and to use natural ventilation whenever possible. The Group has purchased energy efficient appliances and has installed LED light in our office. Discrete electric meters are also installed for monitoring the electricity consumption of strategic processes in our metal processing facility.

**Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved (KPI A2.4)**

The existing supply of water resources is sufficient to satisfy the Group's needs in all aspects of volume, quality and supply reliability. With the help of new discrete water meters, the Group is able to better monitor water usage to facilitate to uncover more effective measures.

**Packaging Materials for Finished Products in tonnes (KPI A2.5)**

Packaging materials do not constitute a major issue to the Group given our product is mainly silver which does not warrant fancy components. Main packaging materials of the Group comprise wooden boxes, paper and plastic bags. For the year ended 31 December 2019, the total packaging material consumption was 2.87 tonnes (2018: 18.15 tonnes). It decreased by 84%, compared with the year 2018. The Group believes that such decreases were mainly due to decrease in our metal production operation and total turnover.

## A3. The Environment and Natural Resources

**Policies on minimizing the Group's significant impact on the environment and natural resources**

The Group is committed to, on an ongoing pace, minimizing impacts on the environment and natural resources within our limits and abilities. Areas in new technology advancement and process efficiency on minimizing impact on the environment and natural resources are looked into from time to time to integrate into our production activities and business goals. General staff education is also our measures considered effective.

**Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them (KPI A3.1)**

The Group is an enterprise engaged in the trading of metals in Hong Kong and operates a metal processing facility in Kwai Chung. Silver scrap which acquired is further processed into finished silver products of various sizes, forms and shapes complying with requirements of the clients.

Our metal processing facility involve usage of water and electricity which may have some impact on the environment and natural resources. The other office locations are immaterial. The Group will endeavor to make all efforts possible and practicable to reduce and minimize the impact on the environment and resources by adopting and implementing measures to recycle, reuse and reduce the consumption of water and electricity.

During the year ended 31 December 2019, the environmental KPIs of the Group were as follows:

| Environmental KPIs | Unit | 2019 | 2018[1] |
|---|---|---|---|
| **Greenhouse Gas Emissions[2]** | | | |
| Scope 1[3] | tonnes $CO_2$-e | **–** | – |
| Scope 2[4] | tonnes $CO_2$-e | **32.41** | 86.87 |
| Total | tonnes $CO_2$-e | **32.41** | 86.87 |
| Intensity | tonnes $CO_2$-e/ million HK$ revenue | **0.17** | 0.08 |
| **Wastes Production** | | | |
| Office Paper | tonnes | **0.25** | 0.17 |
| Intensity | tonnes/million HK$ revenue | **0.0012** | 0.0002 |
| **Wastewater Discharge[5]** | | | |
| Total | tonnes | **361** | 1,656 |
| Intensity | tonnes/million HK$ revenue | **1.71** | 1.52 |
| **Resource Consumption** | | | |
| Electricity Consumption | kWh | **57,912[6]** | 161,432[7] |
| Intensity | kWh/million HK$ revenue | **274.20** | 148.21 |
| Water Consumption[8] | tonnes | **355** | 1,672 |
| Intensity | tonnes/million HK$ revenue | **1.81** | 1.54 |
| **Packaging Material Consumption** | | | |
| – Paper | tonnes | **0.40** | 2.41 |
| – Plastic | tonnes | **–** | 0.27 |
| – Wood | tonnes | **2.47** | 15.47 |
| Total | tonnes | **2.87** | 18.15 |
| Intensity | tonnes/million HK$ revenue | **0.01** | 0.02 |

1 Restatement of figures for consistent comparisons

2 The calculation of greenhouse gas emissions is made reference to the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong published by the Environmental Protection Department, and the Electrical and Mechanical Services Department.

3 Scope 1 covers the direct emission from the business operations owned or controlled by the Group.

[4] Scope 2 covers the "indirect energy" emissions from electricity, heat and refrigeration consumed within the Group. The relevant emission factors refer to the sustainability reports issued by CLP Power and Hongkong Electric Power Investment, and the "2017 Regional Emission Reduction Project China Regional Grid Baseline Emission Factors" issued by the Climate Change Department of the Ministry of Ecology and Environment of the PRC Mainland.

[5] Wastewater discharge covers cooling water and liquid chemical waste.

[6] Electricity consumption in 2019 covers data of metal processing facility and offices in Hong Kong. The electricity consumption in offices in Shenzhen and Chengdu were shared with other tenants, thus the actual data was not available.

[7] Electricity consumption in 2018 covers data of metal processing facility and offices in Hong Kong, and office in Shenzhen.

[8] Water consumption only covers the data of metal processing facility. Water consumption in offices was shared with other tenants, thus the actual data was not available.

# (B) SOCIAL RESPONSIBILITY

## Employment and Labour Practices

### B1. Employment

#### (a) Policy

The Group takes all measures to ensure that our statutory duties and responsibilities as an employer are duly complied within our operating locations. The Group adopts a serious view and attaches great importance to complying with all the labour laws on employment, employee compensation etc. which are applicable to our office operating locations. In this connection, the Group has formulated policies and regulations on employment and other labour welfare and protection matters which include but not limited to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits.

The Group also strikes to provide equal opportunity for our staff in recruitment, promotion, compensation and benefits and is dedicated to establish and promote a fair, harmonious and respectful workplace.

**(b) Compliance with the relevant laws and regulations that have a significant impact on the Group**

The Group provides and maintains employment welfare and benefits for our staff, including but not limited to mandatory provident fund, medical insurance and work injury insurance. Staff are entitled to paid leave on public holidays and personal occasions like wedding and maternity.

Terms and employment conditions of all employees are entered into written contracts signed by the employee and a representative of the Group.

Office staff work 8.5 hours per weekday. Staff working in the processing facility work 9 hours on weekdays and 4 hours on Saturday and are entitled to overtime allowance and production bonus.

The Group is committed to creating a fair employment environment with equal opportunity. All applications for vacancies, transfers and promotions will receive fair consideration with regardless of age, race, color, religion, gender, sexual orientation, disability or other discriminating basis. The Group seek to provide a fair playing field for all employees.

The Group has established qualifications and requirements for each job. Processing for recruitment or promotion is carried out by the user department and the human resources department in an open and transparent manner.

To enhance employee cohesion and foster morale and productivity, it is the culture of the Group to hold gatherings for all employees on various festivals like Mid-Autumn, Winter Solstice, Christmas and Annual Dinner every year.

Employee remunerations are determined with reference to the prevailing market level as well as the competency, qualification and experience of the individual employee. Discretionary bonus based on individual's performance will be paid to employees as a recognition and reward of their contributions to the Group. Salary payment will be credited to the bank account of the employee within the last working day of the month.

For the year ended 31 December 2019, the Group is strictly in compliance with relevant laws and regulations in this regard, including but not limited to Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and the Labour Law of the PRC Mainland. The Group has received no complaints, warnings, litigations or fine from the law enforcing agents or the staff, same as the year 2018.

Workforce by employment type, age group (KPI B1.1)

As at 31 December 2019, the Group employed a total of 28 employees (9 in the metal processing facility, 12 in Hong Kong office and 7 in Chengdu office) compared to 25 as at 31 December 2018. The increase took place mainly in Chengdu office. Among the 28 employees, 23 and 5 were male and female respectively, 14 and 14 were managerial roles and general/operational roles respectively. The gender and age group of the staff have no abnormality nor concern to our operation.

Employee turnover rate (KPI B1.2)

The Group consider the employment turnover for the year ended 31 December 2019 to remain normal and in line with our business operations and turnover.

## B2. Health and Safety

### (a) Policy

The Group is committed to complying with all the health and safety statutory requirements applicable to us to safeguard the health and safety of our employees. The staff handbook sets out detailed occupational safety policies and procedures especially and specifically for processing staff. All employees are required to strictly observe our health and safety policies and work procedures.

In accordance with the Employees' Compensation Ordinance, the Group has taken out employee compensations insurance for all qualified employees.

In case of accidents, employees are required to notify their superior. Regardless of whether the accident is minor or serious, the superior should take appropriate measures to mitigate the impact and avoid any further recurrence or damage.

### (b) Compliance of relevant laws and regulations that have a significant impact on the Group

Our metal processing facility is the operation which may give rise to potential of causing significant impact on health and safety. The Group is always mindful of this risk and has given great attention to the metal processing operation. The Group ensure that the operation is safe and without risk to our property and people as far as practicable by complying with all laws, rules, regulations and standards in Hong Kong. It includes but not limited to on-site medical and emergency facilities, all relevant required medical and safety equipment. For the year ended 31 December 2019, our metal processing facility passed all relevant government inspections with regard to means of escape and fire safety, plants and equipment and there was no accident reported, same as the year 2018.

For the year ended 31 December 2019, the Group is strictly in compliance with relevant laws and regulations in this regard, including but not limited to the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong), the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), the Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong) and the Boilers and Pressure Vessels Ordinance (Chapter 56 of the Laws of Hong Kong).

## B3. Development and Training

**Policy on improving employee knowledge and skills**

Employees are encouraged to formulate their own training objectives that will equip themselves with the skills and knowledge necessary for their jobs. To encourage employees to engage in self-development by enrolling for external training programs and seminars, all permanent employees who have completed one year of services can apply for sponsorship from the Group to cover the cost of taking job-relevant external training programs and professional qualification examinations.

## B4. Labour Standards

**(a) Policy**

The Group adopts the applicable statutory standard as its minimum standard on labour protection and welfare. The Group is committed to ensuring its stringent compliance. In addition, the Group adopts a serious view and attaches great importance to the compliance of statutory duties and obligations as an employer.

The Group is adamant in banning and prohibiting the employment of child labour, illegal workers and forced labour and is achieved through the recruitment and employment processes at source by the human resources department. The human resources department has been fully charged with the statutory duties and is being oversighted by the senior levels with constant reviews at periodic intervals.

All job applicants are required to submit their credentials like academic qualifications, professional skill certificates, references, and identity card for verification and record purpose during recruitment.

The Group strictly abides by the government laws in labour protection and welfare to ensure employee health, safety and welfare during their employment. Wages and salaries, benefits, compensation payments and insurances are paid on time strictly laws within the prescribed statutory period.

**(b) Compliance with relevant laws and regulations that have a significant impact on the Group**

The Group strictly regulates and supervises the recruitment process, performs the responsibilities of supervision and management and as far as possible to prevent any breach of relevant laws and regulations on employment of illegal or forced child labour, etc.

Measures and steps are established and taken to examine and verify personal information of the applicants in the recruitment process in accordance with the statutory employment requirements in an effort to eliminate any potential non-compliance. In addition, other technical skills or academic credentials required of a job are also checked and examined.

The Group strictly complies with the relevant requirements of Employment Ordinance (Chapter 57 of the Laws of Hong Kong) for its Hong Kong operations, and the Labour Law of the PRC Mainland with regard to its PRC Mainland operations. Various statutory provisions on labour protection, safety and health are closely monitored and duly complied with. Employee remuneration, compensation and welfare are duly paid on time in accordance with the statutory time limit.

The Group is committed to discharging our obligations as a responsible employer. For the year ended 31 December 2019, and in fact since the establishment of the Group, we have complied fully with these employment provisions and have honored all of its obligations towards staff and no labour disputes or litigations were reported for the year, same as the year 2018.

For the year ended 31 December 2019, the Group is strictly in compliance with relevant laws and regulations in this regard.

## Operation Practices

### B5. Supply Chain Management

#### (a) Policy

In our supply chain management, the Groups primarily looks for factors like fit for purpose, cost effectiveness, supply reliability and quality assurance. Where necessary and appropriate, considerations on impact to the environment and social risks are also taken into consideration.

Our purchases include various types of metals, such as gold, silver and tin. The Group purchases silver scrap as raw materials for processing into finished silver products. Raw silver is also purchased for processing into different sizes and shapes to meet customer needs.

Given the nature of operation of our representative business of silver processing, the raw materials i.e. silver scrap or raw silver, are rather unique in nature and constant in composition depending on the source. Silver scrap has, in general, a relatively wider and varied composition than raw silver. Our silver scrap suppliers are mainly metal trading companies in Hong Kong. The Group reckons there are only minimal implications, if any, on environmental and social risks arising from supply chain management.

For the year ended 31 December 2019, all our silver scraps are sourced from local suppliers in Hong Kong.

#### (b) Practice

To ensure a stable, quality assured and cost efficient and well managed supply chain, the Group has issued and implemented a clear procurement managements rules and guidelines containing policies and procedures with respect to procurement including quality control, warehousing, payment and documentation approval process, and methods of payment.

Our purchases are however not driven by confirmed customer orders. In order to ensure a sufficient supply of silver products to our customers, the Group purchases silver raw materials from time to time to maintain a target inventory level. The Group's relationships with its suppliers are stable and the Group did not experience any major difficulty in obtaining adequate supplies of raw materials to meet its production requirements in the past.

Suppliers are chosen based on the supplier's continuous ability to guarantee satisfactory product quantity and quality, reasonable price and timely delivery. When selecting suppliers, the Group requires potential suppliers to provide relevant certifications/documents and to arrange for site visits.

We continue to support local industry and, for the year ended 31 December 2019, all our suppliers were local suppliers in Hong Kong.

## B6. Product Responsibility

### (a) Policy

Recommended by the ESG Reporting Guide, with reference to the Group's business, there are 4 major areas on product responsibility which would have impact on our businesses. They are (i) product quality and labelling; (ii) customer services and complaints handling; (iii) intellectual property rights; and (iv) privacy. The Group does not have significant advertising activities, therefore, we consider that the matters relating to advertising do not have significant impacts on us.

We are committed to providing high-quality silver products as the quality and consistency of our products are critical to our reputation and marketability. The Group takes all reasonable steps to ensure that our products are safe and not harmful to customers and that the products meet with all agreed or legally required standards.

### (b) Compliance with relevant laws and regulations that have a significant impact on the Group

(i) Products Quality and Labelling

Our products include various types of metals. In the year ended 31 December 2019, our products comprise mainly silver and gold. Silver is our principal product. Due to the nature of metals, our products have a relatively long life-cycle and we do not expect to have any product returns and warranty problems and there is no such requirement for a policy. However, as the Group is committed to providing high-quality silver products as the quality and consistency of our products are critical to our ability to retain our customers and attract new customers, we have invested on a new testing laboratory and the acquisition of related equipment and machinery in our metal processing facility so to enhance the efficiency of the metal fineness testing. Also, our product quality controllers regularly inspect silver goods coming off our processing lines to ensure that they are compliant with both internal and external quality assurance codes with respect to fineness etc.

Furthermore, in Hong Kong, for silver, apart from the Trade Description Ordinance (Chapter 362 of the Laws of Hong Kong) ("**TDO**"), there is no law or regulation which specifically governs the purity and fineness of silver. Nevertheless, the Good Delivery Rules of London Bullion Market Association ("**LBMA**") provide for a set of specifications for silver, including purity and fineness. The minimum acceptable fineness of good delivery silver bar is 999.0 parts per thousand silver, meaning a purity of 99.90%. Such certification is not obligatory nor a legal requirement in Hong Kong. The purity specified in most of our sale contracts is 99.99%, which is higher than such certification.

For gold, Section 3 of the TDO regulates trade description in relation to fineness of gold. As to certification, similar to silver, LBMA provides for industry benchmark for fineness and purity of gold under its Good Delivery Rules. The minimum acceptable fineness of Good Delivery Gold Bar is 995.0 parts per thousand of fine gold, meaning a purity of 99.5%. Such certification is not compulsory nor is it a legal requirement in Hong Kong. The purity specified in most of our sale contracts is 99.99%, which is higher than such certification.

(ii) Customer Service sand Complaints handling

As described above, through a strict production control purpose, we guarantee our products have and will meet all the legal and trade standards. For the year ended 31 December 2019, the Group did not have any return or complaints on our products quality, same as the year 2018.

(iii) Intellectual Property Rights

For the year ended 31 December 2019, the Group did not have any intellectual property rights infringement case against us, same as the year 2018.

(iv) Privacy

The Group maintains internal employee data, supplier data and customer data for its operations. The information is extremely sensitive and important, and by law must be safeguarded. To safeguard the security and confidentiality of the Group's data and information in its database, the Group has implemented the following internal control procedures:

- Access to documents and data: restrict access to information and the database on a strict need-to-know basis by maintaining policies specifying the access levels and extents of documentation required in its key business activities. Approval from the management shall be obtained before release of documents;

- Storage of electronic data: there are backup policies for each department in order to safeguard the information in any unexpected situation; and

- Physical security of the environment: the Group implements passcode controls in certain working areas of the offices where access is limited to supervisory employees.

For the year ended 31 December 2019, there was no information leakage or privacy cases against us, same as the year 2018.

## B7. Anti-corruption

### (a) Policy

The Group recognizes the importance of the value of honesty, integrity and fairness of our employees and in our business activities. Our staff handbook and general internal control system emphasis clearly and explicitly the need for such values and their importance in policies and processes on sales, procurement, operations, database control and finance, and the adoption of a high standards, especially on the senior management. We have a zero-tolerance policy on bribery and corruption in any form or at any level in associate with any aspect of the Group's activities. These policies encourage all employees to discharge their duties with integrity and comply with relevant laws and regulations. The internal control department is responsible for counter-checking and following up any remedial actions.

### (b) Compliance with relevant laws and regulations that have a significant impact on the Group

For the year ended 31 December 2019, the Group did not have any bribery or corruption cases reported and it is strictly in compliance with all the relevant laws and regulations, including but not limited to the Prevention of Bribery Ordinance of Hong Kong (Chapter 201 of the Laws of Hong Kong), same as the year 2018.

## B8. Community Investment

For the year ended 31 December 2019, the Group maintained its contribution level and donated approximately HK$500,000 to MeeLin Charity Foundation Limited in Hong Kong (2018: approximately HK$300,000). The Group also encourages and supports employees and their family members to participate in charity, volunteer, cultural, sports and educational services and activities. Such services are supported with paid leave upon application.

# REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements for the year ended 31 December 2019.

## Principal Activities

The principal activity of the Company is investment holding. During the current year, the Group are principally engaged in trading of metal and commodity forward contracts, provision of education management services and provision of money lending services, which are conducted in Hong Kong and the PRC Mainland.

## Results and Appropriations

The results of the Group for the year ended 31 December 2019 and the state of the Company's and the Group's affairs as at the date are set out in the consolidated financial statements on pages 64 to 189.

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2019.

## Business Review and Performance

### Review of business and performance

A review of the business of the Company and a discussion and analysis of the Group's performance during the year and the outlook of Company's business can be found in the Management Discussion and Analysis set out on pages 5 to 10 of this annual report. This discussion forms part of this Directors' Report.

### Principal Risks and Uncertainties

The Group's performance may be directly or indirectly affected by risks and uncertainties relating to the Group's businesses. The followings are the principal risk factors facing the Company as required to be disclosed pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and are those that could result in the Group's business performance, financial condition, operations results or development prospects materially different from expected or historical results.

**1. Competition**

The significant fluctuation in commodity prices and the pessimistic medium-term outlook make this the Group's foremost risk. The market price declines would lead to a severe drag on the metal supply and so our financial performance. Under a reduction in the global market size and the shrinkage of the Hong Kong market, the Group operates in a competitive environment. The operating result of the Group may be impacted due to the market constraint. The Group aims to mitigate this risk by maintaining close relationships with our customers, seeking to expand our customer base and providing differentiating services. Also, exploring more new sectors of business can minimize the impact on reliance of metal trading business of the Group.

### 2. Supply of metal materials

We are dependent on the continuous supply of material from a few suppliers. Any shortage or delay in the supply of metal materials and metal products from them, any deterioration in our relationships with these suppliers or any change in their existing marketing strategies may affect our ability to fulfill our customers' demand, resulting in adverse impact on our business and results of operations. In order to maintain sufficient supply of metal materials, the Group makes great effort to establish good relationship with more suppliers to secure potential alternative sources of metal supply.

### 3. Customer base

Our five largest customers accounted for a significant portion of our revenue. If any of them were to substantially reduce the volume and/or the value of the orders it places with us or were to terminate its business relationship with us entirely, our profit level may be adversely affected. In management of such risk, the Group continues to implement its strategies to develop and enlarge its market share, and strives to explore potential customers to reduce its dependency on specific clients.

### 4. Operational risk

The Group is exposed to risks of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls. Responsibility for managing operational risks basically rests with every function at departmental levels. The staff is guided by procedure manuals, limits of authority and reporting framework to carry out the duties. We identify and assess key operational exposures continuously and regularly so that appropriate response can be taken. We aim to mitigate operational risks through proper policies and procedures, segregation of duties, and timely and accurate management reports. We review and update the policies and procedures from time to time so as to maintain a strong and discipline control environment.

### 5. Health and safety

The Group, especially our processing facilities, may be subject to various risks such as industrial accidents, equipment failure and other catastrophic events, which could have a material adverse effect on our business, financial condition, results of operations and prospects. The Group has developed health and safety procedures to clearly define roles and responsibilities in order to identify and mitigate risk. The Group has no health and safety incidents or reportable accidents during the year. In addition, the Group arranges insurance policies to cover the losses or liabilities of such risks.

### 6. Certificates and approvals

The Group requires certain certificates, licences and permits and approvals for the operation, such as registration as a chemical waste producer under the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong), licence for discharge of industrial effluent pursuant to section 20 of the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong), certificate of fitness for a pressure vessel pursuant to Boilers and Pressure Vessels Ordinance (Chapter 56 of the Laws of Hong Kong), lifting appliances certificate of results of thorough examination in the preceding twelve months pursuant to the Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations (Chapter 59J of the Laws of Hong Kong) and money lenders license pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). We must comply with the relevant standards, laws and regulations and as well as restrictions and conditions, imposed by the governmental authorities on application and renewal. The Group must also comply with new standards, laws and regulations that may entail greater or lesser costs and delays. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement would have adverse impacts on the Group's result of operations and financial position. If we fail to comply with any of the relevant regulations, we may not be able to maintain our certificates and approvals and our operations would be significantly disrupted or even suspended. The Group commits to comply with the laws and regulatory requirements applicable to our operations. We ensure full compliance through close monitoring of legislative requirements and, when needed, engagement with professional advisers.

## Environmental Policies and Performance

The Group is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavors to comply with laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

Green initiatives and measures have been adopted in the Group's office and workshop. Such initiatives include replacement of the new LED lighting for reducing electricity consumption in the office, promoting double-sided printing and copying, and reducing energy consumption by switching off idle lightings and electrical appliance. The Group also encourages using office equipment carrying Energy Label issued by the Electrical and Mechanical Services Department so as to save energy in the office.

The Group will review its environmental practices from time to time and will implement further ecofriendly measures and practices closely adhering to the 3Rs – Reduce, Recycle and Reuse and enhancing environmental sustainability.

### Compliance with the Relevant Laws and Regulations

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those have a significant impact on the Group. The Audit Committee is delegated by the Board to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## Relationship with Employees, Suppliers and Customers

The Group believes that employees are important and valuable assets and thus we provide competitive and attractive remuneration packages to retain the employees. The management reviews annually the remuneration to its employees of the Group.

The Group values long standing relationships with its suppliers and customers. The Group aims at delivering high quality services to its customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers.

## Summary financial information

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 190. This summary does not form part of the audited financial statements.

## Share Capital

Details of the movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 27 to the consolidated financial statements.

## Debenture Issue

For the year ended 31 December 2019, the Company has not issued any debenture.

## Equity-linked Agreements

### Share option scheme

The Company adopted a share option scheme on 22 July 2014 (the "**Scheme**"). Under the Scheme, the Directors of the Company may, subject to and in accordance with the provisions of the Scheme and the GEM Listing Rules, at its discretion, grant options to any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive directors) of the Group, and any suppliers, customers, consultants, agents and advisers, who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively "**Eligible Participants**").

The purpose of the Scheme is to provide incentive or reward for Eligible Participants for their contribution or potential contribution to the Group.

The Company has granted 39,310,000 shares of the Company under the Scheme up to the date of this report. The total number of shares (the "**Shares**") of the Company available for issue under the Scheme was 1,830,000 Shares, representing 0.32% of total number of Shares in issue as at the date of this report.

The Board shall not grant options to any Eligible Participant if the acceptance of those options would result in the total number of Shares issued and to be issued to that participant on exercise of his options during any 12-month period up to the offer date exceeding 1% of the total number of Shares then in issue.

There is no general requirement that an option must be held for any minimum period before it can be exercised. The period during which an option may be exercised in accordance with the terms of the Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the date upon which the vesting period as described in the respective grantee's offer document commences.

A remittance in favor of the Company of HK$1.00 by way of consideration for the grant of the option should be submitted to the Company on or before the last day for acceptance. The option will be offered for acceptance for a period of 14 days from the date on which the option is granted.

The exercise price shall be determined by the Board but in any event shall be at least the highest of (i) the official closing price of the Shares as stated in the Stock Exchange' s daily quotations sheet on the date on which the option is offered (the "**Offer Date**"); and (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date.

The Scheme shall be valid and effective for a period commencing from the date on which the Scheme was conditionally adopted by an ordinary resolution of the shareholder of the Company on 22 July 2014 and ending on the tenth anniversary of the date of listing of the Company's shares on GEM of the Stock Exchange on 4 August 2014 (both dates inclusive), after which no further option will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Scheme. The remaining life of the Scheme as at 31 December 2019 was about 4.6 years.

A summary of the share options granted under the Scheme are as follows:

| | | | | Number of share options and underlying shares | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Type of participants** | **Date of grant** | **Exercise price per share** HK$ | **Exercise period** | **Outstanding as at 1.1.2019** | **Granted** | **Exercised** | **Cancelled** | **Lapsed** | **Outstanding as at 31.12.2019** |
| Directors | 10.4.2015 | 0.78 | 10.4.2015 – 9.4.2025 | 330,000 | – | – | – | (330,000) | – |
| | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note) | – | 13,680,000 | – | – | – | 13,680,000 |
| Employees | 10.4.2015 | 0.78 | 10.4.2015 – 9.4.2025 | 730,000 | – | – | – | (530,000) | 200,000 |
| | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note) | – | 24,000,000 | – | – | – | 24,000,000 |
| Others | 10.4.2015 | 0.78 | 10.4.2015 – 9.4.2025 | 130,000 | – | – | – | (10,000) | 120,000 |
| | | | | 1,190,000 | 37,680,000 | – | – | (870,000) | 38,000,000 |

Note: The share options granted will vest to the grantees at the date of grant (i.e. 27 August 2019), the first and second anniversary of the date of grant (i.e. 27 August 2020 and 27 August 2021, respectively) at an average amount, the share options once vested shall be exercisable on a cumulative basis.

The fair value of equity-settled share options granted during the year ended 31 December 2015 was HK$0.319 per option, amounted to approximately HK$520,000 in aggregate. It was estimated as at 10 April 2015, being the date of grant, using the Black-Scholes Option Pricing Model and taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the estimation of the fair value are as follows:

| | |
|---|---|
| Share price at date of grant | HK$0.78 |
| Exercise price | HK$0.78 |
| Volatility | 45.90% |
| Risk-free interest rate | 1.09% |
| Dividend yield | 0% |
| Expected life of option | 5 years |

The expected life of the options may not be necessarily indicative of the exercise pattern that may occur. The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

During the year ended 31 December 2019, 37,680,000 share options were granted under the Scheme on 27 August 2019 (2018: nil).

The fair value of equity-settled share options granted during the year ended 31 December 2019 were HK$0.211, HK$0.212 and HK$0.213 per option each for three tranches which will be vested on 27 August 2019, 27 August 2020 and 27 August 2021, respectively, amounted to approximately HK$7,984,000 in aggregate. The fair values were estimated as at 27 August 2019, being the date of grant, using the Binomial Option Pricing Model and taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the estimation of the fair value are as follows:

| | |
|---|---|
| Share price at date of grant | HK$0.60 |
| Exercise price | HK$0.616 |
| Volatility | 52.68% |
| Risk-free interest rate | 1.31% |
| Dividend yield | 0% |
| Early exercise multiplier | 2.80 |
| Expected option life | 3 years |

Estimation of the value of the share options is subjective and uncertain as such values are subject to a number of assumptions and with regard to the limitation of the model. The expected volatility is based on the historical volatility reflecting the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The expected early exercise multiplier is also estimated and is not necessarily indicative of the exercise patterns that may occur.

All significant features necessary to be considered for the measurement of fair values of the share options granted during the year were incorporated into such measurement.

The closing prices of the shares of the Company immediately before the share options granted on 10 April 2015 and 27 August 2019 were HK$0.78 and HK$0.60, respectively.

No share options were exercised during the year ended 31 December 2019 (2018: nil).

The Group recognized employee costs of approximately HK$4.0 million for the year ended 31 December 2019 (2018: nil) in relation to share options granted by the Company.

## Distributable Reserves

As at 31 December 2019, the Company had no reserve available for distribution in accordance with the provision of sections 291, 297 and 299 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

## Reserves

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

## Charitable Contributions

During the year, the Group had made charitable contributions totaling of approximately HK$500,000 (2018: approximately HK$300,000).

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## Major Customers and Suppliers

During the year, the aggregate sales (including continuing and discontinued operations) attributable to the Group's five largest customers comprised approximately 78% (2018: approximately 85%) of the Group's total sales while the sales attributable to the Group's largest customer was approximately 26% (2018: approximately 41%) of the Group's total sales.

The aggregate purchases (including continuing and discontinued operations) during the year attributable to the Group's five largest suppliers comprised approximately 94% (2018: approximately 99%) of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 59% (2018: approximately 93%) of the Group's total purchases.

Save as disclosed above, none of the Directors, their close associates or any shareholder, which to the knowledge of the Directors owned more than 5% of the Company's total number of shares in issue, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

# REPORT OF THE DIRECTORS

## Directors

The Directors of the Company during the year and up to the date of this report were as follows:

### Executive Directors
Mr. Wang Wendong
Mr. Fung Chi Kin (appointed on 26 June 2019)
Mr. Zhu Hongguang (resigned on 20 August 2019)
Mr. Felipe Tan (resigned on 20 July 2019)

### Independent Non-executive Directors
Mr. Lau Yuen Sun Adrian (appointed on 30 January 2019)
Ms. Wong Susan Chui San (appointed on 27 February 2019)
Mr. Zhou Tianshu
Ms. Wu Liyan
Ms. Tsang Wai Chun Marianna (resigned on 28 June 2019)
Ms. Dai Meihong (resigned on 27 February 2019)

In accordance with article 68 of the Articles, Mr. Fung Chi Kin shall retire from office at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election. In accordance with article 69 of the Articles, Mr. Wang Wendong shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election.

## Directors of Subsidiaries

The person who has served on the boards of the subsidiaries of the Company during the year and up to the date of this report are Mr. Wong, Mr. Fung, Mr. Hon Hang, Mr. Xia Yi, Mr. Chen Lifan and Mr. Kwan Fai. Mr. Felipe Tan was resigned as a director of the subsidiaries of the Company during the year.

## Permitted Indemnity Provision

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal actions against its Directors and officers of the Group. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) when this report prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

## Directors' Service Contracts

Each of the Directors has entered into a service contract with the Company for a term of one year unless terminated by not less than one month's notice in writing served by either party on the other or otherwise in accordance with the respective service contracts.

The Remuneration Committee will review and determine the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload, time devoted to and performance of the Group. The Directors may also receive options to be granted under the share option scheme of the Company.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## Directors' Interests in Contracts of Significance

Details of Directors' interest in contracts of significance in relation to the Group's business are set out in the section headed "Competition and Conflict of Interest" in this report.

Save as disclosed above, there was no contract of significance to which the Company or its subsidiaries, or its holding companies or any of its fellow subsidiaries was a party, and in which a Director was materially interested, whether directly or indirectly, subsisting during the year ended or as at 31 December 2019.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2019, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 Rule 5.46 of the GEM Listing Rules, were as follows:

### Long Positions

### (a) Ordinary shares and underlying ordinary shares of the Company

| Name of Directors/chief executives | Nature of interests | Number of ordinary shares held | Number of underlying ordinary shares of the Company held (Note 1) | Total | Approximate percentage of shareholding (Note 2) |
|---|---|---|---|---|---|
| **Executive Directors:** | | | | | |
| Mr. Wang Wendong | Beneficial Owner | – | 5,700,000 | 5,700,000 | 0.99% |
| Mr. Fung Chi Kin | Beneficial Owner | – | 5,700,000 | 5,700,000 | 0.99% |
| **Independent Non-Executive Directors:** | | | | | |
| Mr. Lau Yuen Sun Adrian | Beneficial Owner | – | 570,000 | 570,000 | 0.10% |
| Ms. Wong Susan Chui San | Beneficial Owner | – | 570,000 | 570,000 | 0.10% |
| Mr. Zhou Tianshu | Beneficial Owner | – | 570,000 | 570,000 | 0.10% |
| Ms. Wu Liyan | Beneficial Owner | – | 570,000 | 570,000 | 0.10% |

Note 1: These are share options granted by the Company to the Directors under the Scheme on 27 August 2019. The details of the grant are set out in the section headed "Equity-linked Agreements – Share option scheme" in the Report of the Directors. The particulars of the Directors' interests in share options are set out in part (b) below.

Note 2: The approximate percentage of shareholding was calculated based on the total number of ordinary shares in issue, being 576,170,000 shares as at 31 December 2019.

## (b) Interests in share options relating to ordinary shares of the Company

| Name of Directors | Date of grant | Exercise price per share HK$ | Exercise period | Number of share options and underlying shares: Outstanding as at 1.1.2019 | Granted | Exercised | Cancelled | Lapsed | Outstanding as at 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|
| Mr. Felipe Tan (Note 1) | 10.4.2015 | 0.78 | 10.4.2015 – 9.4.2025 | 250,000 | – | – | – | (250,000) | – |
| Ms. Tsang Wai Chun Marianna (Note 2) | 10.4.2015 | 0.78 | 10.4.2015 – 9.4.2025 | 80,000 | – | – | – | (80,000) | – |
| Mr. Wang Wendong | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note 3) | – | 5,700,000 | – | – | – | 5,700,000 |
| Mr. Fung Chi Kin | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note 3) | – | 5,700,000 | – | – | – | 5,700,000 |
| Mr. Lau Yuen Sun Adrian | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note 3) | – | 570,000 | – | – | – | 570,000 |
| Ms. Wong Susan Chui San | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note 3) | – | 570,000 | – | – | – | 570,000 |
| Mr. Zhou Tianshu | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note 3) | – | 570,000 | – | – | – | 570,000 |
| Ms. Wu Liyan | 27.8.2019 | 0.616 | 27.8.2019 – 26.8.2022 (Note 3) | – | 570,000 | – | – | – | 570,000 |
| | | | | 330,000 | 13,680,000 | – | – | (330,000) | 13,680,000 |

Note 1: Mr. Felipe Tan has resigned as an executive Director on 20 July 2019.

Note 2: Ms. Tsang Wai Chun Marianna has resigned as an independent non-executive Director on 28 June 2019.

Note 3: The share options granted will vest to the Directors at the date of grant (i.e. 27 August 2019), the first and second anniversary of the date of grant (i.e. 27 August 2020 and 27 August 2021, respectively) at an average amount, the share options once vested shall be exercisable on a cumulative basis.

## Short Positions

As at 31 December 2019, no short positions of Directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rule.

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2019, the following persons/entities (other than the Directors and chief executives of the Company as disclosed above) have interest or short positions in the shares and underlying shares of the Company which would fall 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 pursuant to section 336 of the SFO were as follows:

| Name | Nature of interests | Number of ordinary shares held | Approximate percentage of shareholding (Note) |
|---|---|---:|---:|
| Hon Pok | Beneficial owner | 76,000,000 | 13.19% |
| Chu Fong | Beneficial owner | 46,000,000 | 7.98% |
| Lin Chenchen | Beneficial owner | 45,000,000 | 7.81% |
| Ho Mun Jing | Beneficial owner | 29,730,000 | 5.16% |

Note: The approximate percentage of shareholding was calculated based on the total number of ordinary shares in issue, being 576,170,000 shares as at 31 December 2019.

Save as disclosed above, no other interests or short positions of any persons/entities (other than the Directors and the chief executives of the Company) in the shares or underlying shares of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange as at 31 December 2019.

## Competition and Conflict of Interest

Apart from the business of the Group, during the year ended 31 December 2019, Mr. Felipe Tan, who has resigned as an executive Director on 20 July 2019, is also engaged in the other businesses including directly and indirectly owned equity interests in (i) GobiMin Inc. ("**GobiMin**"), the shares of which are listed on the TSX Venture Exchange in Canada. GobiMin and its subsidiaries ("**GobiMin Group**") are engaged in the investment in equity, debt or other securities as well as direct ownership stakes in projects, including the development of mineral properties, mainly in Xinjiang, the PRC Mainland; and (ii) Timeless Software Limited ("**Timeless**"), the shares of which are listed on GEM of the Stock Exchange. Timeless and its subsidiaries are principally engaged in the information technology business and mining business.

The Directors believe that the investments referred above are in completely different sectors from that of the Group and therefore do not and will not compete with the business of the Group. The Group is mainly engaged in the trading of metal in Hong Kong, while GobiMin Group is involved in upstream activities of exploration and mining which involve entirely different technologies, machinery and expertise. Accordingly, the Group and GobiMin Group are positioned in different specialized segments of the industry. The products of GobiMin Group may be similar with that of the Group such as gold, but the market of GobiMin Group is in the PRC Mainland while the Group is in Hong Kong and overseas (excluding the PRC Mainland) and as such, our Directors consider that there is no overlapping in respect of the market between GobiMin Group and the Group. Furthermore, Timeless is involved in the information technology sector and mining business which is entirely different from our metal processing and trading business.

Apart from those investments disclosed above, to the best knowledge of the Directors, none of the Directors, management, shareholders or substantial shareholders of the Company or any of its respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2019.

## Related Party Transactions and Connected Transactions

Details of the related party transactions undertaken by the Group during the year ended 31 December 2019 are set out in note 34 to the consolidated financial statements. None of the related party transactions constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the GEM Listing Rules.

## Management Contract

No contract for management and administration of the whole or any substantial part of the Group's business subsisted at the end of the year or at any time during the year.

## Purchase, Sale or Redemption of the Company's Listed Securities

On 25 February 2019, the Company allotted and issued a total of 96,000,000 fully paid new shares by the way of placing at a price of HK$0.241 per share.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## Corporate Governance

Principal corporate governance policies adopted by the Company are set out in the Corporate Governance Report on pages 14 to 25.

## Environmental, Social and Governance Report

The Group is committed to fulfilling its corporate social responsibility in community affairs, environmental protection and corporate governance during its business operation in order to achieve its sustainable development. The Company' s ESG Report is set out on pages 26 to 43 of this annual report.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company had maintained the public float as required under the GEM Listing Rules.

## Auditors

HLB Hodgson Impey Cheng Limited, who has been appointed as the auditors of the Company with effect from 6 December 2019 to fill the casual vacancy following the resignation of Crowe (HK) CPA Limited and to hold office until the conclusion of the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint HLB Hodgson Impey Cheng Limited as the auditors of the Company.

By order of the directors

**Loco Hong Kong Holdings Limited**
**Wang Wendong**
*Chairman and Chief Executive Officer*
Hong Kong, 29 April 2020

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**TO THE MEMBERS OF LOCO HONG KONG HOLDINGS LIMITED**
*(Incorporated in Hong Kong with limited liability)*

## OPINION

We have audited the consolidated financial statements of Loco Hong Kong Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 64 to 189, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS (Continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Expected credit loss of trade and other receivables and loan receivable*** | |
| Refer to Notes 19 and 20 to the consolidated financial statements. | |
| The balances of trade and other receivables and loan receivable as at 31 December 2019 were approximately HK$28,090,000 and approximately HK$4,829,000, respectively, which were material to the consolidated financial statements. The Group has applied the simplified approach in calculating the expected credit loss for trade receivables and has applied the general approach in calculating the expected credit loss for other receivables and loan receivable.<br><br>Under the simplified approach, the Group measures the loss allowance based on lifetime expected credit loss at each reporting date by individual assessment. Under the general approach, the Group measures the loss allowance equal to 12-month expected credit loss, unless when there has been a significant increase in credit risk since initial recognition then the Group will recognize the loss allowance based on the lifetime expected credit loss at each reporting date by individual assessment. The assessment of the expected credit loss allowance requires significant judgments and estimation by management. | • Our audit procedures included, among others, discussing with management on the estimation involved in determining the amount of expected credit loss allowance regarding the trade and other receivables and loan receivable.<br><br>• We tested the working paper files prepared by management's expert to calculate the expected credit loss and checked the information included in the working paper files.<br><br>• We also engaged a valuation expert to assist us to assess the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses by the management's expert.<br><br>• We also assessed the adequacy of the Group's disclosures about the expected credit loss allowance regarding trade and other receivables and loan receivable in the consolidated financial statements. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report other than the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Mr. Lo Kin Kei.

**HLB Hodgson Impey Cheng Limited**
*Certified Public Accountants*

**Lo Kin Kei**
Practising Certificate Number: P06413
Hong Kong, 29 April 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | | | |
| – Sales of metal | | **185,688** | 1,075,894 |
| – Education management services | | **25,201** | – |
| – Interest income from customers and suppliers | | **5,706** | 7,979 |
| – Order commission | | **19** | 67 |
| Total revenue | 5 | **216,614** | 1,083,940 |
| Trading losses on commodity forward contracts | | **(2,871)** | (1,093) |
| Other income | 6 | **280** | 350 |
| | | **214,023** | 1,083,197 |
| Carrying value of inventories sold | | **(183,361)** | (1,066,363) |
| Change in fair value of commodity inventories | | **(1,590)** | (3,226) |
| Depreciation of property, plant and equipment | | **(1,356)** | (1,446) |
| Depreciation of right-of-use assets | 15 | **(2,348)** | – |
| Employee costs | 7 | **(24,108)** | (17,481) |
| Fair value losses on other financial assets | | **(3,134)** | – |
| Loss on disposal of property, plant and equipment | | **(56)** | (278) |
| Other operating expenses | | **(13,882)** | (10,558) |
| Provision of loss allowance on loan receivable | | **(2,684)** | (76) |
| Provision of loss allowance on trade and other receivables | | **(714)** | – |
| Rental expenses | | **(390)** | (5,304) |
| Share of loss of associates | | **(9)** | (19) |
| Finance costs | 9 | **(794)** | (1,018) |
| Loss before income tax expense | 10 | **(20,403)** | (22,572) |
| Income tax (expense)/credit | 11 | **(5,901)** | 60 |
| Loss for the year from continuing operations | | **(26,304)** | (22,512) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 12 | **–** | (5,141) |
| Loss for the year | | **(26,304)** | (27,653) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Note | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|---|
| **Other comprehensive income/(loss)** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Release of translation reserve upon disposal of a subsidiary | | **–** | 42 |
| Exchange differences on translating foreign operations | | **171** | (2,589) |
| **Other comprehensive income/(loss) for the year, net of tax** | | **171** | (2,547) |
| **Total comprehensive loss for the year** | | **(26,133)** | (30,200) |
| **Loss attributable to owners of the Company:** | | | |
| – from continuing operations | | **(34,002)** | (22,261) |
| – from discontinued operations | | **–** | (5,156) |
| Loss for the year attributable to owners of the Company | 13 | **(34,002)** | (27,417) |
| **Profit/(loss) attributable to non-controlling interests:** | | | |
| – from continuing operations | | **7,698** | (251) |
| – from discontinued operations | | **–** | 15 |
| Profit/(loss) for the year attributable to non-controlling interests | | **7,698** | (236) |
| **Total comprehensive (loss)/income for the year attributable to:** | | | |
| – owners of the Company | | **(33,885)** | (29,935) |
| – non-controlling interests | | **7,752** | (265) |
| | | **(26,133)** | (30,200) |
| **Total comprehensive loss attributable to owners of the Company:** | | | |
| – from continuing operations | | **(33,885)** | (22,436) |
| – from discontinued operations | | **–** | (7,499) |
| | | **(33,885)** | (29,935) |
| **Loss per share attributable to owners of the Company during the year (basic and diluted)** | | | |
| – from continuing operations *(HK cents)* | | **(6.05)** | (4.64) |
| – from discontinued operations *(HK cents)* | | **–** | (1.07) |
| | 13 | **(6.05)** | (5.71) |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **2,985** | 1,241 |
| Right-of-use assets | 15 | **3,000** | – |
| Interest in an associate | 16 | **7,991** | – |
| Other financial assets | 17 | **17,286** | 5,000 |
| | | **31,262** | 6,241 |
| **Current assets** | | | |
| Inventories | 18 | **224** | 41,972 |
| Trade and other receivables and prepayments | 19 | **28,090** | 23,926 |
| Loan receivable | 20 | **4,829** | 7,513 |
| Derivative financial assets | 21 | **–** | 6,889 |
| Tax recoverable | | **–** | 277 |
| Cash and cash equivalents | 22 | **28,724** | 82,288 |
| | | **61,867** | 162,865 |
| **Current liabilities** | | | |
| Other payables, accruals and deposits received | 23 | **2,088** | 51,183 |
| Borrowing | 24 | **–** | 4,100 |
| Derivative financial liabilities | 21 | **–** | 1 |
| Amounts due to related companies | 25 | **–** | 4,173 |
| Loan from a related company | 26 | **–** | 27,195 |
| Tax payable | | **4,882** | – |
| Lease liabilities | 15 | **2,280** | – |
| | | **9,250** | 86,652 |
| **Net current assets** | | **52,617** | 76,213 |
| **Total assets less current liabilities** | | **83,879** | 82,454 |
| **Non-current liabilities** | | | |
| Lease liabilities | 15 | **871** | – |
| | | **871** | – |
| **Net assets** | | **83,008** | 82,454 |

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 27 | **144,480** | 122,898 |
| Reserves | | **(70,365)** | (40,444) |
| **Equity attributable to the owners of the Company** | | **74,115** | 82,454 |
| Non-controlling interests | 36 | **8,893** | – |
| **Total equity** | | **83,008** | 82,454 |

The consolidated financial statements were approved and authorized for issue by the board of directors on 29 April 2020 and signed on its behalf by:

**Wang Wendong**
*Director*

**Fung Chi Kin**
*Director*

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Note | Share capital HK$'000 | Merger reserve[1] HK$'000 | Equity-settled share-based payment reserve[1] HK$'000 | Translation reserve[1] HK$'000 | Accumulated losses[1] HK$'000 | Equity attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2018 | | 122,898 | (1,357) | 380 | 2,335 | (11,441) | 112,815 | (145) | 112,670 |
| Loss for the year | | – | – | – | – | (27,417) | (27,417) | (236) | (27,653) |
| Other comprehensive loss for the year: | | | | | | | | | |
| Release of translation reserve upon disposal of a subsidiary | | – | – | – | 42 | – | 42 | – | 42 |
| Exchange differences on translating foreign operation | | – | – | – | (2,560) | – | (2,560) | (29) | (2,589) |
| Total comprehensive loss for the year | | – | – | – | (2,518) | (27,417) | (29,935) | (265) | (30,200) |
| Capital injection by non-controlling interest | | – | – | – | – | – | – | 2,363 | 2,363 |
| Deemed disposal of a subsidiary | 30(d) | – | – | – | – | – | – | (2,379) | (2,379) |
| Acquisition of additional interest in a subsidiary | | – | – | – | – | (426) | (426) | 426 | – |
| As at 31 December 2018 | | 122,898 | (1,357) | 380 | (183) | (39,284) | 82,454 | – | 82,454 |

The accompanying note form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Notes | Share capital HK$'000 | Merger reserve[1] HK$'000 | Equity-settled share-based payment reserves[1] HK$'000 | Translation reserve[1] HK$'000 | Accumulated losses[1] HK$'000 | Equity attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 (Note 36) | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| As at 31 December 2018 (originally stated) | | 122,898 | (1,357) | 380 | (183) | (39,284) | 82,454 | – | 82,454 |
| Effect of adoption of HKFRS 16 | 2.2(i) | – | – | – | – | (24) | (24) | – | (24) |
| **As at 1 January 2019 (restated)** | | 122,898 | (1,357) | 380 | (183) | (39,308) | 82,430 | – | 82,430 |
| Loss for the year | | – | – | – | – | (34,002) | (34,002) | 7,698 | (26,304) |
| Other comprehensive income for the year: | | | | | | | | | |
| Exchange differences on translating foreign operation | | – | – | – | 117 | – | 117 | 54 | 171 |
| Total comprehensive loss for the year | | – | – | – | 117 | (34,002) | (33,885) | 7,752 | (26,133) |
| Capital injection by non-controlling interest | | – | – | – | – | – | – | 509 | 509 |
| Issue of new shares by way of placements | 27 | 23,136 | – | – | – | – | 23,136 | – | 23,136 |
| Transaction costs attributable to issue of shares | 27 | (1,554) | – | – | – | – | (1,554) | – | (1,554) |
| Lapsed share option | | – | – | (278) | – | 278 | – | – | – |
| Recognition of equity-settled share-based payments | 28 and 31 | – | – | 4,620 | – | – | 4,620 | – | 4,620 |
| Disposal of partial interests in a subsidiary without loss of control | 31 | – | – | (587) | 50 | (95) | (632) | 632 | – |
| **As at 31 December 2019** | | 144,480 | (1,357) | 4,135 | (16) | (73,127) | 74,115 | 8,893 | 83,008 |

1 These reserve accounts comprise the consolidated reserves of approximately HK$70,365,000 (2018: approximately HK$40,444,000) in the consolidated statement of financial position.

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax from continuing operations | | **(20,403)** | (22,572) |
| Loss before income tax from discontinued operations | | **–** | (5,100) |
| Loss before income tax including discontinued operations | | **(20,403)** | (27,672) |
| Adjustments for: | | | |
| Amortization of contract costs | 5(b) | **587** | – |
| Change in fair value of commodity inventories | | **1,590** | 3,226 |
| Depreciation of property, plant and equipment | 14 | **1,356** | 1,485 |
| Depreciation of right-of-use assets | 15 | **2,348** | – |
| Employee share option expenses | 28 | **4,033** | – |
| Fair value losses on other financial assets | | **3,134** | – |
| Interest income | | **(178)** | (6) |
| Interest expenses | 32(a) | **794** | 1,018 |
| Loss on disposal of a subsidiary | 30(b) | **–** | 5,256 |
| Loss on disposal of property, plant and equipment | | **56** | 316 |
| Provision of loss allowance on loan receivable | | **2,684** | 76 |
| Provision of loss allowance on trade and other receivables | | **714** | – |
| Share of loss of associates | | **9** | 19 |
| Trading losses on commodity forward contracts | | **2,871** | 1,093 |
| **Operating cash flows before changes in working capital** | | **(405)** | (15,189) |
| Decrease in inventories | | **40,158** | 60,082 |
| Increase in trade and other receivables and prepayments | | **(1,164)** | (14,497) |
| Decrease in loan receivable | | **–** | 1,411 |
| (Decrease)/Increase in other payables, accruals and deposits received | | **(48,518)** | 24,160 |
| Cash (used in)/generated from operations | | **(9,929)** | 55,967 |
| Income taxes paid | | **(765)** | (142) |
| ***Net cash (used in)/generated from operating activities*** | | **(10,694)** | 55,825 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Bank deposit with maturity over three months | | **–** | (30,000) |
| Interest received | | **163** | 6 |
| Investment in an associate | 30 | **(8,000)** | (4,727) |
| Investments in other financial assets | | **(15,420)** | (5,000) |
| Net cash from acquisition of a subsidiary | | **–** | 883 |
| Net cash from disposal of subsidiaries | | **–** | 29,839 |
| Proceeds from disposal of property, plant and equipment | | **2** | 3 |
| Proceeds from sales of other financial assets | | **–** | 1 |
| Proceeds upon maturity of bank deposit with original maturity over three months | | **–** | 30,000 |
| Purchases of property, plant and equipment | 14 | **(3,158)** | (642) |
| Repayments from a related company | | **–** | 54 |
| ***Net cash (used in)/generated from investing activities*** | | **(26,413)** | 20,417 |
| **Cash flows from financing activities** | | | |
| Advance from directors | 32 | **–** | 213 |
| Advance from non-controlling interests | | **–** | 2,364 |
| Capital injected into a subsidiary by non-controlling interest | | **509** | 2,363 |
| Funds transferred from related companies | 32 | **–** | 23,310 |
| Interest element of lease payment paid | 32 | **(113)** | – |
| Interest paid | 32 | **(681)** | (1,018) |
| Issuance cost attributable to issue of placing shares | 27 | **(1,554)** | – |
| Proceeds from borrowings | 32 | **–** | 12,647 |
| Proceeds from issue of new shares by way of placements | 27 | **23,136** | – |
| Proceeds from loans from related companies | 32 | **39,577** | – |
| Repayments of borrowings | 32 | **(4,100)** | (8,547) |
| Repayments to directors | 32 | **–** | (367) |
| Repayments of capital element of lease payment | 32 | **(2,384)** | – |
| Repayments of loans from related companies | 32 | **(66,772)** | – |
| Repayments to related companies | 32 | **(4,173)** | (69,160) |
| ***Net cash used in financing activities*** | | **(16,555)** | (38,195) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Note | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| ***Net (decrease)/increase in cash and cash equivalents*** | | **(53,662)** | 38,047 |
| **Cash and cash equivalents at beginning of the year** | | **82,288** | 46,630 |
| Effect of foreign exchange rate changes | | **98** | (2,389) |
| **Cash and cash equivalents at end of the year** | 22 | **28,724** | 82,288 |

The accompanying notes form an integral part of these consolidated financial statements.

## 1. GENERAL INFORMATION

Loco Hong Kong Holdings Limited (the "**Company**") is a limited liability company incorporated in Hong Kong and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 5 August 2014. The addresses of the registered office and principal place of business are Unit 401, 4/F., Fairmont House, 8 Cotton Tree Drive, Admiralty, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively the "**Group**") is principally engaged in trading of metal and commodity forward contracts, provision of money lending services and provision of education management services, which are conducted in Hong Kong and mainland of the People's Republic of China (the "**PRC Mainland**").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("**HK$'000**"), unless otherwise stated. These consolidated financial statements were approved and authorized for issue by the board of directors on 29 April 2020.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance Cap.622 ("**CO**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited ("**GEM Listing Rules**").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

The consolidated financial statements have been prepared on the historical cost basis except for certain inventories and financial instruments that are measured at fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "*Share-based Payment*" ("**HKFRS 2**"), leasing transactions that are accounted for in accordance with HKFRS 16 "*Leases*" ("**HKFRS 16**") (since 1 January 2019) or HKAS 17 "*Leases*" ("**HKAS 17**") (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 "*Inventories*" or value in use in HKAS 36 "*Impairment of Assets*" ("**HKAS 36**").

The preparation of the consolidated financial statements in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.2 Changes in accounting policies

### *(i) New and amended standards adopted by the Group*

The Group has applied the following new and revised standards and amendments for the first time in the current year:

| | |
|---|---|
| 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 Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle |

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on the consolidated financial statements.

*Adoption of HKFRS 16*

HKFRS 16 replaces HKAS 17, and the related interpretations, HK(IFRIC)-Int 4 "*Determining whether an Arrangement contains a Lease*" ("**HK(IFRIC)-Int 4**"), HK(SIC)-Int 15 "*Operating Leases – Incentives*", and HK(SIC)-Int 27 "*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*". It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

The Group has adopted HKFRS 16 using the modified retrospective approach with the date of initial application of 1 January 2019. Under this approach, the standard has been applied retrospectively with the cumulative effect of initial adoption recognized as an adjustment to the opening balance of accumulated losses as at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (Continued)

#### *(i) New and amended standards adopted by the Group* (Continued)

*Adoption of HKFRS 16* (Continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as operating leases. Under HKFRS 16, the Group applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and short-term leases (elected by class of underlying asset) (if any). Instead of recognizing rental expenses under operating leases on a straight-line basis over the lease term, commencing from 1 January 2019, the Group recognizes depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (Continued)

#### *(i) New and amended standards adopted by the Group* (Continued)

*Adoption of HKFRS 16* (Continued)

As a lessee – leases previously classified as operating leases (Continued)

Impact on transition

Lease liabilities as at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019. The right-of-use assets were measured by its carrying amount as if HKFRS 16 had been applied since the commencement date, but discounted using the incremental borrowing rate as at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.58%.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 as at 1 January 2019:

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (Continued)

#### *(i) New and amended standards adopted by the Group* (Continued)

*Adoption of HKFRS 16* (Continued)

As a lessee – leases previously classified as operating leases (Continued)

Impact on transition (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

| | Notes | **HK$'000** |
|---|---|---|
| Operating lease commitments as at 31 December 2018 | 33 | **5,707** |
| Less: Total future interest expenses | | **(172)** |
| Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019 | | **5,535** |
| Analyzed as | | |
| Current | | **2,384** |
| Non-current | 15 | **3,151** |
| Total lease liabilities recognized as at 1 January 2019 | | **5,535** |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (Continued)

#### *(i) New and amended standards adopted by the Group* (Continued)

*Adoption of HKFRS 16* (Continued)

As a lessee – leases previously classified as operating leases (Continued)

Impact on transition (Continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

| | Notes | **Right-of-use assets HK$'000** |
|---|---|---|
| Right-of-use assets relating to operating leases recognized upon application of HKFRS 16 | | **5,312** |
| Adjustment on rental deposits as at 1 January 2019 | (a) | **36** |
| | 15 | **5,348** |

Note a: Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (Continued)

#### *(i) New and amended standards adopted by the Group* (Continued)

*Adoption of HKFRS 16* (Continued)

As a lessee – leases previously classified as operating leases (Continued)

Impact on the consolidated statement of financial position

The following adjustments were made to the amounts recognized in the consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the changes have not been included.

| | As at 31 December 2018 HK$'000 | Impacts of adopting HKFRS 16 HK$'000 | As at 1 January 2019 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Right-of-use assets | – | 5,348 | 5,348 |
| **Total non-current assets** | 6,241 | 5,348 | 11,589 |
| **Current assets** | | | |
| Trade and other receivables and prepayments | 23,926 | (36) | 23,890 |
| **Total current assets** | 162,865 | (36) | 162,829 |
| **Current liabilities** | | | |
| Other payables, accruals and deposits received | 51,183 | (199) | 50,984 |
| Lease liabilities | – | 2,384 | 2,384 |
| **Total current liabilities** | 86,652 | 2,185 | 88,837 |

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.2 Changes in accounting policies (Continued)

### (i) New and amended standards adopted by the Group (Continued)

*Adoption of HKFRS 16* (Continued)

As a lessee – leases previously classified as operating leases (Continued)

Impact on the consolidated statement of financial position (Continued)

| | As at 31 December 2018 HK$'000 | Impacts of adopting HKFRS 16 HK$'000 | As at 1 January 2019 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Lease liabilities | **–** | **3,151** | **3,151** |
| **Total non-current liabilities** | **–** | **3,151** | **3,151** |
| **Net assets** | **82,454** | **(24)** | **82,430** |
| **Equity** | | | |
| Reserves | **(40,444)** | **(24)** | **(40,468)** |
| **Total equity** | **82,454** | **(24)** | **82,430** |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (Continued)

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts[2] |
| Amendments to HKFRS 3 | Definition of a Business[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[1] |
| 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 Effective for annual periods beginning on or after a date to be determined.

The Group has not early applied the new and amendments to HKFRSs that have been issued but are not yet effective for the current year. The Group is in the process of making an assessment of what the impact of these new or revised standards and amendments is expected to be in the period of initial application. So far, the Group has not identified any significant impact on the financial performance and positions which the Group is expected when they become effective.

### 2.3 Principals of consolidation and equity accounting

#### (a) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Principals of consolidation and equity accounting (Continued)

#### (a) Subsidiaries and non-controlling interests (Continued)

Intra-company transactions, balances, cash flows and unrealized gains on transactions between group companies are eliminated in full. Unrealized losses resulting from Intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Principals of consolidation and equity accounting (Continued)

#### (b) Associate

An associate is an entity in which the Group or Company has significant influence but not control or joint control, over its management, including participation in the financial and operating policy decisions. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in associate is accounted for in the consolidated financial statements under the equity method of accounting (Note 2.3(c)), after initially being recognized at cost.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognized at fair value and this amount is regarded at the fair value on initial recognition of a financial asset.

#### (c) Equity method

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the other comprehensive income. Dividends received or receivable from associate is recognized as a reduction in the carrying amount of the investment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Principals of consolidation and equity accounting (Continued)

#### (c) Equity method (Continued)

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized profits and losses resulting from transactions between the Group and its associate is eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

#### (d) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Separate financial statements

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

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

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors of the Company that make strategic decisions.

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**").

The functional currency of the Company and some subsidiaries is United States dollar ("**US$**"). The functional currency of the subsidiaries incorporated in the PRC Mainland is Renminbi ("**RMB**"). However, the financial statements are presented in Hong Kong dollar ("**HK$**") instead of its functional currency as the directors of the Company consider that HK$ is a more appropriate presentation currency in view of its principal place of financing activities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.6 Foreign currency translation (Continued)

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income. All other foreign exchange gains and losses are presented in the profit or loss on a net basis.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss ("**FVTPL**") are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income ("**FVTOCI**") are recognized in other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.6 Foreign currency translation (Continued)

#### (c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the reporting date;

- income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at average exchange rate (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

#### (d) Partial disposal of foreign operation

On partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences is re-attributed to non-controlling interests and is not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes its purchase price and the expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

| | |
|---|---|
| Leasehold improvements | Over the shorter of 3 years and the remaining lease terms |
| Equipment and computer software | 4 years |
| Furniture and fixture | 4 years |
| Motor vehicle | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is the Group's policy to transfer any amounts included in other reserves in respect of those assets to accumulated losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.9 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of profit or loss and other comprehensive income, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date or settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

#### 2.10.1 Financial assets

**Classification and subsequent measurement of financial assets**

The Group classifies its financial assets in the following measurement categories, which depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows:

- those to be measured at amortized cost;
- those to be measured at FVTOCI; and
- those to be measured at FVTPL.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.1 Financial assets (Continued)

**Classification and subsequent measurement of financial assets** (Continued)

The Group determines the classification of debt investments according to its business model and the contractual cash flow characteristics of the financial assets. The debt investments shall be classified as FVTPL if the cash flows characteristics cannot pass the test on solely payments of principal and interest on the principal amount ("**SPPI**"). Otherwise, the classification of debt investments will depend on the business model provided the fair value option is not elected. Investments in equity instruments are classified as FVTPL in general, except for those designated as at FVTOCI.

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.10 Financial instruments (Continued)

### 2.10.1 Financial assets (Continued)

**Classification and subsequent measurement of financial assets** (Continued)

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

(a) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost and debt instruments. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(b) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.1 Financial assets (Continued)

**Classification and subsequent measurement of financial assets** (Continued)

(c) Equity instrument

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVTPL for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments is set out in Note 3.3.

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognized in profit or loss as other income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.1 Financial assets (Continued)

**Impairment of financial assets**

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade and other receivables, loan receivable and bank balances which are subject to impairment under HKFRS 9). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Financial assets measured at fair value, including equity securities measured at FVTPL and derivative financial assets, are not subject to the ECL assessment.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For trade receivables from contracts with customers, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL without significant financing component at each reporting date. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.1 Financial assets (Continued)

**Impairment of financial assets** (Continued)

(a) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.10 Financial instruments (Continued)

### 2.10.1 Financial assets (Continued)

**Impairment of financial assets** (Continued)

(a) Significant increase in credit risk (Continued)

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

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

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

(b) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.1 Financial assets (Continued)

**Impairment of financial assets** (Continued)

(c) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(d) Write-off policy

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.1 Financial assets (Continued)

**Impairment of financial assets** (Continued)

(e) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on the historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Aging of debtors; and
- External credit ratings where available.

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost of the financial asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.1 Financial assets (Continued)

**Derecognition of financial assets**

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of derecognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

#### 2.10.2 Financial liabilities and equity

**Classification as debt or equity**

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

**Equity instruments**

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.2 Financial liabilities and equity (Continued)

**Financial liabilities**

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

**Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

**Financial liabilities at amortized cost**

Financial liabilities at amortized cost, including other payables, accruals and deposits received, borrowing, amounts due to related companies, loan from a related company and lease liabilities are subsequently measured at amortized cost, using the effective interest method.

**Derecognition of financial liabilities**

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial instruments (Continued)

#### 2.10.3 Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### 2.10.4 Fair value on financial instruments

For financial instruments where there is active market, the fair value is determined by quoted prices in active markets. For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques should be appropriate in the circumstances for which sufficient data is available, and the inputs should be consistent with the objective of estimating the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Such techniques include using recent prices in arm’s length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management’s best estimates and the discount rate used is a market rate for similar instruments. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

Determining whether to classify financial instruments into level 3 of the fair value hierarchy is generally based on the significance of the unobservable factors involved in valuation methodologies.

#### 2.10.5 Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.11 Leases

### 2.11.1 Policy applicable from 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, it is classified as a lease.

**Group as a lessee**

The Group applies a single recognition and measurement approach for all leases, except for shorter leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**Right-of-use assets**

The Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are also subject to impairment. Right-of-use assets are depreciated on a straight-line basis, as follows:

| | |
|---|---|
| Properties | Over the lease terms |

**Lease liabilities**

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Leases (Continued)

#### 2.11.1 Policy applicable from 1 January 2019 (Continued)

**Lease liabilities** (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification (i.e. a change in the lease term (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset).

**Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

#### 2.11.2 Policy applicable prior to 1 January 2019

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

The total rentals payable under the operating leases are recognized in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognized as an integrated part of the total rental expense, over the term of the lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.12 Inventories and other contract costs

#### *(i) Inventories*

Inventories mainly represent silver and gold ("**Commodity Inventories**") purchased for the purpose of selling them in the near future. As a commodity trader, the Group measures its Commodity Inventories at fair value less costs to sell. Commodity Inventories are initially recognized at cost and subsequently measured at fair value less costs to sell. Changes in fair value are recognized in the profit or loss in the period in which they arise.

Inventories other than Commodity Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### *(ii) Other contract costs*

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfill a contract with a customer which are not capitalized as inventory, property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalized when incurred if the costs relate to revenue which will be recognized in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Capitalized contract costs are stated at cost less accumulated amortization and impairment losses. Impairment losses are recognized to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognized as expenses.

Amortization of capitalized contract costs is charged to profit or loss when the revenue to which the asset relates is recognized. The accounting policy for revenue recognition is set out in Note 2.21.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.13 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Note 19 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

### 2.14 Loans receivables

Loans receivables are personal loans granted to customers in the ordinary course of business. If collection of loans receivable is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Loans receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

### 2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts (if any).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.16 Other payables

Other payables are classified as current liabilities if the payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 2.17 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### 2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not be reversed in the foreseeable future.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.19 Current and deferred income tax (Continued)

### (b) Deferred income tax (Continued)

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## 2.20 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2.21 Revenue recognition

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Revenue recognition (Continued)

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

#### Principal versus agent considerations

The Group has completed the acquisition of 50% equity interest in 上海孚瑞恒眾汽車科技有限公司 (Shanghai Friction Automotive Technology Co., Ltd.*) ("**Shanghai Friction**") during the year ended 31 December 2018 and accounted for as a subsidiary of the Group (Note 30(d)). The principal activities of Shanghai Friction are to procure automotive parts from 煙台孚瑞克森汽車部件有限公司 (China Yantai Friction Co., Ltd.*) ("**CYFC**"), a shareholder of 20% indirect equity interest in Shanghai Friction, and to arrange for sales of those automotive parts to customers in the PRC Mainland. Upon adoption of HKFRS 15, the Group determined that it does not control the goods before they are transferred to customers, and hence, is an agent in these contracts because it does not have the ability to direct the use of those automotive parts. The performance obligation of the Group is to provide merchandising support services to facilitate the sales of those automotive parts by CYFC to customers. Accordingly, upon adoption of HKFRS 15, the Group has recognized revenue of approximately HK$1,039,000 in its consolidated financial statements for the year ended 31 December 2018 which the sum represents income derived from providing such merchandising support services.

* *English name for identification purpose only*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Revenue recognition (Continued)

#### Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

#### Revenue from trading of metal and commodity forward contracts

The Group's contracts with customers for the trading of metal generally include a performance obligation and the revenue from it should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from trading of metal is mainly arising from sales of Commodity Inventories (Note 2.12) by the Group as well as interest income generated from customers and suppliers. The Group enters into sale and purchase agreements for Commodity Inventories with certain customers and suppliers and under the terms of those agreements, the selling or purchase price of metal is determined based on the market price of silver on the date subsequent to the delivery date as specified by the customer or supplier (the "**Forward Arrangements**"). Interest is charged to the customers and suppliers of those agreements during the period of Forward Arrangements.

Trading gains or losses from commodity forward contracts mainly comprise the gains or losses arising from the Forward Arrangements with customers and suppliers as mentioned above and the gains or losses arising from the forward contracts entered into with commodity traders for hedging commodity price risk.

#### Revenue from provision of education management services

The Group provides several kinds of education related services to other parties. Revenue is measured at the consideration received or receivable for the service provided. The Group recognizes revenue when it transfers services to a customer. The services include providing exclusive management and consulting services (including amongst others student recruitment services, management support services and staff training services), equipment and exclusive technology support services and financing supporting services to the educational institution. The Group receives education management services fees and such fees are recognized as revenue over the period of the relevant education management services provided.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Revenue recognition (Continued)

#### Revenue from trading of electronic products

Revenue from trading of electronic products is arising from sales of electronic products during the year. The Group's contracts with customers for the trading of electronic products generally include one performance obligation and the revenue from it should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The operation of trading of electronic products has been eventually ceased and disposed of in December 2018.

#### Revenue from merchandising support services

Revenue from merchandising support services represents income derived from providing merchandising support services of automotive parts and such services fee recognized over the period of the relevant services provided. The operation of merchandising support services was deemed to be disposed of on 30 June 2018.

#### Commission income

Commission income is recognized at the point in time when the control of goods is passed to customers.

### 2.22 Revenue from provision of money lending services

Apart from interest income earned from the Forward Arrangements as mentioned above, the Group also earned interest income from a loan lent to a borrower. Such interest income is recognized and accrued using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognized using the original effective interest rate applied to the new carrying amount.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.23 Employee benefits

#### (a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

#### (b) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognized in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.23 Employee benefits (Continued)

#### (c) Post-employment obligations

**Defined contribution retirement plans**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under Mandatory Provident Fund Scheme Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee's relevant income and are charged to the profit and loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, if any, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Group's PRC Mainland operations participate in defined contribution retirement plans managed by the local municipal government in the locations in which it operates. The relevant authorities of the local municipal government in the PRC Mainland are responsible for the retirement benefit obligations payable to the Group's retired employees. The Group has no obligation for payment of retirement benefits beyond the annual contribution. The contribution payable is charged as an expense to profit or loss as and when incurred.

### 2.24 Share-based payments arrangements

#### *(i) Share options granted to directors and eligible employees in an equity-settled share-based payment arrangement*

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognized in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.24 Share-based payments arrangements (Continued)

#### *(ii) Share options granted to Mr. Hon Hang ("Mr. Hon"), the legal representative of one of the subsidiary, the detail is set out in Note 31, in an equity-settled share-based payment arrangement*

For share options granted to Mr. Hon in an equity-settled share-based payment transaction, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group will measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted measured at the date the entity obtains the goods or the counterparty renders service. The fair values of the goods or services received are recognized as expenses immediately, if they do not qualify for recognition as assets. Corresponding adjustment has been made to equity.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognized in profit or loss over the remaining vesting period.

Where share options are granted to parties providing goods or services, the fair value of goods or services received is recognized in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in share option reserve is recognized.

When the option is exercised, the relevant amount recognized in the share option reserve is transferred to share capital. When the option is forfeited, the relevant amount recognized in the share option reserve is released directly to accumulated losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.25 Provisions and contingent liabilities

Provisions are recognized when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 2.26 Earnings per share

#### (a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### (b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.27 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

(vii) Person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

# 3. FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

The main risks arising from the Group's financial instruments in the normal course of the Group's business are market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. These risks are limited by the Group's financial management policies and practices as described below.

### (a) Market risk

#### (i) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The functional currencies of the Group's respective principal subsidiaries are HK$, US$ and RMB.

For subsidiaries with HK$ and US$ as their functional currencies, since most of their transactions and financial instruments are denominated in HK$ and US$ and HK$ is pegged to US$, their exposure to foreign currencies risk is minimal.

For subsidiaries operated in PRC Mainland, their assets and liabilities are mainly denominated in RMB except for bank balance which is denominated in HK$. Accordingly, bank balance denominated in HK$ is subject to foreign exchange risk.

Fluctuations in the exchange rates of HK$ against RMB will affect the Group's result of operations. The Group does not have a foreign currency hedging policy. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2019, if RMB had strengthened/weakened by 5%, against HK$ with all other variables held constant, pre-tax loss for the year would have been approximately HK$15,000 (2018: approximately HK$233,000) higher/lower, mainly as a result of net foreign exchange losses/gains on translation of HK$ denominated bank balance.

# 3. FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Financial risk factors (Continued)

### (a) Market risk (Continued)

#### (ii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The loan receivable, borrowing, loan from a related company and lease liabilities expose to the fair value interest rate risk as it is arranged at fixed interest rate. While bank balances are arranged at variable which exposed the Group to cash flow interest rate risk. The directors of the Company considered the exposure to interest rate risk in relation to bank balances are insignificant due to the low level of bank interest rate. Accordingly, no sensitivity analysis for interest rate risk is presented.

The Group manages interest rate risk by monitoring its interest rate profile. The Group conducts periodical review to determine preferred interest rates mix appropriate for the business profile. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

#### (iii) Price risk

The Group is exposed to equity price risk through its financial assets measured at FVTPL.

Equity price risk

Equity price risk is the risk that the fair value of investments decrease as a result of changes in the levels of equity indices and the value of individual investment. The Group is exposed to equity price risk arising from financial assets measured at FVTPL.

If prices had been 10% higher/lower, the Group's loss before income tax expense for the year would decrease/increase by approximately HK$1,729,000 (2018: approximately HK$500,000). This is mainly due to the changes in fair value of financial assets measured at FVTPL at the end of the reporting period.

The management will monitor the equity price risk and take appropriate actions should the need arise.

# 3. FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Financial risk factors (Continued)

### (b) Credit risk

Credit risk arises mainly from other financial assets, trade and other receivables, loan receivable, derivative financial assets and bank balances. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the end of the reporting date in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

There is no derivative financial asset as at 31 December 2019 and the directors of the Company consider the credit risk of derivative financial assets as at 31 December 2018 is insignificant to the Group.

The credit risk of bank balances is limited because the counterparties are banks with sound credit ratings assigned by international credit rating agencies.

The Group's credit risk is primarily attributable to its trade and other receivables and loan receivable. In order to minimize the credit risk, the Group has applied the simplified and general approach under HKFRS 9 to measure the loss allowance at lifetime ECL or 12m ECL. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

# 3. FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Financial risk factors (Continued)

### (b) Credit risk (Continued)

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

The following table shows the Group's credit risk grading framework:

| | | Basis for recognition of ECL | |
|---|---|---|---|
| **Category** | **Group definition of category** | **Trade receivables** | **Other financial assets** |
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit-impaired (refer to as Stage 1) | Lifetime ECL | 12m ECL |
| Doubtful | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired (refer to as Stage 2) | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Default | Financial assets are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3) | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

# 3. FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Financial risk factors (Continued)

### (b) Credit risk (Continued)

The Group applies individual assessment to measure the expected credit losses prescribed by HKFRS 9 as stated in below:

The expected credit loss rates applied in the individual assessment are estimated based on historical observed default rates over the expected life of the debtors and internal credit rating by reference to a study of other corporates' default and recovery data from international credit-rating agencies, and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in Hong Kong and/or PRC Mainland, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue costs or efforts. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting dates.

Relevant information with regard to the exposure of credit risk and expected credit losses for trade and other receivables and loan receivable as at 31 December 2019 are set out in Notes 19 and 20.

The Group made no write-off on trade and other receivables, and loan receivable during the year ended 31 December 2018 and 2019.

Concentration of credit risk

The Group has concentration of credit risk in trade and other receivables as there were 2 customers (2018: 2 customers) which individually contributed over 10% of the Group's trade and other receivables. The aggregate amounts of trade and other receivables from these customers amounted to 90.3% of the Group's total trade and other receivables as at 31 December 2019 (2018: 21.0%). The Group has categorized these customers as "Performing" and determined its loss allowance based on lifetime ECL.

# 3. FINANCIAL RISK MANAGEMENT (Continued)

## 3.1 Financial risk factors (Continued)

### (c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities and lease liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of payables and its financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that the Group maintains sufficient reserves of cash from business. The liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

The following table below details the remaining contractual maturities at the reporting date of the Group's financial liabilities and lease liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balances within 1 year other than lease liabilities, equal their carrying balances as impact from discounting is not significant.

| | On demand or within 1 year HK$'000 | Between 1 to 2 years HK$'000 | Between 2 to 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2019** | | | | |
| Other payables, accruals and deposits received | **2,088** | **–** | **–** | **2,088** |
| Lease liabilities | **2,333** | **877** | **–** | **3,210** |
| | **4,421** | **877** | **–** | **5,298** |
| As at 31 December 2018 | | | | |
| Other payables, accruals and deposits received | 51,183 | – | – | 51,183 |
| Borrowing | 4,100 | – | – | 4,100 |
| Derivatives financial liabilities (Note) | 1 | – | – | 1 |
| Amounts due to related companies | 4,173 | – | – | 4,173 |
| Loan from a related company | 27,195 | – | – | 27,195 |
| | 86,652 | – | – | 86,652 |

Note: The remaining contractual maturities of these commodity forward contracts (Note 21) are within one month.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Capital management

The Group's primarily objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide maximize returns for shareholders and benefits for other stakeholders. The Group's capital structure is regularly reviewed and managed by the directors of the Company. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt comprising total interest-bearing liabilities less cash and cash equivalents. Total capital is calculated as equity attributable to the owners of the Company as shown in the consolidated statement of financial position plus net debt. The Group is not subject to externally imposed capital requirements.

As at 31 December 2018 and 2019, the gearing ratios were as follows:

| | Notes | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|---|
| Lease liabilities | 15 | **3,151** | – |
| Borrowing | 24 | **–** | 4,100 |
| Loan from a related company | 26 | **–** | 27,195 |
| Less: cash and cash equivalents | 22 | **(28,724)** | (82,288) |
| Net debt | | **–** | – |
| Total equity | | **74,115** | 82,454 |
| Total capital | | **74,115** | 82,454 |
| Gearing ratio | | **N/A** | N/A |

# 3. FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Fair value estimation

The Group's financial assets and financial liabilities that are not measured at fair value mainly include trade and other receivables, loan receivable, cash and cash equivalents, other payables, accruals and deposits received, borrowing, amounts due to related companies, loan from a related company and lease liabilities. Due to their short-term nature, the carrying value of these financial instruments approximates its fair value.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial instruments that are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value measurement hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3 (unobservable inputs).

| | Notes | Fair value as at 31 December<br>**2019**<br>**HK'$000** | <br>2018<br>HK'$000 | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** |
|---|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | | |
| – Unlisted equity securities | 17 | **17,286** | 5,000 | Level 3 | Income approach and market approach |
| – Commodity forward contracts | 21 | **–** | 6,889 | Level 2 | Commodity price available in active market |
| **Financial liabilities at FVTPL** | | | | | |
| – Commodity forward contracts | 21 | **–** | 1 | Level 2 | Commodity price available in active market |

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation (Continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements as at 31 December 2019:

| Description | Fair value HK$'000 | Valuation technique | Significant unobservable input | Range of inputs (probability-weighted average) | Sensitivity of fair value to the input |
|---|---|---|---|---|---|
| Unlisted equity securities A | 10,500 | Income approach | Discount rate | 19.84% to 24.25% (+/-10% relative to the input adopted) | Approximately HK$9.0 million to approximately HK$12.4 million |
| | | | Discount for lack of marketability | 21.60% to 26.40% (+/-10% relative to the input adopted) | Approximately HK$10.1 million to approximately HK$10.9 million |
| Unlisted equity securities B | 6,786 | Market approach | Enterprise value to sales | 0.83 to 1.02 (+/-10% relative to the input adopted) | Approximately HK$6.1 million to approximately HK$7.5 million |
| | | | Discount for lack of marketability | 26.10% to 31.90% (+/-10% relative to the input adopted) | Approximately HK$6.5 million to approximately HK$7.1 million |

The fair value of the unlisted equity securities as at 31 December 2018 is referenced to the recent transaction price of the shares without adjustment, and therefore no disclosure on quantitative information on unobservable input and sensitivity analysis is required.

# 3. FINANCIAL RISK MANAGEMENT (Continued)

## 3.3 Fair value estimation (Continued)

Reconciliation of movements in Level 3 financial instruments measured at fair value is as follows:

| | Note | Unlisted equity financial assets at FVTPL<br>2019<br>HK$'000 | <br>2018<br>HK$'000 |
|---|---|---|---|
| As at 31 December | | **5,000** | – |
| Impact on initial application of HKFRS 9 | | **–** | 1 |
| Adjusted balance as at 1 January | | **5,000** | 1 |
| Purchases | | **15,420** | 5,000 |
| Disposals | | **–** | (1) |
| Fair value losses charged in profit or loss | | **(3,134)** | – |
| **As at 31 December** | 17 | **17,286** | 5,000 |

There were no transfers between the different levels of the fair value hierarchy for the year ended 31 December 2018 and 2019.

In estimating the fair value of the unlisted equity securities, the Group engaged an independent third-party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model based on market conditions existing at the end of each reporting period. The management reports the management's findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the unlisted equity securities.

## 4. CRITICAL JUDGMENTS AND KEY SOURCES OF ESTIMATES UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

### Estimation of recoverability of trade and other receivables and loan receivable

The directors of the Company estimate the amount of loss allowance for trade and other receivable and loan receivable based on the credit risk of trade and other receivables and loan receivable. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. The assessment of the credit risk of trade and other receivables and loan receivable involves high degree of estimation and uncertainty as the directors of the Company estimates the loss rates for debtors by using past history, existing market conditions as well as forward-looking information. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise accordingly. For details of impairment assessment are set out in Notes 19 and 20.

### Valuation of investments classified as level 3 in the fair value hierarchy

The Group holds financial instruments that are not traded or quoted in active markets. The Group uses its judgment to select the appropriate methods and make assumptions based on market conditions existing at the end of each reporting period to estimate the fair value of such financial instruments classified as level 3 in the fair value hierarchy. Valuation techniques include the market approach using prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities such as net assets values as provided by an independent third-party qualified valuers or the discounted last transacted price; and discounted cash flow approach which utilizes inputs such as projected discounted cash flows and discount rate. Although the best estimate is used in estimating fair values, there are inherent limitations in any valuation technique. Estimated fair values may differ from the values that would have been used if a readily available market existed. For details of the fair value estimation are set out in Note 3.3.

## 5. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, who are the chief operating decision-makers that are used to make strategic decision. The Group manages its business by divisions, which are organized by business lines.

During the year ended 31 December 2018, the Group disposed of its businesses in trading of electronic products and merchandising support services which are classified as discontinued operations for the year ended 31 December 2018. Further details of the disposal of the businesses in trading of electronic products and merchandising support services are set out in Notes 12 and 30.

During the year ended 31 December 2019, the Group has launched the education management services business providing exclusive management and consulting services to various schools in PRC Mainland.

The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable and operating segments:

Continuing operations:

(i) Trading of metal – Sales of metal and interest income from Forward Agreements (Note 2.21) in Hong Kong.

(ii) Money lending services – Provision of money lending services in Hong Kong.

(iii) Education management services – Provision of education management services in PRC Mainland.

Discontinued operations:

(i) Trading of electronic products – Trading of electronic products in the PRC Mainland. The segment is discontinued and disposed of on 4 December 2018.

(ii) Merchandising support services – The Group commenced the merchandising support services for trading of automotive parts in the PRC Mainland since February 2018 following the completion of acquisition of a PRC Mainland entity. This segment is deemed to be disposed of on 30 June 2018.

# 5. SEGMENT INFORMATION (Continued)

## (a) Segment results, assets and liabilities

The segment information provided to the directors of the Company for the reportable segments for the years ended 31 December 2018 and 2019 are as follows:

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Continuing operations | | | |
| | Trading of metal HK$'000 | Money lending services HK$'000 | Education management services HK$'000 | Total HK$'000 |
| **Reportable segment revenue (Note)** | 190,565 | 848 | 25,201 | 216,614 |
| **Reportable segment (loss)/profit** | (7,522) | (2,512) | 22,616 | 12,582 |
| Depreciation of property, plant and equipment | | | | (512) |
| Depreciation of right-of-use assets | | | | (1,519) |
| Employee costs | | | | (16,572) |
| Fair value losses on other financial assets | | | | (2,000) |
| Interest expenses | | | | (115) |
| Other unallocated corporate expenses | | | | (12,267) |
| **Loss before income tax expense from continuing operations** | | | | (20,403) |
| Income tax expense | | | | (5,901) |
| **Loss for the year from continuing operations** | | | | (26,304) |
| **Reportable segment assets** | 23,437 | 5,850 | 28,692 | 57,979 |
| Cash and cash equivalents | | | | 21,467 |
| Property, plant and equipment | | | | 543 |
| Right-of-use assets | | | | 1,923 |
| Other financial assets | | | | 10,500 |
| Other unallocated corporate assets | | | | 717 |
| **Consolidated total assets** | | | | 93,129 |
| **Additions to specified non-current assets** | 11,051 | – | – | 11,051 |
| **Reportable segment liabilities** | 1,031 | 266 | 5,708 | 7,005 |
| Lease liabilities | | | | 2,045 |
| Other unallocated corporate liabilities | | | | 1,071 |
| **Consolidated total liabilities** | | | | 10,121 |

Note: There is no inter-segment revenue for the year.

## 5. SEGMENT INFORMATION (Continued)

### (a) Segment results, assets and liabilities (Continued)

The segment information provided to the directors of the Company for the reportable segments for the years ended 31 December 2018 and 2019 are as follows: (Continued)

| | For the year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | Discontinued operations (Note 12) | | |
| | Trading of metal HK$'000 | Money lending services HK$'000 | Merchandising support services HK$'000 | Trading of electronic products HK$'000 | Total HK$'000 |
| Reportable segment revenue (Note) | 1,083,348 | 592 | 1,039 | 13,011 | 1,097,990 |
| Reportable segment (loss)/profit | (2,815) | 46 | 34 | 122 | (2,613) |
| Depreciation of property, plant and equipment | | | | | (985) |
| Employee costs | | | | | (10,510) |
| Interest expenses | | | | | (19) |
| Other unallocated corporate expenses | | | | | (5,458) |
| Rental expenses | | | | | (2,812) |
| Share of loss of associates | | | | | (19) |
| Elimination of discontinued operations | | | | | (156) |
| Loss before income tax expense from continuing operations | | | | | (22,572) |
| Income tax credit | | | | | 60 |
| Loss for the year from continuing operations | | | | | (22,512) |
| Reportable segment assets | 123,043 | 9,380 | – | – | 132,423 |
| Cash and cash equivalents | | | | | 34,635 |
| Property, plant and equipment | | | | | 973 |
| Other unallocated corporate assets | | | | | 1,075 |
| Consolidated total assets | | | | | 169,106 |
| Additions to specified non-current assets | 51 | – | 204 | – | 255 |
| Reportable segment liabilities | 80,216 | 58 | – | – | 80,274 |
| Other unallocated corporate liabilities | | | | | 6,378 |
| Consolidated total liabilities | | | | | 86,652 |

Note: There is no inter-segment revenue for the year.

## 5. SEGMENT INFORMATION (Continued)

### (b) Other segment information

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Continuing operations | | | |
| | Trading of metal HK$'000 | Money lending services HK$'000 | Education management services HK$'000 | Total HK$'000 |
| Amortization of contract costs (Note) | – | – | (587) | (587) |
| Change in fair value of Commodity Inventories | (1,590) | – | – | (1,590) |
| Depreciation of property, plant and equipment | (844) | – | – | (844) |
| Depreciation of right-of-use assets | (667) | (162) | – | (829) |
| Fair value losses on other financial assets | (1,134) | – | – | (1,134) |
| Provision of loss allowance on loan receivable | – | (2,684) | – | (2,684) |
| Provision of loss allowance on trade and other receivables | – | (325) | (389) | (714) |
| Interest income | 4,858 | 848 | – | 5,706 |
| Interest expenses | (670) | (9) | – | (679) |
| Share of loss of an associate | (9) | – | – | (9) |

| | For the year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | Discontinued operations | | |
| | Trading of metal HK$'000 | Money lending services HK$'000 | Merchandising support services HK$'000 | Trading of electronic products HK$'000 | Total HK$'000 |
| Change in fair value of Commodity Inventories | (3,226) | – | – | – | (3,226) |
| Depreciation of property, plant and equipment | (461) | – | (28) | (11) | (500) |
| Interest income | 7,434 | 592 | 1 | 1 | 8,028 |
| Interest expenses | (999) | – | – | – | (999) |
| Provision of loss allowance on loan receivable | – | (76) | – | – | (76) |

# 5. SEGMENT INFORMATION (Continued)

## (b) Other segment information (Continued)

Note:

Contract costs capitalized during the year ended 31 December 2019 related to the contract's procurement services rendered by Mr. Hon. This incremental cost of services rendered would not be incurred if the contracts to which the services related to were not obtained by the Group. Contract costs are recognized as contract cost assets as the Group expects to recover these costs. Such capitalized costs then be recognized as part of "other operating expenses" in the consolidated statement of profit or loss and other comprehensive income in the period in which revenue from the related contracts are recognized. The amount of capitalized costs recognized in profit or loss during the year ended 31 December 2019 was approximately HK$587,000 (2018: nil).

## (c) Reconciliation of reportable segment revenue to consolidated revenue from continuing operations

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | **216,614** | 1,097,990 |
| Elimination of discontinued operations (Note 12) | **–** | (14,050) |
| **Consolidated revenue from continuing operations** | **216,614** | 1,083,940 |

## 5. SEGMENT INFORMATION (Continued)

### (d) Geographical information

The Company is an investment holding company incorporated in Hong Kong and the principal place of the Group's operations is Hong Kong. Accordingly, the management determines that the Group is domiciled in Hong Kong.

The Group's revenue from customers and information about its specified non-current assets, comprising property, plant and equipment, interest in an associate and right-of-use assets, by geographical location are detailed below:

| | Revenue from customers* | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Australia | **15,287** | 80,129 |
| Hong Kong | **66,324** | 339,295 |
| Japan | **46,583** | 126,921 |
| PRC Mainland | **25,242** | 100 |
| Singapore | **63,178** | 537,495 |
| | **216,614** | 1,083,940 |
| **Discontinued operations** | | |
| PRC Mainland | **–** | 14,050 |
| | **216,614** | 1,097,990 |

* Based on location of customers.

| | Specified non-current assets | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Hong Kong | **13,976** | 1,241 |

## 5. SEGMENT INFORMATION (Continued)

### (e) Disaggregation of revenue

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Continuing operations | | | |
| | Trading of metal HK$'000 | Money lending services HK$'000 | Education management services HK$'000 | Total HK$'000 |
| Primary geographical markets | | | | |
| Australia | 15,287 | – | – | 15,287 |
| Hong Kong | 65,476 | 848 | – | 66,324 |
| Japan | 46,583 | – | – | 46,583 |
| PRC Mainland | 41 | – | 25,201 | 25,242 |
| Singapore | 63,178 | – | – | 63,178 |
| | 190,565 | 848 | 25,201 | 216,614 |

| | For the year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | Discontinued operations | | |
| | Trading of metal HK$'000 | Money lending services HK$'000 | Merchandising support services HK$'000 | Trading of electronic products HK$'000 | Total HK$'000 |
| Primary geographical markets | | | | | |
| Australia | 80,129 | – | – | – | 80,129 |
| Hong Kong | 338,703 | 592 | – | – | 339,295 |
| Japan | 126,921 | – | – | – | 126,921 |
| PRC Mainland | 100 | – | 1,039 | 13,011 | 14,150 |
| Singapore | 537,495 | – | – | – | 537,495 |
| | 1,083,348 | 592 | 1,039 | 13,011 | 1,097,990 |

## 5. SEGMENT INFORMATION (Continued)

### (f) Disaggregation of revenue from contracts with customers

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **By timing of revenue recognition:** | | |
| Control transferred over time | **25,201** | 1,039 |
| Control transferred at a point in time | **190,565** | 1,096,359 |
| | **215,766** | 1,097,398 |

### (g) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue from continuing operations and is reported under the segment of trading of metal, are set out below:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Customer A | **56,543** | 446,770 |
| Customer B | **46,583** | 126,921 |
| Customer C | **26,331** | N/A |
| Customer D | **N/A** | 183,965 |

N/A: Not applicable as the revenue generated by the customer is less than 10% of the Group's revenue from continuing operations.

## 6. OTHER INCOME

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Lab-test service income | **82** | 258 |
| Interest income from rental deposit | **15** | – |
| Others | **183** | 92 |
| | **280** | 350 |

## 7. EMPLOYEE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Employee costs (including directors' emoluments) comprise: | | |
| Salaries and bonus, allowances and benefits | **23,804** | 17,115 |
| Contributions to defined contribution retirement plans | **304** | 366 |
| | **24,108** | 17,481 |

# 8. DIRECTORS' EMOLUMENTS

## (a) Directors' and chief executive's emoluments

Directors' emoluments disclosed pursuant to section 383 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G of the laws of Hong Kong) are as follows:

**For the year ended 31 December 2019**

| | Fee HK$'000 (Note (viii)) | Salaries, allowances and benefits in kind HK$'000 (Note (ix)) | Discretionary bonus HK$'000 | Pension scheme contributions HK$'000 | Equity-settled share-based payments HK$'000 (Note (x)) | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mr. Wang Wendong (Note (i)) | 144 | 1,950 | – | 18 | 610 | 2,722 |
| Mr. Fung Chi Kin (Note (ii)) | 74 | 668 | – | – | 610 | 1,352 |
| Mr. Felipe Tan ("**Mr. Tan**") (Note (iii)) | 1,080 | 1,260 | – | 9 | – | 2,349 |
| Mr. Zhu Hongguang (Note (iii)) | 92 | 994 | – | – | – | 1,086 |
| **Total** | 1,390 | 4,872 | – | 27 | 1,220 | 7,509 |
| **Independent non-executive directors ("INED")** | | | | | | |
| Mr. Zhou Tianshu (Note (iv)) | 200 | – | – | – | 61 | 261 |
| Ms. Wu Liyan (Note (iv)) | 200 | – | – | – | 61 | 261 |
| Mr. Lau Yuen Sun Adrian (Note (iv)) | 184 | – | – | – | 61 | 245 |
| Ms. Wong Susan Chui San (Note (iv)) | 168 | – | – | – | 61 | 229 |
| Ms. Dai Meihong (Note (v)) | 32 | – | – | – | – | 32 |
| Ms. Tsang Wai Chun Marianna (Note (v)) | 100 | – | – | – | – | 100 |
| **Total** | 884 | – | – | – | 244 | 1,128 |

## 8. DIRECTORS' EMOLUMENTS (Continued)

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

Directors' emoluments disclosed pursuant to section 383 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G of the laws of Hong Kong) are as follows: (Continued)

For the year ended 31 December 2018

| | Fee HK$'000 (Note (viii)) | Salaries, allowances and benefits in kind HK$'000 (Note (ix)) | Discretionary bonus HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Executive directors | | | | | |
| Mr. Tan (Note (iii)) | 1,144 | 852 | 190 | 18 | 2,204 |
| Mr. Zhu Hongguang (Note (iii)) | 144 | 1,892 | – | – | 2,036 |
| Mr. Zha Jianping (Note (vii)) | 108 | 918 | – | 38 | 1,064 |
| Mr. Lam Chi Chung Tommy (Note (vi)) | 96 | 830 | – | 25 | 951 |
| Mr. Wang Wendong (Note (i)) | 96 | 1,045 | – | 21 | 1,162 |
| Mr. Tsang Zee Ho Paul (Note (vi)) | 72 | 659 | – | 15 | 746 |
| Total | 1,660 | 6,196 | 190 | 117 | 8,163 |
| INED | | | | | |
| Ms. Tsang Wai Chun Marianna (Note (v)) | 144 | – | – | – | 144 |
| Ms. Dai Meihong (Note (v)) | 144 | – | – | – | 144 |
| Dr. Wang Lin (Note (v)) | 108 | – | – | – | 108 |
| Mr. Zhou Tianshu (Note (iv)) | 51 | – | – | – | 51 |
| Ms. Wu Liyan (Note (iv)) | 51 | – | – | – | 51 |
| Total | 498 | – | – | – | 498 |

## 8. DIRECTORS' EMOLUMENTS (Continued)

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

Notes:

(i) Mr. Wang Wendong was appointed as an executive director on 11 May 2018. He was appointed as chief executive officer of the Company on 31 October 2018.

(ii) Mr. Fung Chi Kin was appointed as an executive director on 26 June 2019.

(iii) Mr. Tan and Mr. Zhu Hongguang were resigned as an executive director on 20 July 2019 and 20 August 2019 respectively.

(iv) Mr. Zhou Tianshu, Ms Wu Liyan, Mr. Lau Yuen Sun Adrian and Ms. Wong Susan Chui San were appointed as an INED on 29 September 2018, 29 September 2018, 30 January 2019 and 27 February 2019 respectively.

(v) Ms. Dai Meihong, Ms. Tsang Wai Chun Marianna and Dr. Wang Lin were resigned as an INED on 27 February 2019, 28 June 2019 and 29 September 2018 respectively.

(vi) Mr. Lam Chi Chung Tommy was appointed as an executive director on 11 May 2018 and resigned as an executive director on 31 December 2018. Mr. Tsang Zee Ho Paul was appointed as an executive director and chief executive officer of the Company on 11 May 2018. He was resigned as an executive director and chief executive officer of the Company on 31 October 2018.

(vii) Mr. Zha Jianping was resigned as an executive director and chief executive officer of the Company and re-designated as a non-executive director on 11 May 2018. He was resigned as a non-executive director on 29 September 2018.

(viii) Fees included director's fee received from subsidiaries of the Company.

(ix) Salaries, allowance and benefits in kind paid to or for the executive directors of the Company are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries undertakings.

(x) Details of the equity-settled share-based payments regarding to the share options granted to directors, eligible employees and other eligible participants are set out in Note 28.

## 8. DIRECTORS' EMOLUMENTS (Continued)

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

During the year ended 31 December 2019, no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office (2018: nil).

During the year ended 31 December 2019, none of the directors of the Company have waived or agreed to waive any emoluments during the year.

### (b) Directors' retirement benefits and termination benefits

None of the directors of the Company received or will receive any retirement benefits or termination benefits during the year (2018: nil).

### (c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2019, the Company did not pay consideration to any third parties for making available directors' services (2018: nil).

### (d) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2019, there is no loans, quasi-loans and other dealing arrangements in favor of directors, controlled bodies corporate by and connected entities with such directors (2018: nil).

## 8. DIRECTORS' EMOLUMENTS (Continued)

### (e) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2018: five) were directors of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining individuals were as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Salaries and bonus, allowances and benefits | **1,075** | – |
| Contributions to defined contribution retirement plan | **18** | – |
| | **1,093** | – |

Their emoluments were within the following bands:

| | **2019**<br>**No. of**<br>**individuals** | 2018<br>No. of<br>individuals |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| | **1** | – |

## 9. FINANCE COSTS

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Continuing operations:** | | | |
| Interest on bank loans and other borrowing | | **30** | 66 |
| Interest on lease liabilities | 15 | **113** | – |
| Interest on loan from related companies | 34 | **651** | 952 |
| | | **794** | 1,018 |

## 10. LOSS BEFORE INCOME TAX EXPENSE

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

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Auditors' remuneration | **600** | 634 |
| Donation | **500** | 300 |
| Exchange gains – net | **(98)** | (320) |
| Minimum lease payments under operating leases (Note) | **–** | 4,882 |
| Lease payments not included in the measurement of lease liabilities (Note 15) | **390** | – |

Note: Included in the balances was office rental paid under the tenancy agreement entered into by the Group with a related company amounting to approximately HK$390,000 (2018: approximately HK$936,000).

## 11. INCOME TAX (EXPENSE)/CREDIT

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Profit tax: | | |
| Charge for the year | **(5,901)** | – |
| Over provision in respect of prior years | **–** | 60 |
| **Income tax (expense)/credit** | **(5,901)** | 60 |

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operates.

Pursuant to the rules and regulations of the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the BVI.

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profit for the year ended 31 December 2019 (2018: 16.5%).

Under the law of the PRC Mainland on Enterprise Income Tax (the "**EIT Laws**") and Interpretation Regulation of the EIT Laws, the tax rate of the PRC Mainland subsidiaries is 25% for the year ended 31 December 2019 (2018: 25%).

## 11. INCOME TAX (EXPENSE)/CREDIT (Continued)

The income tax (expense)/credit can be reconciled to the loss before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Continuing operations:** | | |
| Loss before income tax expense | **20,403** | 22,572 |
| Tax calculated at domestic tax rate of 16.5% (2018: 16.5%) | **3,366** | 3,724 |
| Effect of different tax rate of subsidiaries operating in other jurisdictions | **(1,964)** | 6 |
| Tax effect of income not taxable for tax purposes | **64** | 16 |
| Tax effect of expenses not deductible for tax purposes | **(4,861)** | (3,290) |
| Tax effect of tax losses not recognized | **(2,344)** | (521) |
| Tax effect of other temporary differences not recognized | **(162)** | 65 |
| Over-provision in respect of prior years | **–** | 60 |
| **Income tax (expense)/credit for the year** | **(5,901)** | 60 |

As at 31 December 2019, the Group had estimated unused tax losses of approximately HK$25,243,000 (2018: approximately HK$11,110,000) which are available for offset against future profits. No deferred tax asset has been recognized in respect of the estimated tax losses due to unpredictability of future profit streams. Tax losses amounted to approximately HK$24,882,000 (2018: approximately HK$10,844,000) may be carried forward indefinitely which are subject to approval from the Hong Kong Inland Revenue Department and approximately RMB323,000 (equivalent to approximately HK$361,000) (2018: approximately RMB225,000 (equivalent to approximately HK$266,000)) will expire in five years.

Under the EIT Law of the PRC Mainland, withholding tax at 10% is imposed on dividends declared to its immediate holding company outside of PRC Mainland in respect of the profits earned by the PRC Mainland subsidiary from 1 January 2008 and onwards. A lower 5% withholding tax rate may be applied when the immediate holding company is established in Hong Kong according to the tax treaty arrangement between the PRC Mainland and Hong Kong. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC Mainland subsidiary amounting to approximately RMB15,567,000 (equivalent to approximately HK$17,396,000) (2018: nil) as the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary differences will not be reversed in the foreseeable future.

## 12. DISCONTINUED OPERATIONS

(a) During the year ended 31 December 2018, the Group ceased and disposed of its business in trading of electronic products as a result of unfavorable market conditions and price competition in the relevant industry, and the businesses were stagnant since the first quarter in 2018. The disposal of the disposal group was completed in December 2018. Details of the disposal are set out in Note 30(b).

The comparative consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation from continuing operation separately. The analysis of the results of discontinued operation is as follows.

| | Notes | 2018<br>HK$'000 |
|---|---|---|
| Revenue | 5(c) | 13,011 |
| Carrying value of inventories sold | | (12,217) |
| Other income | | 2 |
| Administrative and other operating expenses | | (674) |
| Profit before income tax expense | | 122 |
| Income tax expense | | (39) |
| | | 83 |
| Loss on sale of discontinued operation | 30(b) | (5,256) |
| Loss for the year from discontinued operation | | (5,173) |
| Net cash used in operating activities | | (192) |
| Net cash generated from investing activities | | 1 |
| Net cash generated from financing activities | | 1,250 |
| Total net cash inflows | | 1,059 |

## 12. DISCONTINUED OPERATIONS (Continued)

(b) During the year ended 31 December 2018, the Group lost control over Shanghai Friction upon revocation of the voting undertaking with effect from 30 June 2018. Accordingly, Shanghai Friction ceased to be subsidiary of the Group as from 30 June 2018 and it became an associate of the Group with effect from the same date and Shanghai Friction has since been accounted for in the consolidated financial statements using the equity method of accounting. Details of the disposal are set out in Note 30(d).

The management of the Group considers Shanghai Friction as a separate component of the Group. Accordingly, the operation of Shanghai Friction is presented as discontinued operation. The analysis of the results of discontinued operation is as follows:

| | Note | 2018<br>HK$'000 |
|---|---|---|
| Revenue | 5(c) | 1,039 |
| Other income | | 2 |
| Administrative and other operating expenses | | (1,007) |
| Profit before income tax expense | | 34 |
| Income tax expense | | (2) |
| Profit for the year from discontinued operation | | 32 |
| Net cash generated from operating activities | | 1,485 |
| Net cash used in investing activities | | (4,729) |
| Net cash generated from financing activities | | 2,364 |
| Total net cash outflows | | (880) |

## 13. LOSS PER SHARE

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss attributable to owners of the Company | | |
| – from continuing operations | **(34,002)** | (22,261) |
| – from discontinued operations | **–** | (5,156) |
| | **(34,002)** | (27,417) |

| | **2019** | 2018 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic loss per share *(in thousand)* | **561,704** | 480,170 |

For the year ended 31 December 2018, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise price is higher than the average market price of the Company's share for the year.

For the year ended 31 December 2019, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options which were granted during the year ended 31 December 2015 since their exercise price is higher than the average market price of the Company's share for the year. In addition, it does not assume the effect of Company's outstanding share options which were granted during the year ended 31 December 2019 as they have anti-dilutive effect on the loss per share calculation.

The details of the share option are set out in Note 28.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Equipment and computer software HK$'000 | Leasehold improvements HK$'000 | Furniture and fixture HK$'000 | Motor vehicle HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 January 2018 | 3,539 | 2,765 | 478 | 772 | 7,554 |
| Acquired on acquisition from a subsidiary | 12 | 109 | 70 | – | 191 |
| Additions | 75 | 518 | 49 | – | 642 |
| Released on disposal of subsidiaries | (36) | (109) | (68) | – | (213) |
| Disposals | (7) | (1,827) | (281) | – | (2,115) |
| Exchange alignment | – | – | (3) | – | (3) |
| As at 31 December 2018 and 1 January 2019 | **3,583** | **1,456** | **245** | **772** | **6,056** |
| Additions | **25** | **121** | **3,012** | **–** | **3,158** |
| Disposals | **(429)** | **–** | **(74)** | **–** | **(503)** |
| **As at 31 December 2019** | **3,179** | **1,577** | **3,183** | **772** | **8,711** |
| **Accumulated depreciation** | | | | | |
| As at 1 January 2018 | 2,836 | 1,968 | 113 | 241 | 5,158 |
| Charge for the year | 443 | 723 | 126 | 193 | 1,485 |
| Released on disposal of subsidiaries | (6) | (24) | (2) | – | (32) |
| Disposals | (2) | (1,675) | (119) | – | (1,796) |
| As at 31 December 2018 and 1 January 2019 | **3,271** | **992** | **118** | **434** | **4,815** |
| Charge for the year | **229** | **221** | **713** | **193** | **1,356** |
| Disposals | **(396)** | **–** | **(49)** | **–** | **(445)** |
| **As at 31 December 2019** | **3,104** | **1,213** | **782** | **627** | **5,726** |
| **Net carrying value** | | | | | |
| **As at 31 December 2019** | **75** | **364** | **2,401** | **145** | **2,985** |
| As at 31 December 2018 | 312 | 464 | 127 | 338 | 1,241 |

## 15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

| | Note | Properties HK$'000 |
|---|---|---|
| **Cost:** | | |
| **As at 1 January 2019, upon adoption of HKFRS 16 and 31 December 2019** | | **6,656** |
| **Accumulated depreciation and impairment losses:** | | |
| As at 1 January 2019 | | **1,308** |
| Depreciation provided during the year | | **2,348** |
| **As at 31 December 2019** | | **3,656** |
| **Net carrying amount:** | | |
| **As at 31 December 2019** | | **3,000** |
| **As at 1 January 2019 (restated)** | 2.2(i) | **5,348** |

For both years, the Group leases properties for its operations. Lease contracts for other assets are entered into for fixed term of 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

| | 2019<br>HK$'000 |
|---|---|
| **Lease liabilities payable:** | |
| Within one year | 2,333 |
| Within a period of more than one year but not more than two years | 877 |
| | 3,210 |
| Less: Total future interest expenses | (59) |
| Lease liabilities included in the consolidated statement of financial position as at 31 December | 3,151 |
| Less: Amount due for settlement within 12 months shown under current liabilities | (2,280) |
| Amount due for settlement after 12 months shown under non-current liabilities | 871 |

The lease liabilities of the Group are unguaranteed and secured by rental deposits.

The carrying amount of lease liabilities are denominated in HK$.

## 15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

The following are the amounts recognized in profit or loss:

| | Notes | Properties HK$'000 |
|---|---|---|
| Depreciation expense of right-of-use assets | | **2,348** |
| Interest expense on lease liabilities | 9 | **113** |
| Expense relating to short-term leases | 10 | **390** |
| | | **2,851** |

The Group had total cash outflows for leases of approximately HK$2,887,000 during the year ended 31 December 2019. As at 31 December 2019, no leases committed but not yet commenced.

## 16. INTEREST IN AN ASSOCIATE

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Cost of investment in an associate, unlisted | **8,000** | – |
| Share of post-acquisition losses and other comprehensive income | **(9)** | – |
| | **7,991** | – |

## 16. INTEREST IN AN ASSOCIATE (Continued)

Details of the Group's associates as at 31 December 2018 and 2019 are as follows:

| Name of entity | Place of business/ country of incorporation | Particulars of issued shares held | % of equity interest attributable to the Group | | Principal activity |
|---|---|---|---|---|---|
| | | | **2019** | 2018 | |
| Loco Precious Metal Limited ("**LPM**") (Note) | Hong Kong | Ordinary shares | **40%** | N/A | Trading of metal in Hong Kong |

Note: During the year ended 31 December 2019, 100% equity interest in LPM was diluted to 40% by new capital injected by the Group and a third-party. Detail are set out in Note 30(a). Subsequent to the deemed disposal interest in LPM, it is accounted as interest in an associate due to loss of its controlling stake at LPM accordingly.

As set out in Note 30(d), the Group lost control over Shanghai Friction upon revocation of the voting undertaking with effect from 30 June 2018. Accordingly, Shanghai Friction ceased to be subsidiary of the Group as from 30 June 2018 and it became an associate of the Group with effect from the same date and Shanghai Friction has since been accounted for in the consolidated financial statements using the equity method of accounting.

Shanghai Friction is indirectly held by the Company by a wholly-owned subsidiary of the Group, New Visual International Holdings Limited before disposal. In October 2018, the Group completed the disposal of the entire issued share capital in New Visual International Holdings Limited, to a third-party.

During the year ended 31 December 2018, the Group has disposed of its entire 30% interest in Luban Hong Kong Finance Group Limited at a consideration of HK$1.

## 16. INTEREST IN AN ASSOCIATE (Continued)

Notes: (Continued)

(d) Summarized financial information in respect of the material associate is set out below:

| | 2019<br>HK$'000 |
|---|---|
| Current assets | 20,104 |
| Non-current assets | – |
| Current liabilities | 127 |
| Non-current liabilities | – |
| Revenue | 171 |
| Profit from continuing operations | 251 |
| Post-tax profit or loss from continuing operations | – |
| Other comprehensive income | – |
| Total comprehensive income | 251 |

(e) Reconciliation of the summarized financial information to the carrying amount of the interest in an associate recognized in the consolidated financial statements:

| | For the period from 7 May 2019 to 31 December 2019<br>HK$'000 |
|---|---|
| Loss from continuing operations | (23) |
| Total comprehensive loss | (23) |
| Proportion of the Group's ownership interest in associate | 40% |
| **The Group's share of post-acquisition losses and other comprehensive loss of associate** | (9) |
| **Cost of investment in associate** | 8,000 |
| **Carrying amount of the interest in an associate** | 7,991 |

(f) Aggregate information of associates that are not individually material are set out below:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Aggregate amounts of the Group's share of those associates | | |
| Loss from continuing operations | – | (19) |
| Post-tax profit or loss from discontinued operations | – | – |
| Other comprehensive income | – | – |
| **Total comprehensive loss** | – | (19) |

## 17. OTHER FINANCIAL ASSETS

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Financial assets measured at FVTPL** | | | |
| Unlisted equity securities A | (a) and (c) | **10,500** | 5,000 |
| Unlisted equity securities B | (b) and (c) | **6,786** | – |
| | | **17,286** | 5,000 |

Notes:

(a) The unlisted equity securities A are shares in Grand Max Enterprises Limited ("**Grand Max**"), a company incorporated in Hong Kong which is currently investing in some innovative technology projects. As at 31 December 2019, the Group held 16.7% equity interest in Grand Max (2018: 7.4%).

(b) The unlisted equity securities B are shares in Lexus Group (Asia) Limited ("**Lexus**"), a company incorporated in Hong Kong which is currently trading gold, silver and other precious and base metals. As at 31 December 2019, the Group held 18% equity interest in Lexus.

(c) Information about the Group's exposure to equity price risk are set out in Note 3.1. For information about the methods and assumptions used in determining fair value are set out in Note 3.3.

## 18. INVENTORIES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Silver | **111** | 41,558 |
| Gold | **–** | 320 |
| Low value consumables | **113** | 94 |
| | **224** | 41,972 |

The fair values of the Commodity Inventories were determined by the Company by reference to the price available in active market including London Bullion Market Association.

The fair value of the Commodity Inventories is a level 2 recurring fair value measurement. The fair value measurement is based on the inventories' highest and best use, which does not differ from their actual use.

The carrying amounts of the Group's inventories are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| HK$ | **113** | 94 |
| US$ | **111** | 41,878 |
| | **224** | 41,972 |

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade receivables | 21,006 | – |
| Less: provision for loss allowance (Note (d)) | (310) | – |
| Trade receivables – net (Note (a)) | 20,696 | – |
| Loan interest receivable | 893 | 279 |
| Less: provision for loss allowance (Note (d)) | (325) | – |
| Loan interest receivable – net (Note (b)) | 568 | 279 |
| Other receivables and deposits | 6,621 | 821 |
| Less: provision for loss allowance (Note (d)) | (79) | – |
| Other receivables and deposits – net | 6,542 | 821 |
| Deposits for commodity forward contracts (Note (c)) | – | 22,547 |
| Prepayments | 284 | 279 |
| | 28,090 | 23,926 |

### (a) Trade receivables

The credit period granted to customers are 3 months generally.

The aging analysis of the trade receivables based on the date of demand note is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 0 – 30 days | 20,696 | – |

None of these receivables were past due.

During the year ended 31 December 2019, the Group recognized a loss allowance of approximately HK$310,000, based on individual risk assessment. The movement of the loss allowance is set out in Note (d).

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (b) Loan interest receivable

The Group's interest receivable arises from the money lending business of providing personal loans in Hong Kong. The interest receivable was secured by collateral provided by personal guarantee and a property located in Hong Kong. Further details of the loan are set out in Note 20.

As at 31 December 2018, no loan interest receivable has been past due. As at 31 December 2019, the total carrying amount of loan interest receivable is overdue by more than three months but less than six months and the total carrying amount of loan interest receivable is determined to be credit-impaired after considering the overdue aging analysis and other qualitative factors. Detail of the Group's credit risk grading framework is stated in Note 3.1(b).

The movement on the Group's gross amount of loan interest receivable is as follow:

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Balance as at 1 January 2019 | **279** | **–** | **–** | **279** |
| New loan interest originated | **614** | **–** | **–** | **614** |
| Transfer to lifetime expected credit loss not credit-impaired (Stage 2) | **(893)** | **893** | **–** | **–** |
| Transfer to lifetime expected credit loss credit-impaired (Stage 3) | **–** | **(893)** | **893** | **–** |
| **As at 31 December 2019** | **–** | **–** | **893** | **893** |

The Group recognized a loss allowance of approximately HK$325,000. The movement of the loss allowance is set out in Note (d).

### (c) Deposits for commodity forward contracts

As mentioned in Note 2.21, for trading purposes, the Group has to enter into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents margin deposits placed with commodity traders for entering into forward contracts, as well as deposits in the cash account held at the commodity traders.

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (d) Provision for loss allowance

#### Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all the trade receivables. To measure the expected credit losses, trade receivables have been based on individual risk assessment. The expected credit losses below also incorporate forward-looking information.

| | 0-30 days | 31-60 days | 61-90 days | Trade receivables Total |
|---|---|---|---|---|
| **As at 31 December 2019** | | | | |
| Expected credit loss rate (average) | **1.5%** | **–** | **–** | **1.5%** |
| Gross carrying amount (HK$'000) | **21,006** | **–** | **–** | **21,006** |
| **Expected credit losses (HK$'000)** | **310** | **–** | **–** | **310** |

The movement in the provision for loss allowance in respect of trade receivables during the year ended 31 December 2019 is as follows:

| | Lifetime ECL HK$'000 |
|---|---|
| As at 1 January 2018 | – |
| Provision made for the year | – |
| As at 31 December 2018 | – |
| **Provision made for the year** | **310** |
| **As at 31 December 2019** | **310** |

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (d) Provision for loss allowance (Continued)

#### Loan interest receivable

The Group applies the general approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the 12m ECL for all the loan interest receivable. However, the Group considered that the loan interest receivable has been a significant increase in credit risk in default occurring since initial recognition. Lifetime ECL was used to assess the allowances of such loan interest receivable. To measure the expected credit losses, loan interest receivable has been based on individual risk assessment. The expected credit losses below also incorporate forward-looking information.

| | **Loan interest receivable** |
|---|---|
| **As at 31 December 2019** | |
| Expected credit loss rate (average) | **36.4%** |
| Gross carrying amount (HK$'000) | **893** |
| **Expected credit losses (HK$'000)** | **325** |

The movement in the provision for loss allowance in respect of loan interest receivable during the year ended 31 December 2019 is as follows:

| | **Lifetime ECL – credit-impaired HK$'000** |
|---|---|
| As at 1 January 2018 | – |
| Provision made for the year | – |
| As at 31 December 2018 | – |
| **Provision made for the year** | **325** |
| **As at 31 December 2019** | **325** |

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (d) Provision for loss allowance (Continued)

**Other receivables and deposits**

The Group applies the general approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the 12m ECL for all the other receivables and deposits. To measure the expected credit losses, other receivables and deposits have been based on individual risk assessment. The expected credit losses below also incorporate forward-looking information.

| | Other receivables and deposits |
|---|---|
| **As at 31 December 2019** | |
| Expected credit loss rate (average) | **1.2%** |
| Gross carrying amount (HK$'000) | **6,621** |
| **Expected credit losses (HK$'000)** | **79** |

The movement in the provision for loss allowance in respect of other receivables and deposits during the year ended 31 December 2019 is as follows:

| | 12m ECL HK$'000 |
|---|---|
| As at 1 January 2018 | – |
| Provision made for the year | – |
| As at 31 December 2018 | – |
| **Provision made for the year** | **79** |
| **As at 31 December 2019** | **79** |

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

### (e) Denominated currencies

The carrying amounts of the Group's trade and other receivables and prepayments are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| HK$ | **1,780** | 1,379 |
| US$ | **96** | 22,547 |
| RMB | **26,214** | – |
| | **28,090** | 23,926 |

## 20. LOAN RECEIVABLE

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Loan receivable | **7,589** | 7,589 |
| Less: provision for loss allowance | **(2,760)** | (76) |
| **Loan receivable – net** | **4,829** | 7,513 |

## 20. LOAN RECEIVABLE (Continued)

The Group's loan receivable arises from the money lending business of providing personal loans in Hong Kong, with interest bearing at 8% per annum and denominated in HK$. The loan receivable was secured by personal guarantee and a property located in Hong Kong and the Company is as the third mortgagee of the secured property.

As at 31 December 2018, no loan receivable has been past due. As at 31 December 2019, the total carrying amount of loan receivable is overdue by more than three months but less than six months and the total carrying amount of loan receivable is determined to be credit-impaired after considering the overdue aging analysis and other qualitative factors. Detail of the Group's credit risk grading framework is stated in Note 3.1(b).

The current fair value of collateral held in respect of the loan interest receivable and loan receivable as at 31 December 2019 is approximately HK$14,500,000.

The movement on the Group's gross amount of loan receivable are as follow:

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Balance as at 1 January 2019 | **7,589** | **–** | **–** | **7,589** |
| New loans originated | **16,000** | **–** | **–** | **16,000** |
| Loans repaid during the year | **(16,000)** | **–** | **–** | **(16,000)** |
| Transfer to lifetime expected credit loss not credit-impaired (Stage 2) | **(7,589)** | **7,589** | **–** | **–** |
| Transfer to lifetime expected credit loss credit-impaired (Stage 3) | **–** | **(7,589)** | **7,589** | **–** |
| **As at 31 December 2019** | **–** | **–** | **7,589** | **7,589** |

## 20. LOAN RECEIVABLE (Continued)

| | For the year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Total HK$'000 |
| Balance as at 1 January 2018 | 9,000 | – | – | 9,000 |
| New loans originated | 589 | – | – | 589 |
| Loans repaid during the year | (2,000) | – | – | (2,000) |
| As at 31 December 2018 | 7,589 | – | – | 7,589 |

The Group applies the general approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the 12m ECL for all the loan receivable. However, the Group considered that the loan receivable has been a significant increase in credit risk in default occurring since initial recognition. Lifetime ECL was used to assess the allowances of such loan receivable. To measure the expected credit losses, loan receivable has been based on individual risk assessment. The expected credit losses below also incorporate forward-looking information.

| | **2019** | 2018 |
|---|---|---|
| Expected credit loss rate | **36.4%** | 1.0% |
| Gross carrying amount (HK$'000) | **7,589** | 7,589 |
| **Expected credit losses (HK$'000)** | **2,760** | 76 |

The movements on the Group's provision for loss allowance of loan receivable is as follow:

| | **Stage 1** HK$'000 | **Stage 2** HK$'000 | **Stage 3** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| Balance as at 1 January 2018 | – | – | – | – |
| Provision made for the year | 76 | – | – | 76 |
| As at 31 December 2018 | 76 | – | – | 76 |
| Transfer to lifetime expected credit loss not credit-impaired (Stage 2) | **(76)** | **76** | **–** | **–** |
| Transfer to lifetime expected credit loss credit-impaired (Stage 3) | **–** | **(76)** | **76** | **–** |
| Provision made for the year | **–** | **–** | **2,684** | **2,684** |
| **As at 31 December 2019** | **–** | **–** | **2,760** | **2,760** |

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Derivative financial assets:** | | |
| Commodity forward contracts | – | 6,889 |
| **Derivative financial liabilities:** | | |
| Commodity forward contracts | – | 1 |

The Group enters into Forward Arrangements with customers and suppliers and forward contracts with commodity traders to hedge metal price exposures. Such commodity forward contracts do not qualify as hedging instruments and are classified as financial instruments carried at FVTPL. The notional principal amounts of the outstanding metal forward contracts as at 31 December 2018 were approximately US$31,593,000, equivalent to approximately HK$245,480,000.

The fair values of the forward contracts are determined with reference to the price available in active markets matching the maturity of the contracts.

## 22. CASH AND CASH EQUIVALENTS

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Cash on hand | 1 | 6 |
| Cash at banks | 28,723 | 82,282 |
| **Cash and cash equivalents** | 28,724 | 82,288 |

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The carrying amounts of the Group's cash and cash equivalent are denominated in the following currencies:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| HK$ | 25,788 | 38,974 |
| US$ | 419 | 43,268 |
| RMB | 2,508 | 37 |
| Other currencies | 9 | 9 |
| | 28,724 | 82,288 |

## 22. CASH AND CASH EQUIVALENTS (Continued)

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$2,508,000 (2018: approximately HK$37,000). The RMB held in Mainland China is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

## 23. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Other payables and accruals | **2,088** | 3,554 |
| Deposits for commodity forward contracts (Note) | **–** | 47,629 |
| | **2,088** | 51,183 |

The carrying amounts of the Group's other payables, accruals and deposits received are denominated in the following currencies:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| HK$ | **1,016** | 3,437 |
| US$ | **131** | 47,629 |
| RMB | **941** | 117 |
| | **2,088** | 51,183 |

Note: The Group has entered into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents cash deposits received from suppliers and customers for entering into Forward Arrangements.

## 24. BORROWING

As at 31 December 2018, the borrowing represents a loan from a shareholder, Ms. Jiang Lei bear interest at 5.125% per annum, are unsecured and are repayable on demand. The carrying amount is denominated in HK$.

## 25. AMOUNTS DUE TO RELATED COMPANIES

As at 31 December 2018, the amounts due are unsecured, interest-free and repayable on demand. The amounts due to related companies represent deposits placed by the related companies in which Mr. Tan, an executive director of the Company, act as director and has controlling equity interests in these companies, to the Group for entering into Forward Arrangements. The carrying amount is denominated in US$.

## 26. LOAN FROM A RELATED COMPANY

As at 31 December 2018, the loan is unsecured, interest bearing at 3.5% per annum and repayable on demand (Note 34(a)). The carrying amount is denominated in US$.

## 27. SHARE CAPITAL

| | Note | **Number of ordinary shares** | **Share capital** HK$'000 |
|---|---|---|---|
| **Issued and fully paid:** | | | |
| As at 1 January 2018, 31 December 2018 and 1 January 2019 | | 480,170,000 | 122,898 |
| Issue of shares by placements | (b) | 96,000,000 | 21,582 |
| **As at 31 December 2019** | | **576,170,000** | **144,480** |

Notes:

(a) In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

(b) On 25 February 2019, 96,000,000 new ordinary shares were allotted and issued to independent investors or connected persons of the Company at HK$0.241 per share. The gross proceeds from the issue of shares amounted to approximately HK$23,136,000 net of transaction costs of approximately HK$1,554,000, in aggregate was credited to the Company's share capital.

## 28. SHARE OPTION SCHEME

The Company adopted a share option scheme on 22 July 2014 (the "**Share Option Scheme**"). Under the Share Option Scheme, the directors of the Company may, subject to and in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, at its discretion, grant options to any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive directors) of the Group, and any suppliers, customers, consultants, agents and advisers, who in the absolute discretion of the board of director has contributed or will contribute to the Group (collectively "**Eligible Participants**").

The purpose of the Share Option Scheme is to provide incentive or reward for Eligible Participants for their contribution or potential contribution to the Group.

The Company has granted 1,630,000 shares on 10 April 2015 and 37,680,000 shares on 27 August 2019 of the Company under the Share Option Scheme up to the date of this report. The total number of shares (the "**Shares**") of the Company available for issue under the Share Option Scheme was 1,830,000 Shares, representing 0.32% of total number of Shares in issue as at the date of this report.

The directors of the Company shall not grant options to any Eligible Participant if the acceptance of those options would result in the total number of Shares issued and to be issued to that participant on exercise of his options during any 12-month period up to the offer date exceeding 1% of the total number of Shares then in issue.

There is no general requirement that an option must be held for any minimum period before it can be exercised. The period during which an option may be exercised in accordance with the terms of the Share Option Scheme shall be the period of time to be notified by the directors of the Company to each grantee, which the director of the Company may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the date upon which the vesting period as described in the respective grantee's offer document commences.

A remittance in favor of the Company of HK$1.00 by way of consideration for the grant of the option should be submitted to the Company on or before the last day for acceptance. The option will be offered for acceptance for a period of 14 days from the date on which the option is granted.

The exercise price shall be determined by the board of directors but in any event shall be at least the highest of (i) the official closing price of the Shares as stated in the Stock Exchange' s daily quotations sheet on the date on which the option is offered (the "**Offer Date**"); and (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date.

## 28. SHARE OPTION SCHEME (Continued)

The Share Option Scheme shall be valid and effective for a period commencing from the date on which the Share Option Scheme was conditionally adopted by an ordinary resolution of the shareholder of the Company on 22 July 2014 and ending on the tenth anniversary of the date of listing of the Company's shares on GEM of the Stock Exchange on 4 August 2014 (both dates inclusive), after which no further option will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Share Option Scheme.

The remaining life of the share option granted on 10 April 2015 under the Share Option Scheme as at 31 December 2019 was approximately 5.3 years.

The remaining life of the share option granted on 27 August 2019 under the Share Option Scheme as at 31 December 2019 was approximately 2.7 years.

The following table discloses the movements of the share options granted and lapsed under the Share Option Scheme during the year ended 31 December 2019:

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| **Category of grantee** | **Date of grant** | **Exercise period** | **Exercise price per share** | **Outstanding as at 1 January 2019** | **Granted during the year** | **Lapsed during the year** | **Outstanding as at 31 December 2019** |
| Directors | 10 April 2015 | 10 April 2015 to 9 April 2025 | **HK$0.78** | **330,000** | **–** | **(330,000)** | **–** |
| | 27 August 2019 | 27 Aug 2019 to 26 Aug 2022 (Note) | **HK$0.616** | **–** | **13,680,000** | **–** | **13,680,000** |
| Employees | 10 April 2015 | 10 April 2015 to 9 April 2025 | **HK$0.78** | **730,000** | **–** | **(530,000)** | **200,000** |
| | 27 August 2019 | 27 Aug 2019 to 26 Aug 2022 (Note) | **HK$0.616** | **–** | **24,000,000** | **–** | **24,000,000** |
| Others | 10 April 2015 | 10 April 2015 to 9 April 2025 (Note) | **HK$0.78** | **130,000** | **–** | **(10,000)** | **120,000** |
| Total | | | | **1,190,000** | **37,680,000** | **(870,000)** | **38,000,000** |
| Exercisable at the end of the year | | | | | | | **12,880,000** |
| Weighted average exercise price | | | | **HK$0.78** | **HK$0.616** | **HK$0.78** | **HK$0.617** |

Note: The share options granted will vest to the grantees at the date of grant (i.e. 27 August 2019), the first and second anniversary of the date of grant (i.e. 27 August 2020 and 27 August 2021, respectively) at an average amount, the share options once vested shall be exercisable on a cumulative basis.

## 28. SHARE OPTION SCHEME (Continued)

The following table discloses the movements of the share options under the Share Option Scheme during the year ended 31 December 2018:

| Category of grantee | Date of grant | Exercise period | Exercise price per share | Number of share options: Outstanding as at 1 January 2018 | Number of share options: Outstanding as at 31 December 2018 |
|---|---|---|---|---|---|
| Directors | 10 April 2015 | 10 April 2015 to 9 April 2025 | HK$0.78 | 330,000 | 330,000 |
| Employees | 10 April 2015 | 10 April 2015 to 9 April 2025 | HK$0.78 | 730,000 | 730,000 |
| Others | 10 April 2015 | 10 April 2015 to 9 April 2025 | HK$0.78 | 130,000 | 130,000 |
| Total | | | | 1,190,000 | 1,190,000 |
| Exercisable at the end of the year | | | | | 1,190,000 |
| Weighted average exercise price | | | | HK$0.78 | HK$0.78 |

No share option was exercised or cancelled during the year ended 31 December 2019.

No share option was granted, exercised, cancelled or lapsed during the year ended 31 December 2018.

## 28. SHARE OPTION SCHEME (Continued)

For the share options granted on 10 April 2015 are not subject to vesting condition, such exercise period shall be determined by the board of directors and the exercise period shall not be more than 10 years from the date the options are vested.

The fair value of equity-settled share options granted during the year ended 31 December 2015 was HK$0.319 per option, amounted to approximately HK$520,000 in aggregate. It was estimated as at 10 April 2015, being the date of grant, using the Black-Scholes Option Pricing Model and taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the estimation of the fair value are as follows:

| | |
|---|---|
| Share price at date of grant | HK$0.78 |
| Exercise price | HK$0.78 |
| Volatility | 45.90% |
| Risk-free interest rate | 1.09% |
| Dividend yield | 0% |
| Expected life of option | 5 years |

The expected life of the options may not be necessarily indicative of the exercise pattern that may occur. The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

During the year ended 31 December 2019, 37,680,000 share options were granted under the Scheme on 27 August 2019 (2018: nil).

The fair value of equity-settled share options granted during the year ended 31 December 2019 were HK$0.211, HK$0.212 and HK$0.213 per option each for three tranches which will be vested on 27 August 2019, 27 August 2020 and 27 August 2021, respectively, amounted to approximately HK$7,984,000 in aggregate. The fair values were estimated as at 27 August 2019, being the date of grant, using the Binomial Option Pricing Model and taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the estimation of the fair value are as follows:

| | |
|---|---|
| Share price at date of grant | HK$0.60 |
| Exercise price | HK$0.616 |
| Volatility | 52.68% |
| Risk-free interest rate | 1.31% |
| Dividend yield | 0% |
| Early exercise multiplier | 2.80 |
| Expected option life | 3 years |

## 28. SHARE OPTION SCHEME (Continued)

Estimation of the value of the share options is subjective and uncertain as such values are subject to a number of assumptions and with regard to the limitation of the model. The expected volatility is based on the historical volatility reflecting the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The expected early exercise multiplier is also estimated and is not necessarily indicative of the exercise patterns that may occur.

For the year ended 31 December 2019, the Group recognized equity-settled share-based payments expenses in aggregate of approximately HK$4,033,000 in respect of the Share Option Scheme (2018: nil).

## 29. PARTICULARS OF SUBSIDIARIES

Details of subsidiaries as at 31 December 2018 and 2019 are as follows:

| Name of subsidiary | Place of incorporation or establishment | Particulars of issued and fully paid share capital/ paid up capital | Place of operation and principal activities | Directly | | Indirectly | |
|---|---|---|---|---|---|---|---|
| | | | | **2019** | 2018 | **2019** | 2018 |
| New Eagle International Limited | Hong Kong | Ordinary shares HK$10,000 | Investment holding in Hong Kong | **100%** | 100% | **-** | – |
| Loco HK Limited | BVI | 10 Ordinary shares of US$1 each | Investment holding in Hong Kong | **100%** | 100% | **-** | – |
| Gold Convergence Limited | Hong Kong | Ordinary shares HK$10,000 | Investment holding in Hong Kong | **100%** | 100% | **-** | – |
| Full Time Investment Holdings Limited (Formerly known as "Edge Faith Limited") | BVI | 10,000 Ordinary shares of US$1 each | Investment holding in Hong Kong | **100%** | 100% | **-** | – |
| Lead The Way Limited | Hong Kong | Ordinary shares HK$10,000 | Inactive | **100%** | 100% | **-** | – |
| Success Vision International Holdings Limited | BVI | 10,000 Ordinary shares of US$1 each | Investment holding in Hong Kong | **100%** | 100% | **-** | – |
| China New Era Investment Limited | BVI | 1 Ordinary share of US$1 each | Investment holding in Hong Kong | **100%** | 100% | **-** | – |
| True Time International Investments Limited ("**True Time**") (Notes 1 and 2) | BVI | 10,000 Ordinary shares of US$1 each | Investment holding in Hong Kong | **57%** | – | **-** | – |
| China Precision Material Limited | Hong Kong | Ordinary shares HK$20,000,000 | Metal and commodity forward contracts trading in Hong Kong | **-** | – | **100%** | 100% |

## 29. PARTICULARS OF SUBSIDIARIES (Continued)

Details of subsidiaries as at 31 December 2018 and 2019 are as follows: (Continued)

| Name of subsidiary | Place of incorporation or establishment | Particulars of issued and fully paid share capital/ paid up capital | Place of operation and principal activities | Directly | | Indirectly | |
|---|---|---|---|---|---|---|---|
| | | | | **2019** | 2018 | **2019** | 2018 |
| CPM Silver Limited | Hong Kong | Ordinary shares HK$10,000 | Silver processing in Hong Kong | **-** | – | **100%** | 100% |
| United Bridge Limited | Hong Kong | Ordinary shares HK$10,000 | Investment holding in Hong Kong | **-** | – | **100%** | 100% |
| World Bridge Limited | Hong Kong | Ordinary share HK$1 | Inactive | **-** | – | **100%** | 100% |
| United Worth Finance Limited | Hong Kong | Ordinary shares HK$10,000 | Provision of money lending services in Hong Kong | **-** | – | **100%** | 100% |
| Gold Prosperous City Limited (Note 2) | Hong Kong | Ordinary shares HK$10,000 | Investment holding in Hong Kong | **-** | 100% | **57%** | – |
| Loco Hong Kong Green Energy Limited | Hong Kong | Ordinary shares HK$10,000 | Investment holding in PRC Mainland | **-** | – | **100%** | 100% |
| 港銀新能源(深圳)有限公司 Loco Hong Kong Green Energy (Shenzhen) Limited* (Note 3) | PRC Mainland | Paid up capital RMB500,000 (2018: RMB4,226,500) | Inactive | **-** | – | **100%** | 100% |
| 四川港銀雅滙教育管理有限公司 Sichuan Loco Yahui Education Management Limited* ("**Loco Yahui**") (Notes 1 and 2) | PRC Mainland | Paid up capital RMB5,000,000 | Education management services in PRC Mainland | **-** | – | **51.9%** | – |
| LPM (Note 4) | Hong Kong | N/A (2018: 10,000 Ordinary shares of HK$1 each) | Trading of metal in Hong Kong | **-** | – | **-** | 100% |

Notes:

(1) Newly incorporated during the year ended 31 December 2019.

(2) Non-controlling interest for the year ended 31 December 2019, the details are set out in Note 36.

(3) It is wholly-foreign-owned enterprise under the PRC Mainland Law.

(4) Partial disposal of a subsidiary such that the investment becomes an associate during the year ended 31 December 2019, the details are set in Note 16.

* *English name for identification purpose only*

## 30. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY

**For the year ended 31 December 2019**

(a) During the year ended 31 December 2019, 100% equity interest in LPM was diluted to 40% by new capital injected by the Group and a third-party amounting to approximately HK$7,990,000 and HK$12,000,000 respectively. Subsequent to the deemed disposal interest in LPM, it is accounted as interest in an associate due to loss of its controlling stake at LPM accordingly.

The aggregate amounts of the assets and liabilities attributable to the deemed disposed of a subsidiary on the date of loss of control were as follows:

| | **HK$'000** |
|---|---|
| Net asset disposed of: | |
| Cash at bank | **10** |
| Net asset disposed of | **10** |
| Gain or loss on deemed disposal of a subsidiary: | |
| Fair value of 40% equity interests in LPM | **8,000** |
| Less: Capital injected by the Group | **(7,990)** |
| Net asset disposed of | **(10)** |
| Gain or loss on deemed disposal of a subsidiary | **–** |
| Cash at bank disposed of | **(10)** |
| Capital injected by the Group | **(7,990)** |
| Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary | **(8,000)** |

## 30. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

For the year ended 31 December 2018

(b) On 4 December 2018, the Group completed the disposal of the entire issued share capital in 深圳時代健康科技控股有限公司 (Shenzhan New Era Health Science And Technology Holdings Limited*) ("**SZ New Era**"), an indirect wholly-owned subsidiary of the Group to an independent third party, for a consideration of HK$30,000,000. SZ New Era was principally engaged in trading of electronic products business in PRC Mainland. The net assets of SZ New Era being disposed of are as follows:

| | Note | Date of disposal HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | | 6 |
| Trade and other receivables and prepayment | | 35,074 |
| Cash and cash equivalents | | 157 |
| Other payables and accruals | | (23) |
| Net assets disposed of | | 35,214 |

| | | 2018 HK$'000 |
|---|---|---|
| Consideration received: | | |
| Cash received | | 30,000 |
| Loss on disposal of a subsidiary: | | |
| Consideration received | | 30,000 |
| Net assets disposed of | | (35,214) |
| Release of translation reserve upon disposal of a subsidiary | | (42) |
| Loss on disposal of a subsidiary | 12(a) | (5,256) |

An analysis of the net inflow of cash and cash equivalents during the year ended 31 December 2018 in respect of the disposal of a subsidiary is as follows:

| | 2018 HK$'000 |
|---|---|
| Cash consideration | 30,000 |
| Cash and cash equivalents disposed of | (157) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 29,843 |

* *English name for identification purpose only*

## 30. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

For the year ended 31 December 2018 (Continued)

(c) On 12 October 2018, the Group completed the disposal of the entire issued share capital in a wholly-owned subsidiary of the Group, New Visual International Holdings Limited, to an independent third party, for a consideration of HK$1. New Visual International Holdings Limited was principally engaged in investment holding in PRC Mainland. The net assets of New Visual International Holdings Limited being disposed of are as follows:

| | Date of disposal<br>HK$'000 |
|---|---|
| Net assets disposed of: | |
| Interest in an associate | – |
| Net assets disposed of | – |

| | 2018<br>HK$'000 |
|---|---|
| Consideration received: | |
| Cash received | – |
| Gain or loss on disposal of a subsidiary: | |
| Consideration received | – |
| Net assets disposed of | – |
| Gain or loss on disposal of a subsidiary | – |

## 30. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

For the year ended 31 December 2018 (Continued)

(d) On 1 January 2018, a wholly-owned subsidiary of the Group, New Visual International Holdings Limited completed the acquisition of 50% equity interest in Shanghai Friction which is principally engaged in provision of merchandising support services for trading of automotive parts in the PRC Mainland. The consideration of the acquisition is RMB1. Given that another 30% equity holder of Shanghai Friction, 上海厚途汽車科技有限公司 (Shanghai Houtu Automotive Technology Co., Ltd.*) ("**Shanghai Houtu**") has signed the statement of the voting undertaking, Shanghai Friction is accounted for as a subsidiary of the Group. By virtue of the voting undertaking, the Group has obtained control over Shanghai Friction from the voting rights granted.

The fair value of identifiable assets and liabilities of Shanghai Friction as at the date of acquisition were as follows:

| | Date of acquisition HK$'000 |
|---|---|
| Property, plant and equipment | 191 |
| Other receivables | 105 |
| Cash and cash equivalents | 883 |
| Trade and other payables | (1,178) |
| Total identifiable assets acquired and liabilities assumed | 1 |
| Less: Non-controlling interest | (1) |
| | – |
| Cash consideration | – |

Since the acquisition, Shanghai Friction contributed revenue of approximately HK$1,039,000 and profit of approximately HK$32,000 to the Group for the year ended 31 December 2018.

In June 2018, Shanghai Houtu served a notice to the Group to revoke the statement of the voting undertaking. On 29 June 2018, the Group issued a letter to Shanghai Houtu consenting the revocation of the voting undertaking by Shanghai Houtu with effect from 30 June 2018. As a result, the Group ceased to have the control over Shanghai Friction. Meanwhile, the Group still has significant influence over Shanghai Friction and thus is accounted for as an associate upon loss of control (Note 16).

* *English name for identification purpose only*

## 30. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

For the year ended 31 December 2018 (Continued)

(d) (Continued)

As the Group has lost control over Shanghai Friction, it has derecognized the assets and liabilities of Shanghai Friction from the consolidated statement of financial position of the Group ("**deemed disposal**"); recognized the investment retained in Shanghai Friction at its fair value; and recognized the gain or loss associated with the loss of control attributable to the former controlling interest.

The net assets of Shanghai Friction at the date of the deemed disposal were as follows:

| | Date of deemed disposal HK$'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 175 |
| Other receivables | 523 |
| Cash and cash equivalents | 4 |
| Interest in an associate | 4,727 |
| Trade and other payables | (3,035) |
| Net assets disposal of | 2,394 |
| Less: Non-controlling interest | (2,379) |
| Carrying amount of the Group's interest in Shanghai Friction deemed disposed of | 15 |
| Interest in Shanghai Friction retained as an associate | 15 |
| Gain or loss on deemed disposal of a subsidiary | – |

## 31. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

### Disposal of partial equity interest in True Time

During the year ended 31 December 2019, the Company and Mr. Hon entered into a share transfer agreement in relation to the sale and purchase of 43% equity interests in True Time (the "**STA**"), pursuant to which the Company agreed to sell 43% equity interests in True Time and Mr. Hon agreed to purchase 43% equity interests in True Time (the "**Shares**") in consideration of Mr. Hon's successful procurement of the condition precedents as stated in the STA.

As a result, as set out in the announcement made by the Company, the STA and the transactions contemplated thereunder have been confirmed, approved and ratified by the board of directors and the transfer of 43% equity interests in True Time contemplated under the STA has been completed in August 2019. In respect of this equity-settled share-based payment transaction, the Group measured the contract procurement services received from Mr. Hon and the corresponding increase in equity, directly at the fair value of the services received. The valuation was done as at the date that Mr. Hon first rendered the services.

Upon completion of the above transactions, the Company held 57% equity interests in True Time without losing control over True Time, accordingly the above transactions were accounted for as transactions with owner with an increase in non-controlling interest, which in turn held 100% equity interests in Gold Prosperous, which in turn owned 91% paid up capital of Loco Yahui. The consolidated net assets of True Time and its subsidiaries as at the date of share transferred are as follows:

| | HK$'000 |
|---|---|
| Net assets as at the date of share transferred: | |
| Trade and other receivables and prepayment | 2,848 |
| Amount due from a holding company | 8,752 |
| Amount due from a fellow subsidiary | 2,000 |
| Cash and cash equivalents | 15,117 |
| Other payables and accruals | (213) |
| Amount due to a fellow subsidiary | (25,867) |
| Tax payable | (525) |
| **Net assets as at the date of share transferred** | **2,112** |

# 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

## (a) Reconciliation of liabilities arising from financing activities:

| | Borrowing HK$'000 | Amounts due to related companies HK$'000 | Amounts due to directors HK$'000 | Loan from a related company HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| As at 1 January 2018 | – | 50,023 | 154 | 27,195 | 77,372 |
| Changes from financing cash flows: | | | | | |
| Advance from directors | – | – | 213 | – | 213 |
| Funds transferred from related companies | – | 23,310 | – | – | 23,310 |
| Interest paid | (66) | – | – | (952) | (1,018) |
| Proceeds from borrowings | 12,647 | – | – | – | 12,647 |
| Repayments of borrowings | (8,547) | – | – | – | (8,547) |
| Repayments to related companies | – | (69,160) | – | – | (69,160) |
| Repayments to directors | – | – | (367) | – | (367) |
| | 4,034 | (45,850) | (154) | (952) | (42,922) |
| Other changes: | | | | | |
| Interest expenses | 66 | – | – | 952 | 1,018 |
| As at 31 December 2018 | 4,100 | 4,173 | – | 27,195 | 35,468 |

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (a) Reconciliation of liabilities arising from financing activities: (Continued)

| | Borrowing HK$'000 | Amounts due to related companies HK$'000 | Loan from a related company HK$'000 | Lease liabilities HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| As at 31 December 2018 | 4,100 | 4,173 | 27,195 | – | 35,468 |
| Effect arising from initial application on HKFRS 16 | – | – | – | 5,535 | 5,535 |
| **As at 1 January 2019** | 4,100 | 4,173 | 27,195 | 5,535 | 41,003 |
| **Changes from financing cash flows:** | | | | | |
| Interest paid | (30) | – | (651) | – | (681) |
| Interest element of lease payment paid | – | – | – | (113) | (113) |
| Proceeds from loans from related companies | – | – | 39,577 | – | 39,577 |
| Repayments of borrowings | (4,100) | – | – | – | (4,100) |
| Repayments of loans from related companies | – | – | (66,772) | – | (66,772) |
| Repayments to related companies | – | (4,173) | – | – | (4,173) |
| Repayments of capital element of lease payment | – | – | – | (2,384) | (2,384) |
| | (4,130) | (4,173) | (27,846) | (2,497) | (38,646) |
| **Other changes:** | | | | | |
| Interest expenses | 30 | – | 651 | 113 | 794 |
| **As at 31 December 2019** | – | – | – | 3,151 | 3,151 |

### (b) Non-cash transaction

The Company had agreed to sell 43% equity interests in True Time and Mr. Hon had agreed to purchase 43% equity interests in True Time in consideration of Mr. Hon's successful procurement of the condition precedents as stated in the STA. It can be seen that the consideration for the issue of the Shares was not cash or other financial assets to be paid by Mr. Hon as purchaser of the Shares. Instead, the consideration was in the form of services rendered by Mr. Hon. Detail of the transaction is set out in Note 31.

# 33. LEASES

## Lessee

The Group leases offices under operating lease arrangement. Each of the lease runs for an initial period of two to three years (2018: three years).

The Group has several lease contracts that include extension options. Management exercises significant judgment in determining whether these extension options are reasonably certain to be exercised. Upon adoption of HKFRS 16 and during the year ended 31 December 2019, management has considered to exercise all extension options available in the lease contracts which have commenced, and therefore, all future cash outflows to which the Group is potentially exposed have already been reflected in the measurement of lease liabilities.

The Group also has certain leases of office with lease terms of 12 months or less. The Group applies the "short-term lease" recognition exemptions for these leases.

As at 31 December 2018, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

| | Note | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|---|
| Within one year | | – | 2,497 |
| In the second to fifth years, inclusive | | – | 3,210 |
| | 2.2(i) | – | 5,707 |

## 34. RELATED PARTIES TRANSACTIONS AND CONNECTED TRANSACTIONS

(a) In addition to those disclosed elsewhere in the consolidated financial statements, the Group entered into the following significant related party transactions during the year:

| Type of transaction | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Interest charged on loans granted to the Group (Note (i)) | **651** | 952 |
| Share of staff cost charged to the Group (Note (ii)) | **–** | 507 |
| Office rental and other related expenses charged to the Group (Note (ii)) | **445** | 1,070 |
| Interest and commission charged by the Group for entering into Forward Arrangements (Note (iii)) | **10** | 122 |
| Donation by the Group (Note (iv)) | **500** | 300 |

Notes:

(i) Interest was charged to the Group on the loans granted by companies in which Mr. Tan, the director of the Company, acts as director and has controlling equity interest (Notes 9 and 26).

(ii) The Group paid rent to a related company for occupation of office space and shared staff cost and office related expenses with other related companies. Mr. Tan acts as a director and has controlling equity interest in those companies.

(iii) Interest income and commission income generated for entering into Forward Arrangements during the year (Note 25) were conducted with companies in which Mr. Tan acts as a director and has controlling equity interest.

(iv) Donation was made to a charitable company in which Mr. Tan acts as one of the founder members.

(b) Key management personnel compensation

Key management includes members of the board of directors and other members of key management of the Group. Their emoluments are set out as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Salaries and short-term employee benefits | **9,507** | 9,731 |
| Post-employment benefits | **45** | 145 |
| | **9,552** | 9,876 |

## 34. RELATED PARTIES TRANSACTIONS AND CONNECTED TRANSACTIONS (Continued)

(c) On 1 January 2018, the Group completed the acquisition of 50% equity interest in Shanghai Friction and given that another 30% equity holder of Shanghai Friction has signed the statement of the voting undertaking, Shanghai Friction is accounted for as the subsidiary of the Group. Before the deemed deposal of Shanghai Friction on 30 June 2018, Shanghai Friction and CYFC, a company established under the laws of the PRC Mainland with limited liability entered into the Sales Agreement and the Purchase Agreement in relation to the sale of host supporting assembly and ancillary products on automotive parts ("**Products A**") and purchase of main component on automotive parts, including front and rear axle assembly, disc brake, drive motor and brake pad etc. ("**Products B**") respectively for the year ended 31 December 2018. The respective cap for the sale of Products A and purchase of Products B for the year ended 31 December 2018 was approximately RMB50,000,000 (equivalent to approximately HK$61,497,000) and approximately RMB110,000,000 (equivalent to approximately HK$135,293,000) respectively.

煙台孚瑞恒眾機電科技有限公司 (China Yantai Technology Company Limited*) ("**CTC**") is a company established under the laws of the PRC Mainland with limited liability and directly holds 20% equity interest in Shanghai Friction. Hence, CTC is a connected person of the Company at subsidiary level. Also, CTC is a directly wholly-owned subsidiary of CYFC and so CYFC is an associate of CTC in accordance with Rules 20.11 of the GEM Listing Rules, and accordingly a connected person of the Company at subsidiary level.

During the year ended 31 December 2018, the amounts of sale of Products A and purchase of Products B were approximately RMB6,547,000 (equivalent to approximately HK$8,052,000) and approximately RMB12,811,000 (equivalent to approximately HK$15,756,000) respectively.

(d) The related party transaction in respect of Note 34(c) above constitute continuing connected transactions (as defined in Chapter 20 of the GEM Listing Rules). The disclosures required by Chapter 20 of the GEM Listing Rules are provided in the paragraph headed "Connected Transactions" in the Report of the Directors as set out in the Company's annual report for the year ended 31 December 2018.

* *English name for identification purpose only*

## 35. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | **21,889** | 21,553 |
| **Current assets** | | |
| Amounts due from subsidiaries | **39,265** | 47,553 |
| Deposits and prepayments | **198** | 48 |
| Cash and cash equivalents | **114** | 103 |
| | **39,577** | 47,704 |
| **Current liabilities** | | |
| Other payables and accruals | **538** | 1,184 |
| Amounts due to subsidiaries | **223** | 178 |
| | **761** | 1,362 |
| Net current assets | **38,816** | 46,342 |
| Total assets less current liabilities | **60,705** | 67,895 |
| Net assets | **60,705** | 67,895 |
| **Capital and reserves** | | |
| Share capital | **144,480** | 122,898 |
| Reserves | **(83,775)** | (55,003) |
| Total equity | **60,705** | 67,895 |

Approved and authorized for issue by the board of directors on 29 April 2020.

**Wang Wendong**
*Director*

**Fung Chi Kin**
*Director*

## 35. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Notes | Share capital HK$'000 | Capital reserve HK$'000 | Equity-settled share-based payment reserves HK$'000 | Accumulated losses HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|
| As at 1 January 2018 | | 122,898 | – | 380 | (14,040) | 109,238 |
| Loss and total comprehensive loss for the year | | – | – | – | (41,343) | (41,343) |
| As at 31 December 2018 and 1 January 2019 | | **122,898** | **–** | **380** | **(55,383)** | **67,895** |
| Loss and total comprehensive loss for the year | | **–** | **–** | **–** | **(33,106)** | **(33,106)** |
| Issue of new shares by way of placement | | **23,136** | **–** | **–** | **–** | **23,136** |
| Transaction costs attributable to issue of shares | | **(1,554)** | **–** | **–** | **–** | **(1,554)** |
| Recognition of equity-settled share-based payments | 28 | **–** | **587** | **4,033** | **–** | **4,620** |
| Lapsed of share options | | **–** | **–** | **(278)** | **278** | **–** |
| Deemed disposal of equity interests in a subsidiary without change of control | 31 | **–** | **(286)** | **–** | **–** | **(286)** |
| **As at 31 December 2019** | | **144,480** | **301** | **4,135** | **(88,211)** | **60,705** |

## 36. NON-CONTROLLING INTERESTS

The total accumulated non-controlling interest as at the end of the year ended 31 December 2019 was approximately HK$8,893,000 (2018: nil) is related to the non-controlling interests ("**NCI**") in True Time and its subsidiaries, which are principally engaged in provision of education management services in PRC Mainland.

Set out below is summarized consolidated financial information for True Time and its subsidiaries.

### Summarized consolidated statement of financial position

| | As at 31 December 2019 HK$'000 |
|---|---|
| Current assets | 40,824 |
| Current liabilities | (22,886) |
| **Current net assets** | **17,938** |
| Non-current assets | – |
| Non-current liabilities | – |
| **Non-current net assets** | **–** |
| **Net assets** | **17,938** |
| **Accumulated NCI** | **8,893** |

## 36. NON-CONTROLLING INTERESTS (Continued)

### Summarized consolidated statement of profit or loss and other comprehensive income

| | 2019<br>HK$'000 |
|---|---|
| Revenue | 25,201 |
| Profit for the period | 17,346 |
| Other comprehensive income | 10 |
| Total comprehensive income | 17,356 |
| | |
| Profit allocated to NCI | 8,347 |
| Total comprehensive income allocated to NCI | 4 |
| Dividends paid to NCI | – |

### Summarized statement of cash flows

| | 2019<br>HK$'000 |
|---|---|
| Cash flows from operating activities | (3,160) |
| Cash flows from investing activities | – |
| Cash flows from financing activities | (14,308) |
| Effect of foreign exchange rate changes | 10 |
| **Net decrease in cash and cash equivalents** | **(17,458)** |

## 37. FINANCIAL INSTRUMENT BY CATEGORY

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| *At amortized cost:* | | |
| – Trade and other receivables | **27,806** | 23,647 |
| – Loan receivable | **4,829** | 7,513 |
| – Cash and cash equivalents | **28,724** | 82,288 |
| *At FVTPL:* | | |
| – Other financial assets | **17,286** | 5,000 |
| – Derivative financial assets | **–** | 6,889 |
| | **78,645** | 125,337 |
| **Financial liabilities** | | |
| *At amortized cost:* | | |
| Other payables, accruals and deposits received | **2,088** | 51,183 |
| Borrowing | **–** | 4,100 |
| Amounts due to related companies | **–** | 4,173 |
| Loan from a related company | **–** | 27,195 |
| Lease liabilities | **3,151** | – |
| *At FVTPL:* | | |
| – Derivative financial liabilities | **–** | 1 |
| | **5,239** | 86,652 |

## 38. EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 in late January 2020 has adversely affected the Group's daily operation and patronage of local and cross-boundary transport. The Group has been implementing a number of measures to lessen the impact and will continue to closely monitor further effect that could be caused by COVID-19 on the business operation and financial position of the Group.

## 39. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 using the modified retrospective approach as at 1 January 2019. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are set out in Note 2.2(i).

Certain comparative figures have been reclassified to conform with the current year's presentation.

# FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out below:

| Results | **2019 HK$'000** | 2018 HK$'000 | 2017 HK$'000 | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|---|---|
| Revenue from continuing operations | **216,614** | 1,083,940 | 2,250,504 | 2,170,644 | 1,076,076 |
| (Loss)/Profit before income tax from continuing operations | **(20,403)** | (22,572) | (17,833) | 4,594 | (363) |
| (Loss)/Profit for the year (including discontinued operations) | **(26,304)** | (27,653) | (18,099) | 2,870 | (313) |

| Assets and liabilities | **2019 HK$'000** | 2018 HK$'000 | 2017 HK$'000 | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|---|---|
| Current assets | **61,867** | 162,865 | 231,570 | 215,895 | 107,937 |
| Current liabilities | **9,250** | 86,652 | 121,596 | 92,562 | 23,167 |
| Non-current assets | **31,262** | 6,241 | 2,696 | 3,962 | 3,695 |
| Non-current liabilities | **871** | – | – | 36,080 | – |
| Total equity | **83,008** | 82,454 | 112,670 | 91,215 | 88,465 |

| Key financial ratios | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Current ratio | **6.69** | 1.88 | 1.90 | 2.33 | 4.66 |
| Quick ratio | **6.66** | 1.40 | 1.04 | 1.82 | 2.91 |
| Net gearing ratio | **N/A** | N/A | N/A | N/A | N/A |
| Return on total assets | **(28.2%)** | (16.4%) | (7.7%) | 1.3% | (0.3%) |
| Return on equity | **(31.7%)** | (33.5%) | (16.1%) | 3.1% | (0.4%) |