

The logo for EGIC, consisting of the letters 'EGIC' in a bold, white, sans-serif font inside a blue rounded rectangle.

中國恒嘉融資租賃集團有限公司

CHINA EVER GRAND FINANCIAL LEASING GROUP CO., LTD.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 379)

A conceptual image featuring a human hand at the bottom left, cupping a glowing, wireframe globe. The globe is surrounded by various financial data visualizations, including line graphs, bar charts, and network diagrams, all set against a dark blue background with a grid of light points and lines.

INTERIM
REPORT

2020



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wong Lik Ping (*Chairman*)
Mr. Lai Ka Fai
Mr. Tao Ke
Mr. Qiao Weibing

NON-EXECUTIVE DIRECTOR

Ms. Yip Man Yi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Goh Choo Hwee
Mr. Ho Hin Yip
Mr. U Keng Tin

CHIEF EXECUTIVE OFFICER

Mr. Lai Ka Fai

JOINT COMPANY SECRETARIES

Mr. Li Chak Hung
Mr. Siu Wai Bun

AUTHORISED REPRESENTATIVES

Mr. Wong Lik Ping
Mr. Lai Ka Fai

AUDIT COMMITTEE

Mr. Ho Hin Yip (*Chairman*)
Mr. Goh Choo Hwee
Mr. U Keng Tin

REMUNERATION COMMITTEE

Mr. Ho Hin Yip (*Chairman*)
Mr. Wong Lik Ping
Mr. Goh Choo Hwee

NOMINATION COMMITTEE

Mr. Wong Lik Ping (*Chairman*)
Mr. Goh Choo Hwee
Mr. Ho Hin Yip

AUDITOR

BDO Limited
Certified Public Accountants

LEGAL ADVISER

Angela Ho & Associates

PRINCIPAL BANKERS

In Hong Kong:

The Hongkong and Shanghai Banking Corporation Limited
Fubon Bank (Hong Kong) Limited
Chiyu Corporation Banking Limited

In the PRC:

China Citic Bank
China Guangfu Bank
Bank of China
Industrial and Commercial Bank of China

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2203, 22/F.
Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

379

WEBSITE

<http://www.egichk.com>

The board of directors (“Board” or “Directors”) of China Ever Grand Financial Leasing Group Co., Ltd. (“Company”) hereby presented the unaudited interim condensed consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30 June 2020 (the “Current Period”) together with the comparative figures for the corresponding period in 2019 (the “Corresponding Period”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

| | | Six months ended 30 June | |
|---------------------------------|--------------|---------------------------------|--------------------------|
| | | 2020 | 2019 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Revenue | 5 | 18,866 | 32,997 |
| Cost of revenue | | (12,389) | (21,756) |
| Gross profit | | 6,477 | 11,241 |
| Other income | 7 | 2,992 | 4,060 |
| Other gains and losses | 8 | (66,232) | (19,490) |
| Administrative expenses | | (26,980) | (26,912) |
| Other operating expenses | | (619) | (151) |
| Finance cost | 10(a) | (6,121) | – |
| Share of result of associates | | 18,126 | 13,207 |
| Loss before taxation | | (72,357) | (18,045) |
| Income tax credit | 9 | 79 | 1,625 |
| Loss for the period | 10 | (72,278) | (16,420) |
| Attributable to: | | | |
| – Owners of the Company | | (47,712) | (9,316) |
| – Non-controlling interests | | (24,566) | (7,104) |
| | | (72,278) | (16,420) |
| Loss per share (HK cent) | 12 | (Unaudited) | (Unaudited and restated) |
| – Basic | | (3.40) | (0.78) |
| – Diluted | | (3.40) | (0.78) |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Loss for the period | (72,278) | (16,420) |
| Other comprehensive expense Items that will not be reclassified to profit or loss: | | |
| Exchange difference arising on translation to presentation currency | (14,901) | (3,293) |
| Other comprehensive expense for the period, net of income tax | (14,901) | (3,293) |
| Total comprehensive expense for the period | (87,179) | (19,713) |
| Total comprehensive expense attributable to: | | |
| – Owners of the Company | (60,386) | (12,539) |
| – Non-controlling interests | (26,793) | (7,174) |
| | (87,179) | (19,713) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

| | | 30 June 2020 (Unaudited) <i>HK\$'000</i> | 31 December 2019 (Audited) <i>HK\$'000</i> |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | | 92,151 | 93,811 |
| Investment properties | | 123,261 | 133,521 |
| Interest in associates | 13 | 55,584 | 338,206 |
| Equity investments at fair value through other comprehensive income | | 48,960 | 55,517 |
| Finance lease receivables | 14 | 41,138 | 69,913 |
| Loan receivables | | 43,880 | 26,151 |
| Deferred tax assets | | 1,377 | 1,324 |
| Restricted bank deposits | | 19,143 | 19,520 |
| Deposits | 15 | 10,970 | 11,186 |
| | | 436,464 | 749,149 |
| Current assets | | | |
| Inventory | | 16,821 | 2,137 |
| Finance lease receivables | 14 | 305,332 | 339,309 |
| Loan receivables | | 174,535 | 214,212 |
| Other receivables, deposits and prepayments | 15 | 26,044 | 18,612 |
| Financial assets at fair value through profit or loss | | 86,267 | 25,678 |
| Deposits placed with non-bank financial institutions | | 54,195 | 90,545 |
| Cash and cash equivalents | | 10,716 | 107,033 |
| | | 673,910 | 797,526 |
| Assets classified as held for sale | 13(c) | 322,518 | – |
| | | 996,428 | 797,526 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

| | | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|--|-------|--|--|
| | Notes | | |
| Current liabilities | | | |
| Service cost payables, other payables and accruals | 16 | 26,983 | 28,651 |
| Contract liabilities | | – | 2,563 |
| Financial liability at fair value through profit or loss | | – | 15,660 |
| Tax payable | | 14,028 | 14,251 |
| Borrowings | 17 | 513,542 | 523,654 |
| | | 554,553 | 584,779 |
| Net current assets | | 441,875 | 212,747 |
| Total assets less current liabilities | | 878,339 | 961,896 |
| Capital and reserves | | | |
| Share capital | 18 | 143,030 | 119,192 |
| Reserves | | 569,248 | 621,227 |
| Equity attributable to owners of the Company | | 712,278 | 740,419 |
| Non-controlling interests | | 93,807 | 120,600 |
| Total equity | | 806,085 | 861,019 |
| Non-current liabilities | | | |
| Deposits received from customers | | 24,707 | 24,872 |
| Borrowings | 17 | 40,973 | 69,633 |
| Deferred tax liabilities | | 6,574 | 6,372 |
| | | 72,254 | 100,877 |
| | | 878,339 | 961,896 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

Unaudited

| | Attributable to owners of the Company | | | | | | | | | Non-controlling interests | Total equity |
|--|---------------------------------------|---------------|-------------------|----------------------|--------------------------------|---------------------|--------------------|----------|----------|---------------------------|--------------|
| | Share capital | Share premium | Statutory reserve | Share option reserve | Investment revaluation reserve | Translation reserve | Accumulated losses | Subtotal | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | |
| At 1 January 2020 | 119,192 | 1,520,921 | 6,397 | 727 | 3,450 | (18,714) | (891,554) | 740,419 | 120,600 | 861,019 | |
| Loss for the period | - | - | - | - | - | - | (47,712) | (47,712) | (24,566) | (72,278) | |
| Other comprehensive expense for the period | - | - | - | - | - | (12,674) | - | (12,674) | (2,227) | (14,901) | |
| Total comprehensive expense for the period | - | - | - | - | - | (12,674) | (47,712) | (60,386) | (26,793) | (87,179) | |
| Shares issued upon completion of share placement | 23,838 | 8,407 | - | - | - | - | - | 32,245 | - | 32,245 | |
| At 30 June 2020 | 143,030 | 1,529,328 | 6,397 | 727 | 3,450 | (31,388) | (939,266) | 712,278 | 93,807 | 806,085 | |

Unaudited

| | Attributable to owners of the Company | | | | | | | | | Non-controlling interests | Total equity |
|--|---------------------------------------|---------------|-------------------|----------------------|--------------------------------|---------------------|--------------------|----------|----------|---------------------------|--------------|
| | Share capital | Share premium | Statutory reserve | Share option reserve | Investment revaluation reserve | Translation reserve | Accumulated losses | Subtotal | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | |
| At 1 January 2019 | 119,192 | 1,520,921 | 6,397 | 1,136 | 3,450 | (5,328) | (857,831) | 787,937 | 139,764 | 927,701 | |
| Loss for the period | - | - | - | - | - | - | (9,316) | (9,316) | (7,104) | (16,420) | |
| Other comprehensive expense for the period | - | - | - | - | - | (3,223) | - | (3,223) | (70) | (3,293) | |
| Total comprehensive expense for the period | - | - | - | - | - | (3,223) | (9,316) | (12,539) | (7,174) | (19,713) | |
| Share options lapsed | - | - | - | (197) | - | - | 197 | - | - | - | |
| At 30 June 2019 | 119,192 | 1,520,921 | 6,397 | 939 | 3,450 | (8,551) | (866,950) | 775,398 | 132,590 | 907,988 | |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

| | Six months ended 30 June 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
|---|---|---------------------------------|
| NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES | (76,778) | 66,282 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of associates | (55,248) | – |
| Acquisition of properties through acquisition of subsidiaries | – | (155,750) |
| Addition of loan receivables | (51,074) | (103,444) |
| Repayment of loan receivables | 51,925 | 69,140 |
| Proceeds from disposal of equity investments at fair value through other comprehensive income | 6,428 | – |
| Other investing cash flows | (2,196) | 1,114 |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | (50,165) | (188,940) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from placing of new shares, net of transaction costs | 32,245 | – |
| Payment of lease liabilities | – | (132) |
| NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES | 32,245 | (132) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (94,698) | (122,790) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 107,033 | 262,123 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | (1,619) | (1,945) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 10,716 | 137,388 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank and cash balances | 10,716 | 137,388 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019. The accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019 except those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2020. The Group has not early adopted any new or revised HKFRSs that has been issued but not yet effective in the current accounting period.

The preparation of these interim condensed consolidated financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgments and estimates have been made in preparing the interim financial statements and their effect are disclosed in note 4.

These interim condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated. These interim condensed consolidated financial statements contain interim condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. These interim condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) and should be read in conjunction with the 2019 annual financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and 8, Definition of Material
- Amendments to HKFRS 7, HKFRS 9 and HKAS 39, Interest Rate Benchmark Reform
- The Conceptual Framework for Financial Reporting 2018

The new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

In addition, the Group has elected to early adopt the amendments to HKFRS 16 Leases on COVID-19 Related Rent Concession on 1 January 2020. These amendments provide lessees with practical relief during the COVID-19 pandemic and are effective for annual report reporting periods beginning on or after 1 June 2020. The impact on this adoption is immaterial to the Group.

3. IMPACT OF COVID-19 IN THE CURRENT REPORTING PERIOD

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020 that has impacted the operations of the Group's segments in various degrees. As to the Financial Leasing Segment, the credit risk of customers in the PRC has generally increased, because their operations were disrupted by the social distancing requirements and recommendations and their cash flow position was deteriorated by less cash inflow as a result of the slashed demand. Other than that, certain customers already in financial difficulty experienced a protracted process to obtain new finance to repay the existing debts and became even more difficult to resolve it. As to the Food Additives Business, it saw a decreased demand for products as a consequence of temporary suspension of customers' operations especially for the first two months since the epidemic began in China. The expansion plan of this business was slowed down as a result of disruptions in the supply of equipment and logistics and uncertainty on the market prospect.

In preparing the Group's interim condensed consolidated finance statements for the six months ended 30 June 2020, the Group has taken into account the above events that have occurred since 31 December 2019 relate to the effects of the global pandemic. The Group makes estimates of expected credit losses attributable to finance lease receivables and loan receivables including the incorporation of forward-looking information, valuation of asset collaterals, etc to supplement historical defaulted rates. The Group also considered economic downturn and uncertainties that have risen as a result of COVID-19, when evaluating the fair value of the Group's investments during the current reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. IMPACT OF COVID-19 IN THE CURRENT REPORTING PERIOD (Continued)

Nevertheless, as the outbreak of COVID-19 continues to evolve, it is challenging at this juncture to predict the full extent and duration of its impact to the business and the economy. Management has been closely monitoring the development of the COVID-19 outbreak and considered that, save as disclosed above, there is no other matters that would result in a significant adverse impact on the Group's results and financial position as at the reporting date as result of the COVID-19.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2019 annual financial statements.

There is significant ongoing uncertainty surrounding the COVID-19 global pandemic and the extend and duration of impacts on expected credit losses of finance lease receivables and loan receivables, impairments of property, plant and equipment, write down of inventory and fair value on investment properties and financial investment products. As the impacts of COVID-19 are evolving, there will be significant changes between the actual and estimated impacts on the Group during the remaining period of 2020.

5. REVENUE

Revenue represents finance lease and sale-leaseback interest income generated from financial leasing and sale-leaseback transactions respectively, service fee income, loan interest income from provision of loan facilities, rental income and sale of goods receivable from outsiders during the period.

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Finance lease and sale-leaseback interest income | 10,019 | 18,891 |
| Service fee income | 1,823 | 8,791 |
| Loan interest income | 1,901 | 4,533 |
| Rental income | 2,264 | 775 |
| Sale of goods | 2,859 | 7 |
| | 18,866 | 32,997 |

At 30 June 2020, the Group has no contract liabilities (31 December 2019: HK\$2,563,000). The contract liabilities were mainly related to the advance consideration received from customers arising from asset management advisory services to be rendered by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purpose of resource allocation and performance assessment focuses on the nature of the operations of the Group.

The Group's operating and reportable segments are as follow:

| | |
|-------------------|---|
| Financial leasing | – provision of finance lease consulting services and financing services in the PRC (“Financial Leasing Segment”) |
| Investment | – investment properties in the PRC and Hong Kong, investment in securities and money lending business in Hong Kong |
| Others | – research and development, manufacturing and sale of food additives, new food ingredients and nutritional enhancers in the PRC (“Food Additives Business”) and trading of medical and health care products in Hong Kong (“Trading Business”) |

The analysis of the revenue and segment results of the Group by reportable and operating segments are as follow:

| | Revenue | | Segment results | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Six months ended 30 June | | | |
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Segments | | | | |
| Financial leasing | 13,639 | 27,682 | (50,617) | (16,239) |
| Investment | 2,368 | 5,308 | (6,445) | (880) |
| Others | 2,859 | 7 | (7,119) | (3,854) |
| | 18,866 | 32,997 | (64,181) | (20,973) |
| Unallocated corporate expenses | | | (16,130) | (16,689) |
| Unallocated other income, gains and losses | | | 16,106 | 6,413 |
| Impairment loss on interest in an associate upon reclassification to assets classified as held for sale | | | (25,802) | – |
| Share of associates results | | | 18,126 | 13,206 |
| Other expenses | | | (476) | (2) |
| Loss before taxation | | | (72,357) | (18,045) |

Segment results represent the profit earned or loss incurred by each segment without allocation of certain other income, certain other gains and losses, impairment loss on interest in an associate upon reclassification to assets classified as held for sale, share of associates results and corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (Continued)

The Group's financial leasing and Food Additives Businesses are located in the PRC, while Trading Business in Hong Kong. Investment division comprises of properties investment and leasing business carried out in the PRC and Hong Kong, while its money lending and investment in securities businesses are in Hong Kong. Except for revenue amount of HK\$3,198,000 was generated in Hong Kong during the Current Period (six months end 30 June 2019: HK\$4,893,000), the remaining amount of HK\$15,668,000 was generated in the PRC (six months end 30 June 2019: HK\$28,104,000).

The analysis of the assets and liabilities of the Group by reportable and operating segments are as follow:

| | Assets | | Liabilities | |
|------------------------------------|--|--|--|--|
| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
| Segments | | | | |
| Financial leasing | 787,034 | 880,789 | 592,854 | 631,492 |
| Investment | 140,264 | 138,426 | 687 | 534 |
| Others | 89,013 | 68,626 | 626 | 720 |
| | 1,016,311 | 1,087,841 | 594,167 | 632,746 |
| Assets classified as held for sale | 322,518 | – | – | – |
| Interest in associates | 55,584 | 338,206 | – | – |
| Unallocated corporate items | 38,479 | 120,628 | 32,640 | 52,910 |
| | 1,432,892 | 1,546,675 | 626,807 | 685,656 |

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

- all assets are allocated to reportable and operating segments other than assets classified as held for sale, interest in associates, an office premise for administrative purpose, certain other receivables, certain deposits placed in non-bank financial institutions and certain cash and cash equivalents; and
- all liabilities are allocated to reportable and operating segments other than certain other payables, tax payables, financial liability at fair value through profit or loss and deferred tax liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. OTHER INCOME

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest income from loan receivables | 2,504 | 2,431 |
| Interest income from banks and non-bank financial institutions | 37 | 1,573 |
| Government subsidies | 451 | – |
| Sundry income | – | 56 |
| | 2,992 | 4,060 |

8. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Change in fair value in financial assets at fair value through profit or loss (“FVTPL”) | (3,935) | (2,429) |
| Gain on disposal of financial assets at fair value through other comprehensive income (“FVOCI”) | 948 | – |
| Change in fair value in financial liability at FVTPL | 15,660 | 5,700 |
| Impairment loss on interest in an associate upon reclassification to assets classified as held for sale | (25,802) | – |
| Change in fair value of investment properties | (8,996) | – |
| Impairment loss on a finance lease receivable | (27,553) | (21,652) |
| Impairment loss on a loan receivable | – | (1,235) |
| Impairment loss on a loan receivable from sale-leaseback transaction | (16,532) | – |
| Net foreign exchange (losses)/gains | (11) | 126 |
| Write down of asset | (11) | – |
| | (66,232) | (19,490) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. TAXATION

| | Six months ended 30 June | |
|--------------------------------|--------------------------|-------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| The (credit)/charge comprises: | | |
| Current tax | | |
| – Hong Kong Profits Tax | – | – |
| – PRC income tax | – | 1,353 |
| Deferred tax credit | (79) | (2,978) |
| | (79) | (1,625) |

10. LOSS FOR THE PERIOD

The Group's loss for the period arrived after charging:

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Directors' remuneration | 5,762 | 5,381 |
| Interest expenses (included in cost of revenue) | 8,522 | 18,995 |
| Cost of inventories sold (included in cost of revenue) | 3,110 | 11 |
| Finance cost (<i>note a</i>) | 6,121 | – |
| Depreciation of property, plant and equipment | 699 | 1,528 |
| Depreciation of right-of-use assets | 1,964 | 272 |
| Short-term lease expenses | 1,057 | 2,163 |
| Staff costs (including directors' and chief executive's emoluments) | 15,344 | 15,677 |

Note

- (a) The Group's finance cost of approximately HK\$6.1 million represented interest payable to a bank borrowing, the entire proceeds of which was to finance a currently credit-impaired finance lease receivable. Due to the remote collectability of the receivable, none of any finance lease interest income from this receivable was recognised in the Group's revenue in the Current Period (Corresponding Period: HK\$4.6 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

12. LOSS PER SHARE

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

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Loss | | |
| Loss for the period attributable to owners of the company for the purpose of basic and diluted loss per share | (47,712) | (9,316) |

| | Number of shares | |
|--|--|--|
| | 30 June 2020 (Unaudited) '000 | 30 June 2019 (Unaudited and restated) '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | 1,402,797 | 1,191,920 |

The computation of diluted loss per share for the six months ended 30 June 2020 and 2019 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share for the period ended 30 June 2019 has been adjusted for the effect of share consolidation completed on 26 March 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. INTEREST IN ASSOCIATES

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|--|--|--|
| Unlisted investments at cost | 55,248 | 305,607 |
| Accumulated: | | |
| Share of post-acquisition profits, net of dividends received | 336 | 39,888 |
| Exchange difference | - | (7,289) |
| | 336 | 32,599 |
| | 55,584 | 338,206 |

Notes:

- (a) On 30 December 2019, the Group entered into a subscription agreement with Simagi Finance Company Limited (“Simagi”), a company incorporated in Hong Kong with limited liability, which its ultimate beneficial owner(s) are independent third parties of and not connected with the Company and its connected person, to subscribe approximately 7.46% of the enlarged share capital of Simagi at consideration of HK\$40,000,000. Having satisfied all the terms and conditions of the agreements, the acquisition was completed on 24 January 2020. For the period ended 30 June 2020, the share of profit of Simagi for the period of HK\$72,000 was recognised in profit or loss.
- (b) On 13 March 2020, the Group entered into a subscription agreement with Era Bright Limited (“Era Bright”), a company incorporated in Hong Kong with limited liability, which its ultimate beneficial owner(s) are independent third parties of and not connected with the Company and its connected person, to subscribe approximately 18.55% of the enlarged share capital of Era Bright at consideration of HK\$15,000,000. Having satisfied all the terms and conditions of the agreements, the acquisition was completed on 17 March 2020. For the period ended 30 June 2020, the share of profit of Era Bright for the period of HK\$264,000 was recognised in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. INTEREST IN ASSOCIATES (Continued)

Notes: (Continued)

- (c) On 15 May 2018, the Group entered into a sale and purchase agreement with the joint venture partner (the “Purchaser”), pursuant to which the Group disposed of 25% out of its 50% equity interest of Rizhao Lanshan Wansheng Harbour Company Limited (“Rizhao Lanshan”), a joint venture (“JCE”) of the Group, for a consideration of RMB294 million (equivalent to approximately HK\$338 million). On the same date, the Group also entered into a Call Option Undertaking to grant the Call Option to the Purchaser, pursuant to which the Purchaser is entitled to acquire the remaining 25% equity interest in Rizhao Lanshan at a consideration of RMB294 million (equivalent to approximately HK\$338 million). Pursuant to the Call Option Undertaking, the Call Option is exercisable by the Purchaser at its discretion during the period from 1 January 2020 up to 30 June 2020 (both dates inclusive). Upon the Completion on 31 August 2018, Rizhao Lanshan ceased to be a JCE of the Group and then became an associate of the Group.

During the period ended 30 June 2020, the Purchaser has exercised the Call Option, pursuant to which the Purchaser will acquire the remaining 25% equity interest in Rizhao Lanshan at an exercise price of RMB294 million, and entered into a separate share transfer agreement with the Group on 26 August 2020. The share of profits from Rizhao Lanshan for the period of RMB16,142,000 (equivalent to approximately HK\$17,790,000) was recognised in profit or loss. As at 30 June 2020, the remaining 25% equity interest in Rizhao Lanshan was reclassified from interest in an associate to assets classified as held for sale with carrying amount of HK\$322,518,000 and impairment loss of HK\$25,802,000 was recognised in profit or loss.

14. FINANCE LEASE RECEIVABLES

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|---------------------------------------|--|--|
| Finance lease receivables | 406,805 | 442,780 |
| Less: provision for impairment losses | (60,335) | (33,558) |
| | 346,470 | 409,222 |
| Represented by: | | |
| Current finance lease receivables | 305,332 | 339,309 |
| Non-current finance lease receivables | 41,138 | 69,913 |
| | 346,470 | 409,222 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. FINANCE LEASE RECEIVABLES (Continued)

Leasing arrangements

Certain of the Group's machinery and equipment are leased out under finance leases. All leases are denominated in Renminbi ("RMB"). As at 30 June 2020, the average term of finance leases entered into is 5 years (31 December 2019: 5 years).

Amounts receivable under finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|---|---|---|---|
| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
| Not later than one year | 351,709 | 387,474 | 305,332 | 339,309 |
| Later than one year and not later than five years, inclusive | 42,095 | 72,354 | 41,138 | 69,913 |
| | 393,804 | 459,828 | 346,470 | 409,222 |
| Less: unearned finance income | (47,334) | (50,606) | - | - |
| Present value of minimum lease payments receivable | 346,470 | 409,222 | 346,470 | 409,222 |

The Group's finance leases receivables are denominated in RMB. The effective interest rates of the finance leases as at 30 June 2020 range from 4.28% to 5.50% (31 December 2019: 4.28% to 5.50%) per annum.

As at 30 June 2020, finance lease receivables with carrying amounts of HK\$269,679,000 (31 December 2019: HK\$308,547,000) were guaranteed by related parties of customers and secured by the leased assets and/or customers' deposits.

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements that needed to be recorded as at the end of the reporting period.

As at 30 June 2020, the finance lease receivables with carrying amounts of HK\$250,482,000 (31 December 2019: HK\$283,379,000) were pledged as security for the Group's borrowings.

Deposits of HK\$24,707,000 (31 December 2019: HK\$24,872,000) have been received by the Group to secure certain finance lease receivables and classified into current or non-current liabilities based on the final lease instalment due date stipulated in the finance lease agreements. In addition, the finance lease receivables are secured over the leased assets, mainly plant and machinery leased, at the end of the reporting periods. The Group is not permitted to sell, or repledge the collateral of the finance lease receivables without consent from the lessee in the absence of default by the lessee.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. FINANCE LEASE RECEIVABLES (Continued)

Amounts receivable under finance leases (Continued)

Estimates of fair value of collateral are made during the credit approval process. These estimates of valuations are made at the inception of finance lease, and generally not updated except when the receivable is individually impaired. When a finance lease receivable is identified as impaired, the corresponding fair value of collateral of that receivable is updated by reference to market value such as recent transaction price of the assets.

At the end of the reporting periods, with the consent from the relevant lessees, certain of these assets have been pledged to secure borrowings of the Group.

Except for the impairment of a finance lease receivable of HK\$60,335,000 (31 December 2019: HK\$33,558,000), the remaining finance lease receivables at the end of the reporting periods are neither past due nor impaired.

15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|---|--|--|
| Other receivables, deposits and prepayments | 37,014 | 29,798 |
| <i>Less:</i> Amounts not receivable within one year shown under non-current assets | (10,970) | (11,186) |
| | 26,044 | 18,612 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. SERVICE COST PAYABLES, OTHER PAYABLES AND ACCRUALS

The aged analysis of the service cost payables of HK\$3,000 (31 December 2019: HK\$1,041,000) which are included in the Group's service cost payables, other payables and accruals is as follows:

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|-----------------------------|--|--|
| Service cost payables: | | |
| Within 30 days | – | – |
| Over 365 days | 3 | 1,041 |
| | 3 | 1,041 |
| Other payables and accruals | 26,980 | 27,610 |
| | 26,983 | 28,651 |

17. BORROWINGS

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|---|--|--|
| Secured: | | |
| Bank borrowings | 386,309 | 399,396 |
| Other borrowings | 168,206 | 193,891 |
| | 554,515 | 593,287 |
| Repayable as follows: | | |
| Within one year | 513,542 | 523,654 |
| Within a period of more than one year but not exceeding five years | 40,973 | 69,633 |
| | 554,515 | 593,287 |

The bank and other borrowings at 30 June 2020 are interest bearing at floating rates ranged from 4.28% to 9.00% (31 December 2019: 4.28% to 9.00%) per annum, secured by the machinery and equipment leased to customers under finance lease, restricted bank deposits and/or finance lease receivables of the Group. Approximately HK\$258,325,000 (31 December 2019: HK\$268,893,000) of the borrowings were also guaranteed by shareholders of certain finance lease customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.01 each '000 | Number of ordinary shares of HK\$0.1 each '000 | Nominal value HK\$'000 |
|---|---|--|------------------------------|
| Authorised: | | | |
| At 1 January 2019, 31 December 2019 and 1 January 2020 | 40,000,000 | – | 400,000 |
| Share Consolidation (<i>note b</i>) | (40,000,000) | 4,000,000 | – |
| At 30 June 2020 | – | 4,000,000 | 400,000 |
| Issued and fully paid: | | | |
| At 1 January 2019, 31 December 2019 and 1 January 2020 | 11,919,198 | – | 119,192 |
| Shares issued upon completion of share placement (<i>note a</i>) | 2,383,830 | – | 23,838 |
| Share Consolidation (<i>note b</i>) | (14,303,028) | 1,430,303 | – |
| At 30 June 2020 | – | 1,430,303 | 143,030 |

Notes:

- (a) Pursuant to the placing agreement entered into on 30 December 2019, the Company has conditionally agreed to place, through placing agents, up to 2,383,830,000 new shares to not less than 6 places at the placing price at HK\$0.014 per new share. The placing of entire new shares was completed on 22 January 2020.
- (b) With effect from 26 March 2020, every ten (10) issued and unissued shares of the Company of HK\$0.01 each was consolidated into one (1) consolidated share of the Company of HK\$0.1 each (the "Share Consolidation"). Further details of the Share Consolidation are set out in the announcements dated 14 February 2020 and 24 March 2020 and circular of the Company dated 4 March 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2020 (31 December 2019: nil).

20. CAPITAL COMMITMENTS

| | 30 June 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | 121 | 124 |

21. SHARE-BASED PAYMENT TRANSACTIONS

The Company's new share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 29 July 2016 for the primary purpose of providing incentives to directors and eligible employees (the "Grantees"). Under the Scheme, the Board of the Company may grant options to eligible employees, including directors of the Company, to subscribe for shares in the Company.

On 8 December 2016, a number of shares (before the Share Consolidation) in respect of which options had been granted to the Grantees under the Scheme was 145,500,000, representing 1.2% of the shares of the Company in issue at that date. Options (before the Share Consolidation) are divided into 3 tranches and are exercisable upon vesting to 28 July 2021 with exercise price of HK\$0.12 per share, subject to the fulfilment of vesting conditions. Further details of the share option scheme are set out in note 28 to the consolidated financial statements of the Company for the year ended 31 December 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses the movements of the Company's share options during the six months period ended 30 June 2020.

| Name of participant | Number of share options outstanding at 1 January 2020 | | | | Adjustment (Note) | | | | Lapsed during the period | | | | Number of share options outstanding at 30 June 2020 | | | |
|--|---|----------|----------|-------------------------|-------------------|----------|--------------|-------|--------------------------|----------|----------|-------|---|----------|----------|-----------|
| | Tranch 1 | Tranch 2 | Tranch 3 | Total | Tranch 1 | Tranch 2 | Tranch 3 | Total | Tranch 1 | Tranch 2 | Tranch 3 | Total | Tranch 1 | Tranch 2 | Tranch 3 | Total |
| Executive Directors | | | | | | | | | | | | | | | | |
| Qiao Weibing | 3,333,333 | - | - | 3,333,333 (3,000,000) | - | - | (3,000,000) | - | - | - | - | - | 333,333 | - | - | 333,333 |
| Lai Ka Fai | 1,333,333 | - | - | 1,333,333 (1,200,000) | - | - | (1,200,000) | - | - | - | - | - | 133,333 | - | - | 133,333 |
| Tao Ke | 1,000,000 | - | - | 1,000,000 (900,000) | - | - | (900,000) | - | - | - | - | - | 100,000 | - | - | 100,000 |
| Independent non-executive Directors | | | | | | | | | | | | | | | | |
| Goh Choo Hwee | 666,667 | - | - | 666,667 (600,000) | - | - | (600,000) | - | - | - | - | - | 66,667 | - | - | 66,667 |
| Ho Hin Yip | 666,667 | - | - | 666,667 (600,000) | - | - | (600,000) | - | - | - | - | - | 66,667 | - | - | 66,667 |
| U Keng Tin | 666,667 | - | - | 666,667 (600,000) | - | - | (600,000) | - | - | - | - | - | 66,667 | - | - | 66,667 |
| Employees | 12,166,667 | - | - | 12,166,667 (10,950,001) | - | - | (10,950,001) | - | - | - | - | - | 1,216,666 | - | - | 1,216,666 |
| | 19,833,334 | - | - | 19,833,334 (17,850,001) | - | - | (17,850,001) | - | - | - | - | - | 1,983,333 | - | - | 1,983,333 |
| Exercisable at the end of the reporting period | | | | | | | | | | | | | 1,983,333 | - | - | 1,983,333 |

Note: As a result of the share consolidation which was effective on 26 March 2020, the exercise price per share and number of outstanding share option granted on 8 December 2016 were adjusted from HK\$0.12 to HK1.20 and 19,833,334 to 1,983,333 respectively.

The following table discloses the movements of the Company's share options during the six months period ended 30 June 2019.

| Name of participant | Number of share options outstanding at 1 January 2019 | | | | Lapsed during the period | | | | Number of share options outstanding at 30 June 2019 | | | | |
|--|---|----------|------------|------------------------|--------------------------|----------|-------------|--------------|---|------------|------------|------------|------------|
| | Tranch 1 | Tranch 2 | Tranch 3 | Total | Tranch 1 | Tranch 2 | Tranch 3 | Total | Tranch 1 | Tranch 2 | Tranch 3 | Total | |
| Executive Directors | | | | | | | | | | | | | |
| Qiao Weibing | 3,333,333 | - | 3,333,334 | 6,666,667 | - | - | - | - | 3,333,333 | - | 3,333,334 | 6,666,667 | |
| Lai Ka Fai | 1,333,333 | - | 1,333,334 | 2,666,667 | - | - | - | - | 1,333,333 | - | 1,333,334 | 2,666,667 | |
| Tao Ke | 1,000,000 | - | 1,000,000 | 2,000,000 | - | - | - | - | 1,000,000 | - | 1,000,000 | 2,000,000 | |
| Independent non-executive Directors | | | | | | | | | | | | | |
| Goh Choo Hwee | 666,667 | - | 666,666 | 1,333,333 | - | - | - | - | 666,667 | - | 666,666 | 1,333,333 | |
| Ho Hin Yip | 666,667 | - | 666,666 | 1,333,333 | - | - | - | - | 666,667 | - | 666,666 | 1,333,333 | |
| U Keng Tin | 666,667 | - | 666,666 | 1,333,333 | - | - | - | - | 666,667 | - | 666,666 | 1,333,333 | |
| Employees | | | | | | | | | | | | | |
| Wang Liang | 3,333,333 | - | 3,333,334 | 6,666,667 (3,333,333) | - | - | (3,333,334) | (6,666,667) | - | - | - | - | |
| Other participants | 18,833,332 | - | 18,833,334 | 37,666,666 (1,833,333) | - | - | (1,833,334) | (3,666,667) | 16,999,999 | - | 17,000,000 | 33,999,999 | |
| | 29,833,332 | - | 29,833,334 | 59,666,666 (5,166,666) | - | - | (5,166,668) | (10,333,334) | 24,666,666 | - | 24,666,666 | 49,333,332 | |
| Exercisable at the end of the reporting period | | | | | | | | | | 24,666,666 | - | - | 24,666,666 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Except as disclosed elsewhere in notes to the condensed consolidated financial statements, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

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

Some of the Group's financial assets and liabilities 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 assets and liabilities are determined (in particular, the valuation techniques and inputs used).

| Financial assets & liabilities | NOTE | Fair value as at | | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable input(s) | Relationship of unobservable input to fair value |
|--|-------|--------------------------|------------------------------|----------------------|--|--|---|
| | | 30 June 2020 HK\$'000 | 31 December 2019 HK\$'000 | | | | |
| 1. Financial assets at fair value through profit or loss | | | | | | | |
| - Trade on stock exchanges | | 20,027 | 10,757 | Level 1 | Quoted bid prices in active market | N/A | N/A |
| - Unlisted fund investment | 22(a) | 66,240 | 14,921 | Level 3 | Based on the net asset values of the fund investment determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses | Third party valuation of underlying investment portfolio | The higher the third party valuation, the higher the fair value |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

| Financial assets & liabilities | NOTE | Fair value as at | | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable input(s) | Relationship of unobservable input to fair value |
|---|-------|--------------------------|------------------------------|----------------------|--|--|--|
| | | 30 June 2020 HK\$'000 | 31 December 2019 HK\$'000 | | | | |
| 2. Equity investments at fair value through other comprehensive income | | | | | | | |
| – Unlisted equity investment which principally invests in shopping malls in the PRC | 22(a) | 28,117 | 28,671 | Level 3 | Based on the valuation of shopping malls determined by market approach | Discount for quality of properties (eg. size and location) | The higher discount rate, the lower fair value |
| – Unlisted equity investment which principally invests in a private entity with operations of natural gas supply in the PRC | 22(a) | – | 5,593 | Level 3 | Based on the investee's financial performance and the multiples of comparable companies and using market approach | Price to earnings ratio: N/A (31 December 2019: 12.36%) Discount for lack of marketability: N/A (31 December 2019: 30%) | The higher ratio, the higher fair value The higher discount rate, the lower fair value |
| – Unlisted equity investment which principally invests in a private entity with operations of software development in the PRC | 22(a) | 20,843 | 21,253 | Level 3 | Based on the investee's financial position, performance and using market approach | N/A | N/A |
| 3. Financial liability at fair value through profit or loss | 22(b) | – | 15,660 | Level 3 | Based on business valuation of the underlying business determined by market approach as key input and using Binomial option pricing model. | Expected volatility: N/A (31 December 2019: 22%) Discount for lack of marketability: N/A (31 December 2019: 16.11%) | The higher volatility, the higher fair value The higher discount rate, the lower fair value |

There were no transfers among Level 1, 2 and 3 during both years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements

(a)

| | Financial assets at FVTPL <i>HK\$'000</i> | Equity investments at FVOCI <i>HK\$'000</i> |
|----------------------|---|--|
| At 1 January 2020 | 14,921 | 55,517 |
| Purchases | 65,820 | – |
| Disposal | (7,750) | (6,428) |
| Change in fair value | (6,493) | 948 |
| Exchange difference | (258) | (1,077) |
| At 30 June 2020 | 66,240 | 48,960 |

(b)

| | Financial liability at FVTPL <i>HK\$'000</i> |
|---|--|
| At 1 January 2020 | 15,660 |
| Change in fair value recognised in profit or loss | (15,660) |
| At 30 June 2020 | – |

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group estimates the fair value of its financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated statement of financial position approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23. RELATED PARTY TRANSACTIONS

- (a) The Group had the following transactions with the fellow subsidiaries of another shareholder of an associate during the period:

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Fellow subsidiaries of another shareholder of a Group's associate: | | |
| Service charges paid | 150,358 | 57,329 |
| Leasing income | 60,482 | 70,844 |

- (b) The Group's key management personnel are all directors and chief executive of the Company. The remuneration to the directors and chief executive of the Company during the period is as follows:

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Fees | 330 | 270 |
| Salaries and other benefits | 5,396 | 5,075 |
| Retirement benefit scheme contributions | 36 | 36 |
| | 5,762 | 5,381 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. EVENTS AFTER THE REPORTING PERIOD

1. On 13 July 2020, the Group entered into a subscription agreement with a target company, an independent third party of the Group, to subscribe for 350 subscription shares or approximately 35% of the enlarged share capital of the target company at the aggregate subscription price of HK\$67,300,000, which shall be settled in kind by a wholly owned subsidiary (“Subscriber”) by transferring the entire share capital of a wholly owned subsidiary of the Subscriber which is holding an investment property. The target company and its subsidiaries principally engages in property investment and leasing business in Hong Kong. Completion of the subscription took place on 16 July 2020. Details of the subscription in the target company were disclosed in the announcement of the Company on 13 July 2020.
2. On 29 July 2020, the Group entered into a sale and purchase agreement with a BVI company (“Vendor”), an independent third party of the Group, pursuant to which the Vendor conditionally agreed to sell, and the Group conditionally agreed to buy the entire issued share capital of a target company for a consideration of HK\$47,802,000 which was settled by the allotment and issuance of 257 million Consideration Shares in which 108 million Consideration Shares are escrowed and will be released upon fulfillment of profit guarantee for financial years 2020 and 2021 at the Issue Price of HK\$0.186 per Consideration Share. The target company is principally engaged in production, wholesales, distribution and trading of daily necessities.

Completion of the sale and purchase agreement took place on 21 August 2020. Details of the subscription in the target company were disclosed in the announcements of the Company on 29 July 2020 and 21 August 2020.

3. On 26 August 2020, the Group entered into a sale and purchase agreement with the Purchaser, pursuant to which the Group disposed of the remaining 25% equity interest in Rizhao Lanshan at a consideration in accordance with the exercise price of the Call Option that the Purchaser has exercised. As at the date of the reporting end, completion of the sale and purchase agreement is still subject to amongst others, all consent, permission, authorisation and approvals (such as the approvals from the relevant PRC commercial supervisory department, the relevant governmental authorities and securities regulatory authorities) which are required for the sale and purchase agreement and the transaction contemplated thereunder having been obtained by the Group and the Purchaser, and yet completed. The Company will make further announcement when it is completed. Please refer to the Company’s announcement dated 15 May 2018, circular dated 25 June 2018 and poll result announcement dated 17 July 2018 for the approval of the Call Option and the antecedent transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six-months ended 30 June 2020 (the “Current Period”), the Group recorded the revenue of HK\$18.9 million as compared with HK\$33.0 million for the six-months ended 30 June 2019 (the “Corresponding Period”), gross profit of HK\$6.5 million as compared with HK\$11.2 million in the Corresponding Period and a net loss of HK\$72.3 million as compared with the net loss of HK\$16.4 million in the Corresponding Period.

For the period under review, the Financial Leasing Segment recorded a segment loss of HK\$50.6 million (Corresponding Period: a segment loss of HK\$16.2 million) (the definition of segment profit or loss and detailed analysis set out in note 6 to the condensed consolidated financial statements). The increase in loss was mainly attributable to (i) the recognition of a non-cash impairment loss of approximately HK\$44.1 million on a finance lease receivable and a loan receivable (Corresponding Period: HK\$22.9 million), (ii) an increase in finance cost of HK\$6.1 million relating to a back-to-back borrowing, the proceeds of which was to finance a recently credit-impaired finance lease project, (iii) a fair value loss on financial assets at fair value through profit or loss of HK\$4.9 million as compared with a fair value gain on the same of HK\$2.1 million in the Corresponding Period.

The investment segment recorded interest income of HK\$0.1 million from money lending business (Corresponding Period: HK\$4.5 million) and rental income of HK\$2.3 million (Corresponding Period: HK\$0.8 million) as revenue in Current Period. A significant increase in loss from HK\$0.9 million in the Corresponding Period to HK\$6.4 million in the Current Period was due to (i) an increase in loss on fair value of investment properties in Hong Kong and the PRC of HK\$9.0 million, (ii) a decrease in loan interest income from money lending business of HK\$4.4 million as a result of significant reduction in its loan portfolio amount in the Current Period.

MANAGEMENT DISCUSSION AND ANALYSIS

The Food Additives Business, classified under others in the segment information, carried out manufacturing and sale of solid sorbitol with an established production line, performed research & development of Advantame, highly extreme sweetener, and EPS, clinic diagnostic reagent. During the Current Period, the business recorded revenue of approximately HK\$0.9 million (Corresponding Period: HK\$7,000) and a loss of HK\$5.2 million in the Current Period (Corresponding Period: HK\$3.9 million). The recent outbreak of the COVID-19 disrupted the production capacity of the established production line of solid Sorbitol due to temporary suspension of operation, so did the normal operation of our customers, primarily food additives manufacturers in the PRC which reduced the purchase of solid Sorbitol from the Group. It led to a reduction in revenue in the Current Period as compared with the revenue in the second half of 2019, while it was still greater than that in the Corresponding Period when it predominately halted the revenue by production detects holding back the normal production scale. The outbreak of epidemic also impeded the Group's expansion plan of this segment because of the difficulty to source the necessary machinery and equipment from the suppliers and arrange relevant delivery service from logistic companies when they were mostly out of or in limited operation caused by social distancing measures and travel restrictions. Together with the uncertainty in the market, the Group slowed down the development phrase of this business, and reallocated the originally earmarked HK\$15.0 million for the expansion such as establishment of a brand new plant of Advantame and a second production line of solid Sorbitol to the development of medical and health care products trading business.

In light of the public awareness of personal hygiene and health, the Group commenced a trading business of the medical and health care products in Hong Kong to tap into this promising industry in the Current Period. The business, classified under others in the segment information, recorded revenue of HK\$2.0 million and a loss of HK\$1.9 million.

After considering (i) the corporate and other expenses of HK\$16.6 million, slightly down by HK\$0.1 million, (ii) impairment loss on interest in an associate upon reclassification to assets classified as held for sales of HK\$25.8 million (Corresponding Period: nil); certain unallocated other income and gain of HK\$16.1 million primarily representing a fair value gain on an option granted by the Group, up by HK\$9.7 million, (iii) share of associates' results of HK\$18.1 million as compared with HK\$13.2 million in the Corresponding Period, and (iv) income tax credit of HK\$0.1 million, as compared with income tax credit of HK\$1.6 million in the Corresponding Period, the Group recorded a net loss of HK\$72.3 million and net loss attributable to owners of the Company of HK\$47.7 million in the Current Period as compared with net loss of HK\$16.4 million and net loss attributable to the owners of the Company of HK\$9.3 million in the Corresponding Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and gross profit

For the period under review, the Financial Leasing Segment recorded revenue and gross profit of HK\$13.6 million and HK\$4.4 million (six months ended 30 June 2019: HK\$27.7 million and HK\$5.9 million), representing 72% and 67% (six months ended 30 June 2019: 84% and 53%) of the Group's revenue and gross profit respectively. The revenue of this segment represents (i) service fee income for financing arrangements and consultancy services and (ii) finance lease and loan interest income generated from financial leasing business. The cost of revenue mainly represents (i) service cost to banks and other non-bank financial institutions on various kinds of factoring and consultancy services and (ii) interest expenses on borrowings from banks and other non-bank financial institutions. The main customer base primarily includes large corporations covering industries of energy resources, manufacturing, medical and urban infrastructure, transportation and public utility construction.

The segment saw a continuous decline on revenue and gross profit. The segment has been grappling with the unfavorable operating environment in the People's Republic of China (the "PRC"), especially the stringent regulatory oversight of the industry which hampered the segment effort to obtain credits from banks with terms matching prospective customers' needs and hence the number of the conventional finance lease transaction (i.e. finance lease project fully financed by the back-to-back bank borrowing) and its resulting service fee income were significantly reduced. Other than the finance lease interest income from the unexpired finance lease projects completed in previous years, the segment recorded interest income from a self-funded project and consultancy service income from provision of few financial consultancy services in the Current Period.

The money lending business and property leasing business (classified under the Investment segment) recorded both revenue and gross profit of HK\$2.4 million (Corresponding Period: both HK\$5.3 million), representing 13% and 37% (Corresponding Period: 16% and 47% respectively) of the Group's revenue and gross profit in the Current Period respectively. The revenue represents loan interest income from the provision of loan facilities carried out by a licensed subsidiary in Hong Kong and rental income deriving from letting out office properties in Hong Kong and Shanghai, the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

The Food Additives Business and Trading Business (both classified under others) recorded revenue of HK\$2.9 million and negative gross profit of HK\$0.3 million (Corresponding Period: HK\$7,000 and –HK\$4,000), representing 15% and –4% of (Corresponding Period: both less than 1%) the Group’s revenue and gross profit respectively in the Current Period. The increase in the segment revenue was mainly due to the commencement of Trading Business in the Current Period.

Other income

Other income of the Group mainly comprised of interest income from trust products issued by asset management companies in the PRC, government subsidy income in Hong Kong and interest income from bank and non-bank financial institutions. The slight decrease of HK\$1.1 million or 26% in the Current Period was mainly due to general decline in the interest income from non-bank financial institutions.

Other gains and losses

In the Current Period, other gains and losses of the Group amounted to a loss of HK\$66.2 million (Corresponding Period: HK\$19.5 million) predominantly representing the provision for impairment loss on a finance lease receivable and a loan receivable of HK\$44.1 million from the Financial Leasing Segment (Corresponding Period: HK\$22.9 million), impairment loss on interest in an associate upon reclassification of it as assets held for sale of HK\$25.8 million (Corresponding Period: nil), fair value loss on investment properties of HK\$9.0 million (Corresponding Period: nil), overall loss on fair value change of financial assets at FVTPL and other comprehensive income of HK\$3.0 million (Corresponding Period: HK\$2.4 million), partially offset by fair value gain on an unlisted option (classified as financial liability at FVTPL) to sell the remaining 25% equity interest on an associate granted by the Group (the “Option”) of HK\$15.7 million (Corresponding Period: HK\$5.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses in the Current Period amounted to HK\$27.6 million, slightly up by HK\$0.5 million, mainly including staff costs of HK\$15.3 million (including directors' and chief executive's emoluments) (Corresponding Period: HK\$15.7 million), office rental expenses, legal and professional fees and various other administrative expenses.

Finance cost

The Group's finance cost of HK\$6.1 million represented an interest payable to a bank borrowing, the entire proceeds of which was to finance a currently credit-impaired finance lease receivable. Due to the remote collectability of the receivable, none of any finance lease interest income from this receivable was recognised in the Group's revenue in the Current Period (Corresponding Period: HK\$4.6 million).

Share of result of associates

The share of result of associates in the Current Period amounted to a profit of HK\$18.1 million as compared with a profit of HK\$13.2 million in the Corresponding Period. The increase in the shared profit amount of HK\$4.9 million in the Current Period was two-folded, namely an increase in shared profit of HK\$4.6 million from the 25% equity interest in terminal and logistics business and an increase in shared profit of HK\$0.3 million from two newly acquired associate companies, both of which were carried out licensed money lending business in Hong Kong.

Income taxation

Income tax credit for the Current Period amounted to HK\$0.1 million, down by HK\$1.5 million, mainly comprising of deferred tax credit from amortisation of imputed interest on long term deposit from customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss for the period

Net loss for the Current Period of the Group amounted to approximately HK\$72.3 million as compared with net loss of approximately HK\$16.4 million in the Corresponding Period was mainly owing to (i) the aforesaid increase in the recognition of a non-cash impairment loss of approximately HK\$44.1 million on finance lease and loan receivables, (ii) the recognition of an impairment loss of approximately HK\$25.8 million from the remaining 25% equity interest in Rizhao Lanshan Wansheng Harbour Company Limited (“Interest in Rizhao Lanshan”) upon reclassification of interest in an associate as assets classified as held for sales, which is further offset by a fair value gain of approximately HK\$15.7 million on the option to sell the Interest in Rizhao Lanshan granted by the Group (the “Option”), resulting in a net amount of approximately HK\$10.1 million, (iii) the increase in fair value loss on investment properties in Hong Kong and Shanghai of approximately HK\$9.0 million, (iv) the increase in finance cost of approximately HK\$6.1 million relating to a back-to-back bank borrowing and (v) a decrease in the Group’s gross profit of HK\$4.8 million in the Current Period, primarily as a result of decrease in contribution from the Group’s money lending business.

The total asset amount of the Group as at 30 June 2020 stood at HK\$1,432.9 million, down by HK\$113.8 million as compared with HK\$1,546.7 million as at 31 December 2019. The decrease in total assets was mainly attributable to a decrease in those from Financial Leasing Segment where there was an overall reduction in finance lease receivables and a loan receivable from sales-leaseback transaction of approximately HK\$82.0 million as a result of the net repayment amount of the existing finance lease projects on recourse basis and the recognition of provision for impairment loss on the receivables in the Current Period.

The total liability of the Group as at 30 June 2020 amounted to HK\$626.8 million, down by HK\$58.9 million as compared with HK\$685.7 million as at 31 December 2019. The decrease in total liabilities was due to the net repayment amount of the back-to-back borrowings of HK\$38.8 million as a result of the relevant repayment of finance lease projects and a decrease in the fair value of the Option, classified as financial liability at FVTPL in the Current Period.

The gearing ratios (measured as total liabilities over total assets) slightly decreased from 44.3% as at 31 December 2019 to 43.7% as at 30 June 2020 and the current ratios (measured as total current assets over total current liabilities) increased from 1.36 as at 31 December 2019 to 1.80 as at 30 June 2020 as a result of reclassification of interest in an associate, Rizhao Lanshan, from non-current asset to current asset in the Current Period.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had bank balances, restricted bank deposits, deposits placed with non-bank financial institutions and cash of approximately HK\$84.1 million (of which HK\$19.1 million was pledged to the banks to secure bank borrowings granted to the Group for financial leasing business (31 December 2019: HK\$19.5 million)) as compared to HK\$217.1 million as at 31 December 2019. As at 30 June 2020, the Group had bank and other borrowings amounting to HK\$513.5 million (31 December 2019: HK\$523.7 million) and HK\$41.0 million (31 December 2019: HK\$69.6 million) which are due within one year and over one year respectively. For the period under review, the Group has financed its operations with facilities provided by banks and other non-bank financial institutions, issue of new shares and internally generated cash flows.

FOREIGN EXCHANGE EXPOSURE

In the both reporting periods, the Group had no material foreign currency exposure as material transactions such as revenue and cost of revenue were denominated in local currencies in which the relevant entities operated.

CREDIT EXPOSURE

The Group's major credit risk is primarily attributable to finance lease receivables and loan receivables.

Any deterioration in collectability of the finance lease receivables and loan receivable from sale-lease back transaction and the underlying quality of leased assets and collaterals could adversely affect our business and financial conditions. In order to mitigate those credit risk, the management of the Group has delegated a team responsible for evaluation of credit risk stemming from the financial viability of customers and guarantors (if any) and the prospect of the industries in which the customers operate and critical assessment on adequacy of the value of the leased assets, collaterals and any forms of securities provided by customers at the inception of the lease. Throughout the lease term, the Group closely monitored the recoverability and will consider requesting additional collaterals or any form of security from customers in case of any adverse change in credibility.



MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, a provision for impairment loss on a finance lease receivable of HK\$60.3 million (as at 31 December 2019: HK\$32.6 million) was related to a finance lease transaction with a net principal amount of RMB200.0 million or equivalent to HK\$219.4 million, secured by machineries and equipment whose fair value exceeds the net principal amount, and guaranteed by the customer's ultimate holding company which is regarded as one of the largest Chinese state-owned aluminum product manufacturer. The transaction was fully financed by a back-to-back bank borrowing on recourse basis. Given that a winding up petition against the borrower was granted by an provincial court in the PRC in June 2020, the persistently defaulted interest repayments and the financial difficulty of the ultimate holding company, the Group assessed the recoverability of all the future's repayments in life time as at 30 June 2020 by estimating, amongst others, the possibility of defaults, timing of defaults, possibility of occurrence and the resulting recoverable amount of various enforcement actions such as realisation of the secured assets and legal action against the guarantor. As a result of the worsening situation, the Group, amongst others, increased the possibility of default from 45% as at 31 December 2019 to 100% as at 30 June 2020 that resulted in decrease in weighted average recoverable amount and ended up with the increased provision in the Current Period.

The local management team has been closely following up with the incident. The Group has appointed a reputable legal practitioner being expertise at litigation of debt recovery in the PRC who has furnished the receiver with the legitimate interest on the receivable and the underlying legitimate interest over the leased assets and will continue to represent the Group to attend the prospective creditor meetings. The Group will regularly check the conditions of the leased assets and fully cooperate with the ultimate creditor to resolve this matter. We will firmly adhere the internal debt recovery procedures, and take prompt actions to address the credit risk and protect the Group's assets.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, a provision for impairment loss on a loan receivable from sale-lease back transaction of HK\$21.9 million (as at 31 December 2019: HK\$5.6 million) was related to a finance lease transaction with a principal amount of RMB135.0 million or equivalent to HK\$148.1 million, secured by aviation facilities initially worth more than the principle amount and guaranteed by its controlling shareholder, the group of which is regarded as one of the leading airline companies in the PRC. The transaction was fully financed by a back-to-back bank borrowing on recourse basis. Given that the full principal repayment was already over due in the Current Period, the Group assessed its recoverability by the similar factors as at 30 June 2020 as employed in the above case, amongst which the possibility of default was significantly increased, it came up with the increased provision. Likewise, local management has been proactively following up with the defaulted amount. The Group, the borrower and the creditor have been negotiating various repayment plans amongst which the most possible one is that the creditor will provide a new finance to repay the existing debt. If materialises, the Group's receivable and the relevant borrowing will be completely set off. The finalisation and execution of the plan has been impeded by the epidemic and further bureaucratic approvals as a result of the recent organisational restructuring of the borrower. The Group will closely monitor the status and adhere to the robust procedures to protect the Group's assets.

Before investing in other loan receivables, the Group also assesses the credit quality of the loan borrowers & guarantors (if any), evaluation of the value & liquidity of the collaterals, and defines the terms of the loans. The Group regularly monitored recoverability to ensure prompt follow up action is taken to recover any overdue debt.

CHARGE OF ASSETS

As at 30 June 2020, the restricted bank deposits of HK\$19.1 million (31 December 2019: HK\$19.5 million) and the finance lease receivables of HK\$250.5 million (31 December 2019: HK\$283.4 million) were pledged to the banks and other non-bank financial institutions for facilities granted to the Group.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2020 and 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

The Group had capital commitments of HK\$0.1 million for the acquisition of property, plant and equipment as at 30 June 2020 (31 December 2019: HK\$0.1 million).

PROSPECT

Since the COVID-19 epidemic broke out across the globe in early this year, a series of epidemic containment measures have been in place to curb the spreading. They have unavoidably hampered most of the commercial activities and wreaked havoc on literally every sector of the global economy. While the global infection numbers are still on the rise, China has recently demonstrated its effectiveness of the measures and maintained at relatively low infection rate. In an orderly manner, China has gradually and vigilantly resumed work and production at its entirety. The piled up and suppressed demand is gradually released. Though China has shown strong resilience and flexibility in this tumultuous time, revival of its past economic success is still in question against the backdrops of escalating geopolitical tensions, speeding up deglobalisation and the economic recessions in other developed countries unremittingly lashed with the destructive epidemic. It is anticipated that the central banks of the developed economies will continue to ease their monetary policies to address the potential massive financial risks while their government will continue to roll out anti-epidemic financial subsidies to stay the hard-hit sectors afloat until the effective medications available are brought into play to cope with the health crisis.

As to the Financial Leasing Segment, the segment has been struggling for a business transformation to mitigate the adverse impact of the stringent regulatory requirements on the existing business model. The segment has been targeting domestic consumption-related industries that look promising and are less susceptible to the overseas markets that may be compromised by the geopolitical tensions. Accordingly, the target clientele has been shifting from sizeable state-owned enterprises to SME corporates and individuals, major market participants of the targeted industries, to fulfill their financing demands or provide consultancy service to assist in the purchase of various consumables. Exploration of new financing varieties and deepening cooperation with the existing clients will continue to proceed. It is also imperative to adhere to the risk management and control policies to critically oversee and timely manage the increasing or potentially adverse change in credit risk of the existing and new finance projects especially those relating to the hard-hit sectors by the epidemic. The segment will abide by the internal procedures to closely follow up with certain defaulted finance lease projects in a bid to protect the Group's assets.

MANAGEMENT DISCUSSION AND ANALYSIS

As to the Investment Segment, the Group will continue to adopt a conservative investment strategy towards the investment portfolio comprising of equity, debt and property. With the effective risk management and control policies, we closely assess its performance and optimise its composition in order to generate a stable income and provide the necessary liquidity to the Group amid anticipated volatile financial markets.

As to the Food Additives Business, the epidemic containment measures adversely impacted its daily operation and development. Though the workers were allowed to return to work, the normal production of the sole production line of solid sorbitol has been impeded by the slashed demand from customers in Guangdong province whose food processing operation were suspended, and later halted by the adverse weather conditions. The sales team will get out of their way to diversify the potential customers in different provinces and industries to bring about the stability of purchase orders. The production team has been enhancing the maintenance of the production line to remedy the intermittent occurrence of production defects while it is temporarily close. The expansion plan including establishment of second production line of solid sorbitol and the first line of Advantame has been slowed down because of the disruptions of logistics and equipment supplies and the uncertainty of the market outlook. The plan will only proceed at normal speed when a sign of recovery is seen. In the meantime, the business has been tightening the cost budgets to minimize the unnecessary expenditures.

As to the medical and healthcare product trading business, the Group will diversify the products and broaden the distribution channels to bolster the business volume. The recent acquisition of Tripler Holdings Limited, details of its operation refer to the Company's announcement on 29 July 2020, will bring about a potential synergic effect by gaining access to its extensive distribution network in Hong Kong. In view of the outbreak of COVID-19 worldwide and the increase in public awareness of hygiene and health, the demand for the relevant products looks promising. The Group will cautiously set aside sufficient resource to cultivate the business and considers it as a growth impetus in the future.

Facing the unprecedented challenging environment in China and across the globe, the Group will continue to be prepared for the worst. By adhering to the effective risk management, adjusting the pace of long term development to conserve the precious resources, relentlessly cutting back on the unnecessary operating expenses, the Group is confident to overcome the operating difficulties. By leveraging on the existing resources and capabilities, the Group will cautiously and diligently look for new potential growth opportunities in order to diversify the income sources and attain a long term growth.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS/MATERIAL DISPOSALS

At 30 June 2020, the Group held loan receivables (excluding from a loan receivable from sale-leaseback transaction) of HK\$92.3 million (31 December 2019: HK\$95.0 million), equity investments at FVOCI of HK\$48.9 million (31 December 2019: HK\$55.5 million) and financial assets at FVTPL of approximately HK\$86.3 million (31 December 2019: HK\$25.7 million). During the period, the Group invested in loan receivables through 1 to 2 years trust products of HK\$46.1 million issued by financial institutions in the PRC and loan receivables of HK\$5.0 million to individuals in Hong Kong. The Group recorded loan interest income from loan receivables amounting to HK\$2.5 million (Corresponding Period: HK\$7.0 million) and no impairment loss on loan receivables (Corresponding Period: HK\$1.2 million). The equity investment at FVOCI of HK\$48.9 million as at 30 June 2020 (31 December 2019: HK\$55.5 million) represented unlisted equity securities issued by the PRC established private entities with operations including property development in shopping malls and software development in the PRC. There was a gain of disposal on those investments of HK\$0.9 million recognised through profit or loss in the Current Period (Corresponding Period: nil). The financial assets at FVTPL of HK\$86.3 million as of 30 June 2020 (31 December 2019: HK\$25.7 million) mainly represented the listed equity shares, bonds, listed and unlisted equity fund products in the Hong Kong and the Chinese stock exchanges. There was a fair value loss of HK\$3.9 million recognised to profit or loss in the Current Period (Corresponding Period: a fair value loss of HK\$2.4 million).

On 30 December 2019, the Group entered into a subscription agreement with Simagi to subscribe for 8,000,000 subscription shares or approximately 7.46% of the enlarged share capital of the target company at a consideration of HK\$40,000,000. Simagi principally engages in money lending business in Hong Kong. The investment has been accounted for as interest in an associate since the Completion of the subscription took place on 24 January 2020. Details of the subscription in the target company were disclosed in the announcements of the Company on 30 December 2019, 23 January 2020 and 24 January 2020.

On 13 March 2020, the Group has entered into a subscription agreement with Era Bright, a company incorporated in Hong Kong with limited liability to subscribe approximately 18.55% of the enlarged share capital of Era Bright at consideration of HK\$15,000,000. Era Bright principally engages in money lending business in Hong Kong. The investment has been accounted for as interest in an associate since the completion took place on 17 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION

As at 30 June 2020, the Group had 65 (31 December 2019: approximately 100) employees (excluding employees of the Company's associates) in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

A share option scheme was adopted on 29 July 2016. As at 31 December 2019 a total outstanding number of share options were granted to the eligible employees, including directors of the Company, amounted to 19,833,334. With no share options lapsed and new share options granted during the period, the outstanding number of share options as at 30 June 2020 shrunk to 1,983,333 solely due to the completion of the share consolidation on the basis of every 10 issued and unissued shares consolidated into 1 consolidated share on 26 March 2020. Details of the share options granted are set out in the announcement of the Company dated 8 December 2016.

EVENTS AFTER THE REPORTING PERIOD

1. On 13 July 2020, the Group entered into a subscription agreement with a target company, an independent third party of the Group, to subscribe for 350 subscription shares or approximately 35% of the enlarged share capital of the target company at the aggregate subscription price of HK\$67,300,000, which shall be settled in kind by a wholly owned subsidiary ("Subscriber") by transferring the entire share capital of a wholly owned subsidiary of the Subscriber which is holding an investment property. The target company and its subsidiaries principally engages in property investment and leasing business in Hong Kong. Completion of the subscription took place on 16 July 2020. Details of the subscription in the target company were disclosed in the announcement of the Company on 13 July 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

2. On 29 July 2020, the Group entered into a sale and purchase agreement with a BVI company (“Vendor”), an independent third party of the Group, pursuant to which the Vendor conditionally agreed to sell, and the Group conditionally agreed to buy the entire issued share capital of a target company for a consideration of HK\$47,802,000 which was settled by the allotment and issuance of 257 million Consideration Shares in which 108 million Consideration Shares are escrowed and will be released upon fulfillment of profit guarantee for financial years 2020 and 2021 at the Issue Price of HK\$0.186 per Consideration Share. The target company is principally engaged in production, wholesales, distribution and trading of daily necessities.

Completion of the sale and purchase agreement took place on 21 August 2020. Details of the subscription in the target company were disclosed in the announcements of the Company on 29 July 2020 and 21 August 2020.

3. On 26 August 2020, the Group entered into a sale and purchase agreement with the Purchaser, pursuant to which the Group disposed of the remaining 25% equity interest in Rizhao Lanshan at a consideration in accordance with the exercise price of the Call Option that the Purchaser has exercised. As at the date of the reporting end, completion of the sale and purchase agreement is still subject to amongst others, all consent, permission, authorisation and approvals (such as the approvals from the relevant PRC commercial supervisory department, the relevant governmental authorities and securities regulatory authorities) which are required for the sale and purchase agreement and the transaction contemplated thereunder having been obtained by the Group and the Purchaser, and yet completed. The Company will make further announcement when it is completed. Please refer to the Company’s announcement dated 15 May 2018, circular dated 25 June 2018 and poll result announcement dated 17 July 2018 for the approval of the Call Option and the antecedent transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

UPDATE ON USE OF PROCEED IN RELATION TO FUND RAISING ACTIVITIES

Reference is made to the Company's announcements on 30 December 2019 and 31 March 2020 in relation to placing of new shares under general mandate and change in use of proceeds from the placing (collectively refer as to "Announcements"). Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcements.

| Intended use of proceeds | Actual and update on use of proceeds |
|--|---|
| (1) Total of HK\$26.0 million for the Food Additives Business in which (i) HK\$19.7 million will be allotted to capital expenditure and related expenses on establishing a new production line for the manufacturing of crystalline sorbitol and a new production line for the manufacturing of Advantame (ii) HK\$6.3 million will be set aside as additional working capital of the operation of the production lines. | (1) (i) Due to the expansion plan of the Food Additives Business was disrupted by the recent outbreak of the COVID-19, HK\$15.0 million out of HK\$19.7 million was re-allocated to the trading business. The remaining proceeds of HK\$4.7 million has been unutilised and deposited into bank accounts of Hong Kong head offices; (ii) an amount of HK\$6.3 million was fully utilized as working capital of the Food Additives Business. |
| (2) The remaining proceeds of HK\$6.2 million will serve as general working capital of the Group. | (2) An amount of HK\$6.2 million was fully utilised as general working capital of the Group. |
| (3) The re-allocated HK\$15.0 million will be for purchasing of the medical and hygiene products for trading purpose. | (3) An amount of HK\$15.0 million was fully utilised as payment for purchasing the medical and hygiene products for trading purpose. |

DIRECTORS' AND CHIEF EXECUTIVE'S LONG AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2020, the following directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code:

Long and short positions in the ordinary shares/underlying shares of the Company:

| Directors/chief executive | Number of share/underlying shares held | | | Total interests | Long(L) or Short(S) Position | Percentage of interests |
|---------------------------|--|-------------------------|--|-----------------|------------------------------|-------------------------|
| | Personal interests | Corporate interests | Number of underlying shares held under equity derivatives (Note 2) | | | |
| Wong Lik Ping | 46,600,000 | 145,500,000 (Note 1) | – | 192,100,000 | S | 13.431% |
| Qiao Weibing | | | 333,333 | 333,333 | L | 0.023% |
| Lai Ka Fai | | | 133,333 | 133,333 | L | 0.009% |
| Tao Ke | | | 100,000 | 100,000 | L | 0.007% |
| Goh Choo Hwee | | | 66,667 | 66,667 | L | 0.005% |
| Ho Hin Yip | | | 66,667 | 66,667 | L | 0.005% |
| U Keng Tin | | | 66,667 | 66,667 | L | 0.005% |

Notes:

- These interests are held by Worldkin Development Limited ("Worldkin") which is wholly-owned by Mr. Wong Lik Ping. Mr. Wong Lik Ping is therefore deemed to be interested in the shares held by Worldkin. The interests held by Worldkin are disclosed under the section headed "SUBSTANTIAL SHAREHOLDERS" below.
- These interests represented the interests in underlying shares in respect of the share options granted by the Company to the directors/chief executive. Details of which are set out in note 21 to the condensed consolidated financial statements.

OTHER INFORMATION

Save as disclosed above, none of the directors, chief executive and their associated had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules, the following persons were interest (including short positions) in the shares or underlying shares of the Company.

Interest in the ordinary shares/underlying shares of the Company:

| Name of Shareholders | Notes | Number of Shares/ underlying Shares held | Long(L) or Short (S) positions | Percentage holding |
|---|-------|--|--------------------------------|--------------------|
| Funde Sino Life Insurance Co. Ltd. | | 357,443,000 | L | 24.99% |
| Worldkin Development Limited | | 145,500,000 | S | 10.17% |
| Mr. Wong Lik Ping | 1 | 192,100,000 | S | 13.43% |
| Win Wind Resources Limited | 2&3 | 192,100,000 | L | 13.43% |
| Win Wind Capital Limited | 3 | 192,100,000 | L | 13.43% |
| Oshidori International Holdings Limited | 3 | 192,100,000 | L | 13.43% |
| Ms. Chi Chin | 4 | 192,270,000 | L | 13.44% |
| Mr. Xu Yufeng | | 80,000,000 | L | 5.59% |

Notes:

1. Mr. Wong Lik Ping holds entire equity interest of Worldkin Development Limited (“Worldkin”) and is accordingly deemed to have interest in 145,500,000 shares of the Company that Worldkin has interests in. Mr. Wong Lik Ping personally owns 46,600,000 shares of the Company.
2. Win Wind Resources Limited has security interests in 192,100,000 shares.



OTHER INFORMATION

3. Win Wind Resources Limited is a direct wholly owned subsidiary of Win Wind Capital Limited, which in turn is indirect wholly owned by Oshidori International Holdings Limited. Accordingly, Oshidori International Holdings Limited is deemed to have interests in 192,100,000 shares held by Win Wind Resources Limited.
4. Out of the 192,270,000 shares which Ms. Chi Chin was interested in, (i) 135,700,000 were held by Ms. Chi Chin as the beneficial owner; and (ii) 56,570,000 Shares were held by her spouse, Mr. Ng Tin Shui.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2020.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, as at 30 June 2020, neither the directors, chief executive of the Company nor their associates had or was deemed to have any long positions or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the period.

CORPORATE GOVERNANCE PRACTICE

During the six months ended 30 June 2020, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations as below:—

OTHER INFORMATION

Code Provision B.1.2

The terms of reference of the Remuneration Committee exclude review of and making recommendations to the Board in relation to senior management remuneration as in the Board's opinion, it was more appropriate for the executive directors to perform these duties.

Code Provision E.1.2

Under Code Provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting. Mr. Wong Lik Ping, Chairman of the Board was unable to attend the annual general meeting of the Company held on 25 May 2020 due to his other important commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2020.

AUDIT COMMITTEE REVIEW

The Company has an audit committee which was established in accordance with the requirements of the CG code, for the purposes of reviewing and providing supervision over the financial reporting process, risk management and internal controls of the Group. The audit committee comprises 3 independent non-executive directors of the Company. The audit committee has adopted terms of reference which are in line with the CG Code. The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 have been reviewed and approved by the audit committee.

By order of the Board
China Ever Grand Financial Leasing Group Co., Ltd.
Lai Ka Fai
Executive Director

Hong Kong, 26 August 2020