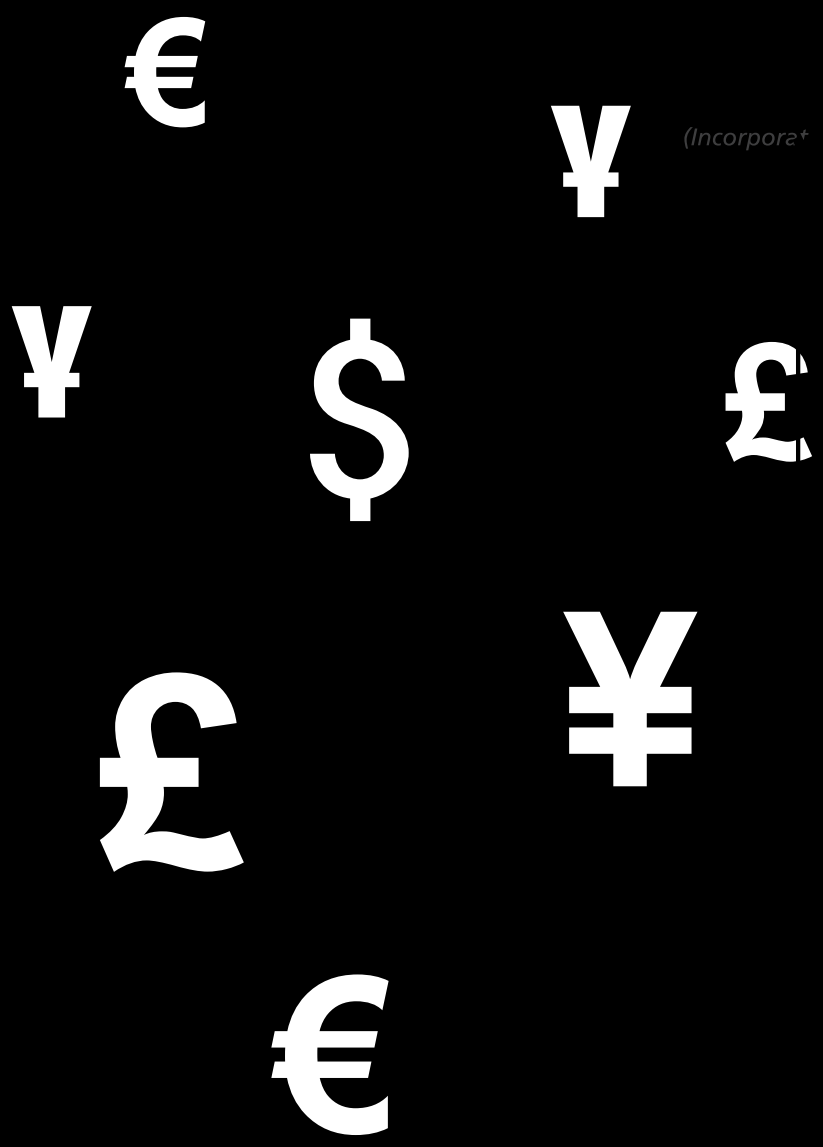


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# CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the "Board") of the company and its subsidiaries (the "Group"), I would like to present you the annual report of the Group for the financial year of 2018 ended on December 31.

# BIOGRAPHIES OF THE DIRECTORS

Mr. Hung Ka Hai Clement, aged 63, was appointed as the Independent Non-executive Director in June 2017. He is the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee.

Mr. Hung had served Deloitte China for 31 years where he had assumed various leadership roles before he took up the chairman role of Deloitte China from 2014 to 2016. He retired from the chairman role of Deloitte China with effect from June 2016. When Mr. Hung was working with Deloitte China, he had assumed various leadership roles, including, the office managing partner of Deloitte Shenzhen Office and Guangzhou Office. He was also a member of the China Management Team of Deloitte China. Later on, Mr. Hung assumed the role of the southern audit leader and the deputy managing partner of the southern region (including the regions of Hong Kong, Macau, Shenzhen, Guangzhou and Xiamen).

Mr. Hung served as the Guangzhou Institute of Chartered Accountants consultant from 2004 to 2014. During the period between 2006 to 2011, he also served as a member of the Political Consultative Committee of Luohu District, Shenzhen. He has also been appointed by the Ministry of Finance of People's Republic of China as an expert consultant.

Mr. Hung has been appointed as 1) an independent non-executive director of Gome Finance Technology Co., Ltd. (stock code: 0628) since 31 October 2016; 2) as an independent non-executive director of SMI Holdings Group Limited (stock code: 0198) on 16 January 2017, re-designated as non-executive director thereof with effect from 15 March 2017 and subsequently resigned on 28 February 2019; 3) as an independent non-executive director of LT Commercial Real Estate Limited (stock code: 0112) on 24 February 2017, re-designated as non-executive director with effect from 3 March 2017, re-designated as an independent non-executive director thereof with effect from 30 June 2017 and subsequently resigned on 30 September 2018; 4) as a non-executive director of High Fashion International Limited (stock code:0608) since 1 December 2017; 5) as an independent non-executive director of Zhongchang International Holdings Group Limited (previously known as Henry tionalT 0S <</ol Limit sto859ode:060828

# BIOGRAPHIES OF THE DIRECTORS

Mr. Twoon Wai Mun, Benjamin , aged 30, was appointed as the Independent Non-executive Director in June 2017. He is a member of each of the Audit Committee and the Nomination Committee. Mr. Twoon's experiences include financial services, corporate finance and financial technology. He was as a management associate at Citibank N.A. (Singapore) from July 2013 to September 2014, where he was responsible for assessment of the productivity metrics of branches in various countries and implementation of plans to improve productivity. From September 2014 to April 2015, Mr. Twoon worked as a business development (M&A) executive in Pavilion Energy Management Pte Ltd., in Singapore, where he was responsible for the evaluation and management of investments in the oil and gas industry in various countries, formulating investment strategies and identifying potential acquisition targets. Mr. Twoon is currently the co-founder and chief operating officer of a licensed regional Fintech platform, Fundnel Pte Limited, since July 2015, and he is responsible for investments, business development and overseeing the operations of the company in 6 markets. Mr. Twoon is also a non-executive Director of Anthill Capital Pte Ltd since May 2016, a regional investment and incubation platform, where he is responsible for evaluation of investments and syndication efforts across technology-related opportunities across Asia. In May 2017, Mr. Twoon was appointed as a non-executive Director of Y Ventures Group, an e-commerce retailer and distributor listed on the Singapore Stock Exchange, and resigned in March 2019. He sits on the Remuneration Committee and he is involved in the development of business and growth strategies, as well as frameworks for corporate governance.

Mr. Fong Heng Boo , aged 69, was appointed as the independent non-executive Director in September 2018. He obtained a bachelor of accountancy (Honours) in the University of Singapore in August 1973. Mr Fong has over 45 years of experience in auditing, finance, business development and corporate governance. He was with the Auditor-General's Office (AGO), Singapore between 1975 and 1993. He was holding the appointment of Assistant Auditor-General when he left the AGO. Prior to his retirement in 2014, Mr Fong was the Director (Special Duties) at the Singapore Totalisator Board as the Head of Finance and Investment functions. Mr. Fong has been admitted as a fellow chartered accountant of Singapore of the Institute of Singapore Chartered Accountants since August 2004. Mr. Fong has been appointed as 1) an independent director of Colex Holdings Limited, a company listed on the Singapore Exchange (stock code: 567), since March 1999; 2) an independent director of CapitaLand Retail China Trust, a real estate investment trust listed on the Singapore Exchange (stock code: AU8U), since January 2013; 3) an independent director of TA Corporation Ltd, a company listed on the Singapore Exchange (stock code: PA3), since December 2017; and 4) an independent director of Advance SCT Ltd, a company listed on the Singapore Exchange (stock code: 5FH), since July 2018. He has also been an independent director of Asian American Medical Group Limited, a company listed on the Australian Securities Exchange (stock code: AJJ), since August 2009.

Staff cost and other operating expenses mainly comprise staff salaries and benefits, rental expenses, legal and professional fees, depreciation of equipment and other miscellaneous. Staff cost and other operating expenses for the year ended 31 December 2018 were RMB98.5 million (For the year ended 31 December 2017: RMB43.4 million), representing an increase of 127.0%, which was mainly attributable to the increase in headcount and salaries, marketing expenses and professional fees incurred as a result of business expansion.

## Listing expenses

The Group did not incur any listing expenses for the year ended 31 December 2018. For the year ended 31 December 2017, the Group recorded one-off listing expenses of approximately RMB8.1 million.

## Impairment losses, net of reversal

Impairment allowances for the year ended 31 December 2018 amounted to RMB17.8 million, mainly represents the increase of impairment allowance on factoring assets from approximately RMB16.9 million as at 31 December 2017 to RMB34.5 million as at 31 December 2018. The increase is a result of business growth and is in line with the increase in factoring assets of the Group.

## Share of profits of a joint venture

The Group shared the profits of a joint venture of RMB1.8 million for the year ended 31 December 2018 (For the year ended 31 December 2017: shared loss of RMB0.2 million).

## Share of profits of associates

The Group shared the profits of associates of RMB4.7 million for the year ended 31 December 2018 (For the year ended 31 December 2017: Nil).

## Finance costs

Finance cost is mainly the interest expenses of borrowings from banks, financial institutions and a bond investor. For the year ended 31 December 2018, finance cost was RMB91.2 million, representing a 151.9% increase (For the year ended 31 December 2017: RMB36.2 million). The increase in finance cost is in line with the increase in borrowings made by the Group to finance expansion of business operations.

## Profit before taxation

As a result of the foregoing, the Group's profit before taxation increased by approximately 122.3%, to approximately RMB295.7 million in 2018 (For the year ended 31 December 2017: RMB133.0 million). Profit before taxation accounted for approximately 62.8% and 61.8% of the Group's income from factoring and other services in 2018 and 2017, respectively.

Income tax expenses represent the tax expense arising from the assessable profit generated by the Group in the PRC and deferred tax. Except for certain PRC subsidiaries that enjoy preferential tax rates, PRC enterprise income tax is calculated at 25% of the estimated assessable profits for both years ended 31 December 2018 and 2017.

For the year ended 31 December 2018, income tax expenses amounted to approximately RMB83.8 million (For the year ended 31 December 2017: RMB44.2 million).

### Dividend

The Directors recommend the payment of a final dividend of HK4 cents per ordinary share of the Company (the "Shares") for the year ended 31 December 2018 (2017: Nil).

## Capital structure, liquidity, financial resources and gearing

During the year ended 31 December 2018, the Group's main source of funds was the cash generated from daily operation, new borrowings and proceeds from placing of shares. As at 31 December 2018, the Group had bank balances and cash of RMB226.1 million (31 December 2017: RMB174.3 million), of which 99.4% and 0.6% were denominated in RMB and HK dollars respectively.

As at 31 December 2018, the Group had interest-bearing borrowings, amounted to RMB922.0 million (31 December 2017: RMB482.3 million). Its gearing ratio, expressed as total liabilities over owner's equity was 0.5 as at 31 December 2018 (31 December 2017: 0.6).

## Use of proceeds

### The Global Offering

The net proceeds from the Global Offering were approximately HK$334.6 million (equivalent to RMB295.3 million) which were based on the global offering price of HK$2.0 per Share and the actual listing expenses. The listing proceeds had been used for the purposes stated in the future plans of the Company as set out in the prospectus of the Company dated 26 June 2017 (the "Prospectus").

### The Placing

On 28 June 2018, the Company, Wisdom Cosmos Limited ("Wisdom Cosmos"), the immediate holding of the Company, Oversea-Chinese Banking Corporation Limited ("OCBC") and Macquarie Capital Limited ("Macquarie") (OCBC and Macquarie collectively referred to as the "Joint Placing Agents") entered into a placing agreement pursuant to which the Wisdom Cosmos agreed to place, through the Joint Placing Agents on a best effort basis, a maximum of 148,000,000 existing ordinary placing shares at the placing price of HK$6.00 per placing share (the "Placing").

On the same date, Wisdom Cosmos and the Company entered into a subscription agreement under which Wisdom Cosmos conditionally agreed to subscribe for, and the Company conditionally agreed to issue, the ordinary subscription shares (the "Subscription").

# MANAGEMENT DISCUSSION AND ANALYSIS

# CORPORATE GOVERNANCE REPORT

The Board of directors of the Company (the "Board") understands that sound corporate governance practices is fundamental to maintaining and promoting the confidence of shareholders. Throughout the financial year ended 31 December 2018, the Group had complied with the code provisions in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

The Board is committed to maintaining and ensuring a high standard of corporate governance. The Board will review the corporate governance practices of the Group from time to time to ensure that they reflect the latest development and meet the expectations of the Shareholders.

## Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the year ended 31 December 2018.

## Board of Directors

### Responsibilities

The Company aims to establish and maintain a competent and independent Board to supervise the Group's business. The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's missions and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives.

The Board has established Board committees and has delegated to these committees various responsibilities as set out in their respective terms of reference. The Board may from time to time delegate certain functions to senior management of the Group if and when considered appropriate. The management of day-to-day operation of the Group's businesses and implementation of the business plans, strategies and policies adopted by the Board has been delegated to the senior management of the Group.

The main functions performed by the Board include but are not limited to the following matters:

- Formulate the Group's strategy and direction and monitor the implementation thereof;
- Decide all material contracts, acquisitions, investments, divestments, disposals of assets or any significant capital expenditure;
- To review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- Develop, monitor and review the Group's corporate governance practices and the effectiveness of the Group's financial controls, internal control and risk management systems;
- Approve the Group's annual, interim and quarterly financial statements, reports, announcements and other disclosures required under the GEM Listing Rules;
- To review and monitor the training and continuous professional development of Directors and senior management;

- Appoint or removal of Directors and senior management; and
- Monitor the performance of the management.

## Composition

As at 31 December 2018 and up to the date of this report, the Board comprises of two Executive Directors and four Independent Non-executive Directors ("INEDs"), details are as follows:

### Executive Directors

Mr. Tung Chi Fung (Chairman)

# CORPORATE GOVERNANCE REPORT

The Board has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and to enhance the quality of performance of the Company.

## Measurable Objectives and Selection

In designing the Board's composition, a number of perspectives which include race, gender, age, cultural and educational background, industry experience, technical and professional experience, knowledge, skills, length of service, personal integrity and time commitments of the proposed candidates will be taken into consideration. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the candidates will bring to the Board.

The Board will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholder's expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity. The Board also aspires to having an appropriate proportion of Directors who have direct experience in the Group's core markets, with different ethnic backgrounds, and reflecting the Group's strategy.

## Implementation and Monitoring

The Nomination Committee will monitor the implementation of the board diversity policy and report to the Board annually. As at the date of this report, the Boards composition under diversified perspectives is summarised as follows:

| | Age Group | | |
|---|---|---|---|
| Name of Director | 30 to 45 | 46 to 59 | Above 60 |
| Mr. Tung Chi Fung | ¥ | | |
| Mr. Chen, Jen-Tse | | ¥ | |
| Mr. Hung Ka Hai Clement | | | ¥ |
| Mr. Loo Yau Soon | | ¥ | |
| Mr. Twoon Wai Mun, Benjamin | ¥ | | |
| Mr. Fong Heng Boo | | | ¥ |

| | Professional Experience | | | |
|---|---|---|---|---|
| Name of Director | Factoring business | Corporate finance | Accounting and Finance | Regulatory and compliance |
| Mr. Tung Chi Fung | ¥ | | | |
| Mr. Chen, Jen-Tse | ¥ | | | |
| Mr. Hung Ka Hai Clement | | ¥ | ¥ | |
| Mr. Loo Yau Soon | | | | ¥ |
| Mr. Twoon Wai Mun, Benjamin | | ¥ | | |
| Mr. Fong Heng Boo | | | ¥ | ¥ |

The attendance of each Director at Board meetings during the year is set out below:

| Name of Directors | Number of Attendance/Number of Board Meeting |
|---|---|
| Executive Directors | |
| Mr. Tung Chi Fung (Chairman) | 6/6 |
| Mr. Chen Jen-Tse | 6/6 |
| Non-executive Director | |
| Ms. Tung Ching Ching (resigned on 7 September 2018) | 4/4 |
| Independent Non-executive Directors | |
| Mr. Hung Ka Hai, Clement | 6/6 |
| Mr. Loo Yau Soon | 6/6 |
| Mr. Twoon Wai Mun, Benjamin | 6/6 |
| Mr. Fong Heng Boo (appointed on 7 September 2018) | 2/2 |

## Appointment and Re-election of Directors

All Directors are appointed for a specific term under their service contracts and every Director is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

Article 108 of the articles of association of the Company provides that at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Under Article 112 of the articles of association of the Company, any Director appointed by the Board to fill a casual vacancy or as an additional Director shall hold office only and until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Each of Mr. Tung Chi Fung, the Chairman and an Executive Director, and Mr. Chen Jen-Tse, an Executive Director has entered

# CORPORATE GOVERNANCE REPORT

The Company has adopted a Nomination Policy for the Nomination Committee to consider and make recommendations to Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies.

## Selection Criteria

The factors listed below would be used as reference by the Nomination Committee in assessing the suit4 thehar7 rt Nopropod a

# CORPORATE GOVERNANCE REPORT

# CORPORATE GOVERNANCE REPORT

According to the Code Provision A.2.1 of the CG Code, the roles of the Chairman and the Chief Executive Officer (the "CEO") should be separate and performed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one individual. Mr. Tung was the chairman of the Board throughout the year ended 31 December 2018. During the year ended 31 December 2018, the responsibilities of the chief executive officer were shared amongst the executive Directors.

## Board Committees

The Board has established three board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee, with defined terms of reference explaining their respective roles and the authority delegated by the Board. These defined terms of reference are available on the websites of the Company and the GEM.

The Board Committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice, at the Company's expenses.

## Audit Committee

The Company established an Audit Committee on 19 June 2017 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 15 of the GEM Listing Rules. The written terms of reference of the Audit Committee are available on the website of the Company and the Stock Exchange.

The Audit Committee comprises of three INEDs, namely Mr. Hung Ka Hai, Clement, Mr. Loo Yau Soon and Mr. Twoon Wai Man, Benjamin. Mr. Hung Ka Hai, Clement is the chairman of the Audit Committee who has appropriate professional qualifications and experience in accounting matters.

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of the external auditors; review financial statements and oversee the internal control and risk management procedures and systems of the Group.

# CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, four meetings have been held by the Audit Committee, at which the Audit Committee reviewed the Group

The Company has adopted a dividend policy that aims to provide the guidelines for the Board to determine whether dividends are to be declared and paid to the Shareholders and the level of dividend to be paid. Under the dividend policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others,

(1) the Group's actual and expected financial performance;

(2) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;

(3) retained earnings and distributable reserves of the Company and each of the members of the Group;

(4) the Group's liquidity position;

(5) interest of shareholders;

(6) Taxation consideration;

(7) potential effect on creditworthiness;

(8) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(9) any other factors that the Board deems appropriate.

The declaration and payment of dividends by the Company shall remain to be determined at the sole discretion of the Board and is also subject to any restrictions under the Companies Law of the Cayman Islands, the GEM Listing Rules, the laws of Hong Kong and the Company's Memorandum and Articles of Association and any other applicable laws and regulations. The Company does not have any pre-determined dividend distribution ratio. The Company's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Company will continually review the dividend policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the dividend policy at any time, and the dividend policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Mr. Lo Wai Hung ("Mr. Lo") was appointed as the Company Secretary of the Company on 4 March 2017. Mr. Lo had been informed of the requirement of Rule 5.15 of the GEM Listing Rules and he confirmed that he had attained no less than 15 hours of relevant professional training during the Relevant Period.

## Shareholders' Rights

### Procedures for shareholders to convene an extraordinary general meeting ("EGM")

Pursuant to article 64 of the articles of association of the Company, an EGM shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## Procedures for shareholders to send enquiries to the Board

Shareholders can direct their questions to Tricor Investor Services Limited, the Company's branch registrar and transfer office in Hong Kong, about their shareholdings.

Shareholders may also raise quests, request for publicly available information provide comments and suggestions to the Directors and management of the Company. Such questions, requests, comments and suggestions can be addressed to the Company by post to the Company's office in Hong Kong at "Room 4202, 42/F, Tower 1, Lippo Centre, 89 Queensway, Admiralty, Hong Kong" or via email to ir@shengyecapital.com for the attention of the Company Secretary.

## Procedures for shareholders to put forward proposals at shareholders' meetings

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the articles of association of the Company, shareholders who wish to move a resolution may by means of requisition convene an EGM following the procedures set out above.

## Constitutional Documents

There was no change in the Company's constitutional documents during the year ended 31 December 2018. A copy of the memorandum and articles of association has been posted on the websites of the Stock Exchange and the Company.

# CORPORATE GOVERNANCE REPORT

To ensure timely, transparent and accurate communications between the shareholders of the Company (the "Shareholders") and the Company, information is communicated to the Shareholders mainly through the Company's interim reports, quarterly reports and annual reports, annual and extraordinary general meetings, as well as circulars and announcements published on the website of the Stock Exchange (www.hkexnews.hk) and on the Company's website (www.shengyecapital.com).

The annual general meetings and other general meetings of the Company are the primary communication forum between the Company and the Shareholders. Shareholders are encouraged to participate in general meetings physically or to appoint proxies to attend vote at such meetings for and on their behalf it they are unable to attend.

Board meetings, in particular, the chairman of the Board Committees or their delegates, appropriate senior executives and the external auditors will attend the general meetings to answer the Shareholders' questions.

The chairman of the general meetings will propose to vote the resolutions (except resolutions which relate purely to procedural or administrative matters) by poll in accordance with the articles of association of the Company. Scrutineer will be appointed for the vote-taking at the general meetings and the voting results will be published on the website of the Stock Exchange (www.hkexnews.hk) and on the Company's website (www.shengyecapital.com) subsequent to the close of the general meetings.

## Risk Management and Internal Control

The Board recognises its responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group conducts periodic review on the overall adequacy and effectiveness of the Group's risk management and internal control systems, which cover financial, operational and compliance controls, to safeguard the Shareholders' investment and the Group's assets. A system of risk management and internal control procedures are designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against the risk of material misstatement, fraud or loss.

The Board has delegated to the Audit Committee its responsibility (with relevant authorities) of risk management and internal control. Consequently, the Audit Committee is responsible for the design, implementation and monitoring of the risk management and internal control systems. The management would report to the Audit Committee any identified deficiencies from time to time.

Each of the Directors has been appointed for a fixed term of three years and shall be subject to retirement, re-election and removal in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not

# DIRECTORS' REPORT

(iii) Subject to the approval of Shareholders in general meeting, the Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by the Company before such Shareholders' approval is sought. In relation to the Shareholders' approval referred to in this paragraph (iii), the Company shall send a circular to the Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such other information required by the GEM Listing Rules.

(iv) Notwithstanding the foregoing, the Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and Other Schemes exceeds 30% of the Shares in issue from time to time.

## (f) Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Board to each Participant provided that the period within which the Option must be exercised shall not be more than 10 years from the date of the grant of Option. The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by the Board to each Participant, which the Board may in its absolute discretion determine.

On 11 September 2017, the Company granted 12,620,000 share options to a director and the employees of the Group to subscribe for the ordinary shares of the Company with an exercise price of HK$4.20 per share and for a validity period of 5 years. Among the share options granted, 2,000,000 Granted Options were granted to Mr. Chen Jen-Tse, an Executive Director of the Company.

On 14 November 2018, the Company granted 8,970,000 share options to the directors, employees and other eligible persons of the Group to subscribe for the ordinary shares of the Company with an exercise price of HK$6.90 per share and for a validity period of 5 years. Among the share options granted, 1,000,000 share options were granted to Mr. Chen Jen-Tse, an Executive Director of the Company. Mr. Hung Ka Hai Clement, Mr. Loo Yau Soon and Mr. Twoon Wai Mun, Benjamin, the INEDs of the Company, were granted 200,000 share options each (600,000 share options in total).

The grant of Granted Options to the above Director has been approved by the INEDs pursuant to Rule 23.04(1) of the GEM Listing Rules. Save as disclosed above, none of the other grantees is a Director, chief executive or substantial shareholder (as defined under the GEM Listing Rules) of the Company or any of their respective associate(s) (as defined under the GEM Listing Rules) as at the date of grant.

The following shows the outstanding position as at 31 December 2018 with respect to their Granted Options granted under the Share Option Scheme:

| | Date of grant | Exercise price | Exercise period | Outstanding at 1 January 2018 | Granted during the year | Exercised during the year | Forfeited during the year | Outstanding at 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| Mr. Chen Jen-Tse | 11 September 2017 | HK$4.20 | 11/9/2018-10/9/2022 | 500,000 | — | — | — | 500,000 |
| | | | 11/9/2019-10/9/2022 | 500,000 | — | — | — | 500,000 |
| | | | 11/9/2020-10/9/2022 | 1,000,000 | — | — | — | 1,000,000 |
| | | | | 2,000,000 | — | — | — | 2,000,000 |
| Employees | 11 September 2017 | HK$4.20 | 11/9/2018-10/9/2022 | 2,617,500 | — | (356,500) *(Note)* | (302,500) | 1,958,500 |
| | | | 11/9/2019-10/9/2022 | 2,617,500 | — | — | (302,500) | 2,315,000 |
| | | | 11/9/2020-10/9/2022 | 5,235,000 | — | — | (605,000) | 4,630,000 |
| | | | | 10,470,000 | — | (356,500) | (1,210,000) | 8,903,500 |
| Mr. Chen Jen-Tse | 14 November 2018 | HK$6.9 | 14/11/2019-13/11/2023 | — | 250,000 | — | — | 250,000 |
| | | | 14/11/2020-13/11/2023 | — | 250,000 | — | — | 250,000 |
| | | | 14/11/2021-13/11/2023 | — | 500,000 | — | — | 500,000 |
| | | | | — | 1,000,000 | — | — | 1,000,000 |
| Mr. Hung Ka Hai Clement | 14 November 2018 | HK$6.9 | 14/11/2019-13/11/2023 | — | 50,000 | — | — | 50,000 |
| | | | 14/11/2020-13/11/2023 | — | 50,000 | — | — | 50,000 |
| | | | 14/11/2021-13/11/2023 | — | 100,000 | — | — | 100,000 |

# DIRECTORS' REPORT

The Covenantors had continued to uphold, among others, their undertaking by allowing the Company and its representatives to

The Group is committed to sustainable development of the environment and our society. The Group works to advance environmental and social progress and conduct business in a way that creates value for its clients and employees. The Group complies with all relevant environmental regulations and practices "Reduce, Reuse and Recycle" with the following initiatives:

- Promotes the knowledge of environmental protection to staff and advocates to sort their trash into separate bins.
- Implement paperless documentation by application of electronic documents and encourage double-sided printing and recycling paper. Reduce printing of paper materials and paper consumption.
- Maintain suitable indoor temperature and clean regularly the air conditioners and the ventilation system to reduce electricity usage.

The Group proactively promote the spirit of corporate social responsibility within the Company by sponsoring charitable events, making donation and participating in community activities. The Group through this kind of events, aspires to giving back from its employees, foster positive relationships between its employees and the communities by caring for and helping the needy.

## REVIEW OF THE FINAL RESULTS BY AUDIT COMMITTEE

The Audit Committee comprises three members, namely Mr. Hung Ka Hai Clement (Chairman), Mr. Twoon Wai Mun, Benjamin and Mr. Loo Yau Soon, all of them being INEDs.

The Group's audited consolidated financial statements for the year ended 31 December 2018 and this annual report have been reviewed by the Audit Committee. The Board is of the opinion that such financial information has been prepared in compliance with the applicable accounting standards, the requirements under the GEM Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

## INTERESTS OF THE COMPLIANCE ADVISER

The Company appointed Dakin Capital Limited ("Dakin Capital") to be the compliance adviser. As informed by Dakin Capital, except for the compliance adviser agreement between the Company and Dakin Capital, neither Dakin Capital nor any of its directors or employees or associates, has or may have, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board of
Sheng Ye Capital Limited
Tung Chi Fung
*Chairman*

Hong Kong, 8 March 2019

# INDEPENDENT AUDITOR'S REPORT

# INDEPENDENT AUDITOR'S REPORT

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of factoring assets at fair value through other comprehensive income ("FVTOCI")* | |
| We identified the impairment of factoring assets at FVTOCI as a key audit matter due to its significance to the consolidated financial statements, and the use of judgement by the management in evaluating the expected credit losses ("ECL") on factoring assets at FVTOCI which are subject to impairment under HKFRS 9.<br><br>As set out in note 19 to the consolidated financial statements, the carrying amount of factoring assets at FVTOCI is RMB2,818,315,000 as at 31 December 2018. This carrying amount represented approximately 88% of the total assets. The impairment allowance in respect of factoring assets at FVTOCI is RMB34,454,000.<br><br>Factoring assets at FVTOCI are assessed for impairment by the management. In determining the impairment of factoring assets at FVTOCI, the management considers shared credit risk characteristics for grouping, and assesses credit losses based on external or internal credit rating, and on a forward-looking basis with the use of appropriate models and assumptions relate to the future macroeconomic conditions and creditworthiness. | Our procedures in relation to the impairment of factoring assets at FVTOCI included:<br><br>• Obtaining an understanding from the management of the procedures in place for credit risk approval and monitoring of factoring assets at FVTOCI and management's assessment of the ultimate realisation of factoring assets at FVTOCI;<br><br>• Obtaining an understanding of management's methodology for determining the ECL impairment allowance on factoring assets at FVTOCI and assessing the appropriateness of the methodology used by management;<br><br>• On a sample basis, evaluating management's assessment of the credit quality of the factoring assets at FVTOCI by examining the credit files, including financial condition of the borrower, past collection history, subsequent settlement, relevant deposits received, pledge and guarantees, as applicable;<br><br>• Assessing the reasonableness of key inputs and assumptions applied, including the Group's past experience of collecting payments, historical loss ratio, macroeconomic factors, industry practice, external or internal credit rating and forward-looking information; and<br><br>• Testing the data inputs and the mathematical accuracy of the impairment allowance calculation. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Derecognition of factoring assets at FVTOCI*<br><br>We identified derecognition of factoring assets at FVTOCI as a key audit matter due to its significance to the consolidated financial statements and the assessment relating to derecognition of factoring assets at FVTOCI involved significant judgment from the management.<br><br>As set out in notes 4 and 7 to the consolidated financial statements, the Group generated a gain on sales of factoring assets at FVTOCI of RMB124,548,000, which contributed approximately 26% of the income from factoring and other services for the year ended 31 December 2018.<br><br>In determining derecognition of factoring assets at FVTOCI, the management analysed the contractual rights and obligations in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred to determine whether the derecognition criteria were met. Where necessary, the Group assessed whether it had relinquished its control over the transferred factoring assets at FVTOCI to determine whether the derecognition criteria were met. | Our procedures in relation to derecognition of factoring assets at FVTOCI included:<br><br>• Obtaining an understanding of the process and relevant controls over the transfers of factoring assets at FVTOCI, including the contractual terms of the transactions, authorisation, asset selection, and approval processes, as well as the review and approval of management's assessment on derecognition of factoring assets at FVTOCI;<br><br>• Obtaining from management the agreements for all transfers during the year and evaluating whether the transfers of the factoring assets at FVTOCI meet the derecognition criteria; and<br><br>• On a sample basis, checking transaction documents and testing the cash received from sales of the factoring assets. |

# INDEPENDENT AUDITOR'S REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when

# INDEPENDENT AUDITOR'S REPORT

# INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in the independent auditor's report is Chong Kwok Shing.

Deloitte Touche Tohmatsu
*Certified Public Accountants*
Hong Kong

8 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

| | NOTES | | |
|---|---|---|---|
| NON-CURRENT LIABILITY | | | |
| Deferred tax liabilities | 18 | 18,840 | 8,449 |
| NET ASSETS | | 2,116,062 | 1,105,278 |
| CAPITAL AND RESERVES | | | |
| Share capital | 28 | 7,623 | 6,442 |
| Reserves | | 2,012,558 | 1,098,836 |
| Equity attributable to owners of the Company | | 2,020,181 | 1,105,278 |
| Non-controlling interests | | 95,881 | |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Sheng Ye Capital Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's immediate holding company is Wisdom Cosmos Limited. Its ultimate shareholder is Mr. Tung Chi Fung, who is also the Chairman and Executive Director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

referred to as the "Group") are provision of factoring and guarantee services in the PRC. Details of the Company's subsidiaries are set out in note 36.

Company.

REPORTING STANDARDS ("HKFRSs")

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Consulting service;
- Information technology service;
- Other services.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 3 respectively.

As the guarantee service meets the definition of a financial guarantee contract it is accounted for under HKFRS 9 and not HKFRS 15.

Summary of effects arising from initial application of HKFRS 15

As at 1 January 2018, advances from customers of RMB4,623,000 in respect of consulting service contracts

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) ECL for financial assets and other items (for example, financial guarantee contracts) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement. Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Classification and measurement of financial assets

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | Original measurement category under HKAS39 | New measurement category under HKFRS9 | Closing balance At 31.12.2017 under HKAS39 RMB'000 | Fair value remeasurement under HKFRS9 through reserves RMB'000 | Opening balance At 1.1.2018 HKFRS9 RMB'000 |
|---|---|---|---|---|---|
| Factoring assets | Loans and receivables | FVTOCI | 1,339,682 | (3,473) | 1,336,209 |
| Deferred tax assets | N/A | N/A | 6,654 | 869 | 7,523 |
| FVTOCI reserves | N/A | N/A | — | (2,604) | (2,604) |

Note: Factoring assets with a fair value of RMB1,336,209,000 were reclassified from loans and receivables to FVTOCI, as these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these assets are solely payments of principal and interest on the principal amount outstanding. RMB3,473,000, net effect of fair value losses of RMB20,323,000 and ECL of RMB16,850,000, was accumulated in the FVTOCI reserves as at 1 January 2018.

There were no other financial assets which the Group had previously classified as loans and receivables and financial liabilities which the Group had previously measured at amortised cost under HKAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of HKFRS 9.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Summary of effects arising from initial application of HKFRS 9 (continued)

Impairment under ECL model

Loss allowances for other financial assets at amortised cost mainly comprise receivables from sales of factoring assets, receivables from guarantee service, security deposits for guarantee, amounts due from related parties, other receivables and bank balances and cash, are measured on 12-month ECL ("12m ECL") basis and there has been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the Directors of the Company reviewed and assessed the impairment of receivables from sales of factoring assets, security deposits for guarantee, amounts due from related parties, other receivables and bank balances and cash under ECL model, considering that these financial assets were determined to have low credit risk as these financial assets have a low risk of default and the debtors have a strong capacity to meet their contractual cash flow obligations in the near term, and no additional loss allowance was recognised against retained profits as the amount was immaterial.

As at 1 January 2018, the loss allowance for the factoring assets at FVTOCI was recognised against the FVTOCI reserves. All of the Group's factoring assets at FVTOCI are not past due. Therefore, these factoring assets are considered not to have suffered significant increase in credit risk since initial recognition and the loss allowance is measured on 12m ECL basis.

The loss allowance for factoring assets at FVTOCI as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

| | (i) | (ii) | (iii)=(i)+(ii) |
|---|---|---|---|
| | HKAS 39 carrying amount 31.12.2017 | Reclassifications through opening FVTOCI reserves | HKFRS 9 carrying amount 1.1.2018 |
| | RMB'000 | RMB'000 | RMB'000 |
| Factoring assets at FVTOCI | 1,126 | – | 1,126 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture >>BDC BT 4.9555 0 0 4.9555 326.8997 528.3474 Tm/ BT |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The principal accounting policies are set out below:

## Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect its returns.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/ HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## Investment in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and the joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and OCI of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Interest income from factoring services consists of interest income which is recognised in accordance with HKFRS 9.

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

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

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

Income from guarantee service for guarantee provided to customers in relation to the transactions with their suppliers is recognised in accordance with HKFRS 9 under the accounting policy of financial guarantee contracts.

Income from information technology service for system maintenance is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation when the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Consulting service income is recognised at a point in time when performance obligation is completed and has a present right to payment for the services performed.

Other services income is recognised over time or a point in time when services are rendered in accordance with contract terms.

### Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

*Output method*

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

## Revenue recognition (prior to 1 January 2018)

Revenue is measured at fair value of consideration received or receivable for services provided in the normal course of business, net of sales related taxes.

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

Guarantee service income consists of guarantee fee and related service income and is recognised in profit or loss on a straight-line basis over the guarantee period.

Other services income is recognised when services are rendered.

## Leases

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

### The Group as lessee

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in OCI or directly in equity, in which case, the current and deferred tax are also recognised in OCI or directly in equity respectively.

## Equipment

Equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## Impairment on equipment and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of equipment and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Interest income arising from factoring service which is derived from the Group's ordinary course of business is presented as revenue.

### Financial assets

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

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

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

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)* (continued)

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

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initi3701 454.8lplication/initi37 recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations 8lplies.

(i) Amortised cost and interest income

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

(ii) Factoring assets classified as 8t FVTOCI

Subsequent changes in the carrying amounts for factoring assets classified as 8t FVTOCI as 8 result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these factoring assets are recognised in OCI and accumulated under the heading of FVTOCI reserves. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these factoring assets. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these factoring assets had been measured at amortised cost. When these factoring assets are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

*Impairment of financial assets and financial guarantee contracts (upon application of HKFRS 9 with transitions in accordance with note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including factoring assets at FVTOCI, receivables from sales of factoring assets, loan receivable, security deposits for guarantee, amounts due from related parties, other receivables, fixed deposit, and bank balances and cash) and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

For all instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case in recogniseabe othe( )]TJ ET EMC /Span <</Lang (en-US)/MCID 3846

*Impairment of financial assets and financial guarantee contracts (upon application of HKFRS 9 with transitions in accordance with note 2)*(continued)

(i) Significant increase in credit risk (continued)

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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

(ii) Definition of default

For internal credit risk management, the Group classifies credit risk into three grades. The internal credit risk ratings are based on qualitative (such as debtor's operating conditions, financial positions, external rating of factoring customers, etc.) and quantitative factors (mainly includes past due information of the factoring assets at FVTOCI).

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Impairment of financial assets and financial guarantee contracts (upon application of HKFRS 9 with transitions in accordance with note 2)*

*Impairment of financial assets and financial guarantee contracts (upon application of HKFRS 9 with transitions in accordance with note 2)*(continued)

(v) Measurement and recognition of ECL (continued)

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected loss is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

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

- nature of financial instruments (i.e. the Groups trade and other receivables, financial guarantee contracts and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- past-due status;
- nature, size and industry of debtors; and
- external credit ratings where available.

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

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

Except for factoring assets that are measured at FVTOCI and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, where the corresponding adjustment is recognised through a loss allowance account. For factoring assets that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserves without reducing the carrying amounts of these factoring assets.

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

The Group's financial assets are classified as financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets are either held for trading or it is designated as at FVTPL on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in other income line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 35(c).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)* (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of factoring assets and security deposits for guarantee, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When these financial assets are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9 (since 1 January 2018)/HKAS 37 Provisions, Contingent Liabilities and Contingent Assets (before application of HKFRS 9 on 1 January 2018); and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

*Offsetting a financial asset and a financial liability*

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

## Financial liability arising from repurchase agreements

Financial liability arising from repurchase agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds (including interests) from selling such assets are presented under "financial liability arising from repurchase agreements" in the consolidated statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

In the application of the Group's accounting policies, which are described in note 3, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

## Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the Directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

### Derecognition of financial assets

In its normal course of business, the Group transfers financial assets through various types of transactions including regular way sales and transfers, financial assets sold under repurchase agreements. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial derecognition.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether the derecognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows to independent third parties; and
- where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyses whether the Group has relinquished its controls over these financial assets, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise, the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial assets.

During the year ended 31 December 2018, gain on sales of factoring assets at FVTOCI/factoring assets which met the derecognition criteria were RMB124,548,000 (2017: RMB57,967,000). Details of derecognition of factoring assets are disclosed in note 7.

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

### Provision of ECL for factoring assets at FVTOCI

For factoring assets at FVTOCI that are assessed for impairment on ECL model, to measure the ECL, factoring assets at FVTOCI of various debtors have been grouped considering shared credit risk characteristics. The credit losses expectations are based on external or internal credit rating and on a forward-looking basis and assumptions relate to the future macroeconomic conditions and creditworthiness. A considerable amount of judgement is required in estimating the ultimate realisation of factoring assets, including the creditworthiness, the Group's past experience of collecting payments, historical loss ratio, industry practice, relevant deposits received, pledge or guarantee information, if any, and forward-looking information.

The provision of ECL is sensitive to changes in estimates. The information about the Group's factoring assets at FVTOCI and the ECL are disclosed in notes 19 and 35.

### Recognition of deferred taxation

As at 31 December 2018, a deferred tax asset of RMB20,683,000 (2017: RMB6,654,000) in relation to the deferred income and impairment allowances have been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place. Details of the deferred tax are disclosed in note 18.

The chief operating decision maker ("CODM"), being the Executive Directors of the Company, have determined that the Group has only one operating and reportable segment throughout the reporting period, as the Group is principally engaged in providing factoring and relevant services mainly in the PRC, and the CODM, reviews the consolidated financial position and results of the Group as a whole for the purposes of allocating resources and assessing performance of the Group.

The Company is an investment holding company and the principal place of the Group's operation is mainly in the PRC. Most of the Group's revenue and major non-current assets principally derived from or located in the PRC.

## Information about major customers

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Customer A | | N/A[1] |
| Customer B | | 30,031 |
| Customer C | | 19,481 |
| Customer D | | 17,573 |
| Customer E | | 16,517 |

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Revenue for the year represents income received and receivable mainly from the provision of factoring and relevant services in the PRC.

An analysis of the Group's revenue for the reporting period is as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Interest income from factoring service | | 144,127 |
| Income from other services: | | |
| – Guarantee service | | 293 |
| – Consulting service | | 12,623 |
| – Information technology service | | 49 |
| – Other services (note) | | 225 |
| | | 13,190 |
| | | 157,317 |

Note: Other services primarily include fee income from providing accounts receivable management services without financing, including review and verification of documentation relating to the accounts receivable and collection of the accounts receivable on behalf of customers.

## 7. SALES OF FACTORING ASSETS

For the years ended 31 December 2018 and 2017, the Group sold part of factoring assets to certain financial institutions mainly in the PRC. Sales of factoring assets gave rise to full derecognition of the factoring assets pursuant to the terms of sale agreements signed between the Group and relevant financial institutions.

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Gain on sales of factoring assets | | 57,967 |

No outstanding balance of receivables arising from sales of factoring assets as at 31 December 2018 (2017: RMB56,168,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | | |
|---|---|---|
| Government subsidies (note) | 14,844 | 9,824 |
| Bank interest income | 2,003 | 257 |
| Interest income from a loan receivable | 136 | — |
| Interest income from loan to an associate | 791 | — |
| Investment income | — | 123 |
| Others | 22 | — |
| | 17,796 | 10,204 |

Note: The government subsidies were mainly received unconditionally by the Company's subsidiaries in the PRC from local government in relation to the incentive policy for investment in factoring and other financial business based on certain taxes paid or payable by the Company's PRC subsidiaries in Dongjiang Port Zone of Tianjin City.

## (b) Other gains and losses

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Exchange gain (loss), net | | (2,062) |
| Gain on disposal of a subsidiary (note 37) | | — |
| Loss on disposal of equipment | | (96) |
| Others | | — |
| | | (2,158) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | | |
|---|---|---|
| Impairment losses recognised on: | | |
| – Factoring assets at FVTOCI | 17,604 | — |
| – Loan receivable | 157 | — |
| – Factoring assets | — | |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | | |
|---|---|---|
| The charge (credit) comprises: | | |
| Current tax | | |
| – PRC Enterprise Income Tax ("EIT") | 84,880 | 38,059 |
| – Withholding tax levied on dividend declared of a PRC subsidiary | 300 | 700 |
| – Withholding tax levied on interest income of a Hong Kong subsidiary | 1,865 | 934 |
| | 87,045 | 39,693 |
| Deferred tax (note 18) | (3,265) | 4,516 |
| | 83,780 | 44,209 |

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain PRC subsidiaries enjoy preferential tax rate according to approval from local tax bureau, including a PRC subsidiary enjoys preferential tax rate of 15% since 2016 and a PRC subsidiary enjoys free tax rate in the first 5 years since set up in 2018.

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Profit for the year has been arrived at after charging:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Directors' emoluments | | 2,593 |
| Other staffs costs | | |
| – Salaries, allowances and other staff benefits, including share option expenses | | 21,751 |
| – Staffs' retirement benefit scheme contributions | | 1,434 |
| Total staff costs | | 25,778 |
| Less: amount capitalised in development costs | | (5,771) |
| Less: research and development costs recognised as expenses | | — |
| Staff costs recognised in profit or loss | | 20,007 |
| Research and development costs recognised as an expense (included in other operating expenses) | | — |
| Total depreciation of equipment | | 982 |
| Less:amount capitalised in development costs | | (18) |
| Depreciation of equipment recognised in profit or loss | | 964 |
| Amortisation of intangible assets | | 320 |
| Auditor's remuneration | | 1,380 |
| Minimum lease payments paid under operating leases | | 3,029 |

| | | |
|---|---|---|
| Other comprehensive income includes: | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Factoring assets measured at FVTOCI | | |
| – Fair value changes during the year, net | 1,700 | — |
| – Reclassification adjustment to profit or loss on derecognition | (906) | — |
| | 794 | — |
| Income tax relating to items that may be reclassified subsequently | (198) | — |
| Share of other comprehensive expense of a joint venture, net of related income tax | (32) | — |
| Share of other comprehensive income of associates, net of related income tax | 835 | — |
| | 1,399 | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

| Name of director | Director 's fee RMB'000 | Retirement benefit scheme contributions RMB'000 | Other emoluments mainly salaries and other benefits RMB'000 | Performance related bonuses RMB'000 | Share-based payment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 December 2018 | | | | | | |
| Executive Directors | | | | | | |
| Mr. Tung Chi Fung | | | | | | |
| Mr. Chen Jen-Tse | | | | | | |
| Non-executive Director: | | | | | | |
| Ms. Tung Ching Ching (note iii) | | | | | | |
| Independent Non-executive Directors | | | | | | |
| Mr. Hung Ka Hai Clement | | | | | | |
| Mr. Loo Yau Soon | | | | | | |
| Mr. Twoon Wai Mun,Benjamin | | | | | | |
| Mr. Fong Heng Boo (note v) | | | | | | |
| For the year ended 31 December 2017 | | | | | | |
| Executive Directors | | | | | | |
| Mr. Tung Chi Fung (note i) | 555 | — | — | — | — | 555 |
| Mr. Chen Jen-Tse (note ii) | 104 | 44 | 1,057 | 148 | 399 | 1,752 |
| Non-executive Director: | | | | | | |
| Ms. Tung Ching Ching (note iii) | 11 | — | — | — | — | 11 |
| Independent Non-executive Directors | | | | | | |
| Mr. Hung Ka Hai Clement (note iv) | 150 | — | — | — | — | 150 |
| Mr. Loo Yau Soon (note iv) | 75 | — | — | — | — | 75 |
| Mr. Twoon Wai Mun,Benjamin (note iv) | 50 | — | — | — | — | 50 |
| | 945 | 44 | 1,057 | 148 | 399 | 2,593 |

The Executive Dire?rs' emoluments shown above were for their services in conne ion with the management of the affairs of the Company and the Group. The performance related bonus is determined with reference to the operating results and the individuaɔs performance in each year.

The Non-executive Dire?rs'

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The five highest paid employees of the Group during the year included one Director (2017: one Director), details of whose remuneration are set out in note 13(a) above. Details of the remuneration for the year of the remaining four (2017: four) highest paid employees who are neither a Director nor chief executive of the Company are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Salaries, allowances and other benefits | | 3,276 |
| Share-based payment | | 777 |
| Performance related bonuses | | 711 |
| Staffs' retirement benefit scheme contributions | | 121 |
| | | 4,885 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK4 cents (2017: Nil) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting of the Company.

## 15. EARNINGS PER SHARE

The basic and diluted earnings per share are calculated based on the profit attributable to owners of the Company and the weighted average number of ordinary shares for the year on the assumption that the group reorganisation and capitalisation issue has been effective since 1 January 2017. The Group has considered the share options in the calculation of diluted earnings per share.

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Earnings: | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | | 88,807 |

| | 2018<br>'000 | 2017<br>'000 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | | 645,726 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | | 67 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | | 645,793 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | | | | |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2017 | 3,190 | 1,832 | 805 | 5,827 |
| Additions | 499 | 753 | 92 | 1,344 |
| Disposals | — | (10) | (225) | (235) |
| At 31 December 2017 | 3,689 | 2,575 | 672 | 6,936 |
| Additions | 254 | 1,685 | 56 | 1,995 |
| Disposals | (18) | (72) | (81) | (171) |
| At 31 December 2018 | 3,925 | 4,188 | 647 | 8,760 |
| DEPRECIATION | | | | |
| At 1 January 2017 | 2,730 | 916 | 308 | 3,954 |
| Charge for the year | 345 | 501 | 136 | 982 |
| Eliminated on disposals | — | (8) | (130) | (138) |
| At 31 December 2017 | 3,075 | 1,409 | 314 | 4,798 |
| Charge for the year | 450 | 762 | 123 | 1,335 |
| Eliminated on disposals | (18) | (54) | (29) | (101) |
| At 31 December 2018 | 3,507 | 2,117 | 408 | 6,032 |
| CARRYING VALUES | | | | |
| At 31 December 2017 | 614 | 1,166 | 358 | 2,138 |
| At 31 December 2018 | 418 | 2,071 | 239 | 2,728 |

The above items of equipment are depreciated on a straight-line basis at the following estimated useful lives:

| | |
|---|---|
| Leasehold improvement | 3 years or over the term of the relevant lease,whichever is shorter |
| Electronic equipment | 3 years |
| Furniture and office equipment | 5 years |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | | | |
|---|---|---|---|
| COST | | | |
| At 1 January 2017 | 1,403 | 737 | 2,140 |
| Additions | 5,905 | 284 | 6,189 |
| At 31 December 2017 | 7,308 | 1,021 | 8,329 |
| Additions | 5,749 | 474 | 6,223 |
| At 31 December 2018 | 13,057 | 1,495 | 14,552 |
| AMORTISATION | | | |
| At 1 January 2017 | 13 | 56 | 69 |
| Charge for the year | 147 | 173 | 320 |
| At 31 December 2017 | 160 | 229 | 389 |
| Charge for the year | 401 | 295 | 696 |
| At 31 December 2018 | 561 | 524 | 1,085 |
| CARRYING VALUES | | | |
| At 31 December 2017 | 7,148 | 792 | 7,940 |
| At 31 December 2018 | 12,496 | 971 | 13,467 |

Development costs represent expenditure, mainly included staff costs, capitalised during development phase of internal projects for development of online factoring platform.

The above items of intangible assets are amortised on a straight-line basis at the following estimated useful lives:

| | |
|---|---|
| Development costs | 3-5 years |
| Software system | 3-5 years |

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The expiry terms of the unused tax losses that no deferred tax assets have been provided are as followings:

| | 2018<br>RMB'000 | 2017<br>RMB000 |
|---|---|---|
| 2021 | | 140 |
| 2022 | | |

The following is a credit quality analysis of factoring assets at FVTOCI/factoring assets.

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| Not past due | | 1,356,532 |
| Past due (note) | | — |
| Subtotal | | 1,356,532 |
| Less: collective impairment allowance | | (16,850) |
| | | 1,339,682 |

Note: In the event that instalments repayment of a factoring asset at FVTOCI/a factoring asset is past due, the entire outstanding balance of the factoring assets is classified as past due.

The following is an aging analysis based on due dates of the factoring assets at FVTOCI/factoring assets instalments which are past due (instalments which are not yet due at the end of the reporting period are excluded):

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| *Past due by:* | | |
| Less than one month | | — |

Details of impairment assessment under ECL model after adoption of HKFRS 9 are set out in note 35(b).

Details of the Group's investment in a joint venture are as follows:

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| Cost of investments in a joint venture, unlisted | | 25,500 |
| Share of post-acquisition profit (loss) | | (166) |
| Share of post-acquisition OCI | | — |
| | | 25,334 |

Details of the Group's joint venture at the end of the reporting period are as follow:

| Name of entity | Place of incorporation/ establishment | Particulars of issued and paid up capital | Proportion of ownership interest/ voting rights held by the Group as at 31 December 2018 | 2017 | Principal activity |
|---|---|---|---|---|---|
| Zhu Guang Sheng Ye Factoring Limited# ( . ˆ 8 8 8 - # Þ " ® !) ("ZGSY", former name as "SL") | PRC | RMB50,000,000 | 51% | 51% | Provision of factoring service |

# English translated name is for identification purpose only.

Note: Based on the legal form and terms of the contractual arrangements, the investment in ZGSY is classified as a joint venture as major decisions require the unanimous consent among the shareholders.

### Summarised financial information of the joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in the Group's consolidated financial statements.

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| | | |
|---|---|---|
| Current assets | 54,065 | 49,793 |
| Non-current assets | 294 | 682 |
| Current liabilities | (1,266) | (801) |

The above amounts of assets and liabilities include the following:

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| Cash and cash equivalents | | 16,721 |
| Current financial liabilities (excluding other payables) | | (90) |

| | 2018 RMB'000 | 2017 RMB000 |
|---|---|---|
| Revenue | | 104 |
| Impairment allowances on factoring assets | | |

The above profit (loss) for the year includes the following:

| | 2018 RMB'000 | 2017 RMB000 |
|---|---|---|
| Depreciation and amortisation | | — |
| Interest income | | 13 |
| Interest expense | | — |
| Tax (expense) credit | | 109 |

Reconciliation of the above summarised financial information to the carrying amount of the investment in ZGSY recognised in its consolidated financial statements:

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| Net assets of ZGSY | | 49,674 |
| Proportion of the Group's ownership investment in ZGSY | | 51% |
| Carrying amount of the Group's investment in ZGSY | | 25,334 |

## (b) Investments in associates

Details of the Group's investments in associates are as follows:

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| Cost of investment in associates, unlisted | | — |
| Share of post-acquisition profits | | — |
| Share of post-acquisition OCI | | — |
| | | — |

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Details of the Group's associates at the end of the reporting period are as follow:

| Name of entity | Place of incorporation/ establishment | Particulars of authorised and paid up capital | Proportion of ownership interest/voting rights held by the Group as at | | Principal activity |
|---|---|---|---|---|---|
| | | | 31/12/2018 | 31/12/2017 | |
| Shengzhen Sheng Ye Non-Financing Guarantee Limited# ( -988¢D ÌÄ-Þ"ª,®!) ("SYNFG") (Note 37) | PRC | RMB30,000,000 RMB30,000,000 | | 100% | Provision of non-financing guarantee service |
| Shenzhen Sheng Ye Dun Hao Gold Chain Factoring Co., Ltd.# ( -88q´–á 8-#p ...Þ"®!) | PRC | RMB100,000,000 RMB5,000,000 | | N/A | Provision of factoring service |
| Shengzhen Sheng Peng Non-Financing Guarantee Limited# ( -98 ¢D ÌÄ-Þ"ª,®!) ("SPNFG") | PRC | RMB30,000,000 — (note ii) | | N/A | Provision of non-financing guarantee service |
| Hong Ji Factoring (Shenzhen) Limited# (>? 8-#( -)Þ"®!) ( "HJ") (note i) | PRC | RMB50,000,000 RMB10,000,000 | | N/A | Provision of factoring service |
| Wuxi Guojin Factoring Limited# Ì|7– 8-#Þ"®!( "WXGJ") | PRC | RMB100,000,000 RMB100,000,000 | | N/A | Provision of factoring service |

# English translated name is for identification purpose only.

Notes:

(i) The Group is able to exercise significant influence over the entity because it has the power to appoint one out of three directors of the entity under the articles of association of the entity.

(ii) As at 31 December 2018, the share capital of the entity has not yet been paid by the Group and other investors.

| | | |
|---|---|---|
| The Group's share of profit from continuing operations | 4,705 | — |
| The Group's share of other comprehensive income | 835 | — |
| The Group's share of total comprehensive income | 5,540 | — |
| Aggregate carrying amount of the Group's investments in these associates | 53,540 | — |

## 21. LOAN RECEIVABLE

| | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB000 |
|---|---|---|
| Carrying amount receivable based on maturity set out in the loan agreement: | | |
| – Within one year | | — |
| Less: impairment allowance | | — |
| | | — |

As at 31 December 2018, an unsecured loan receivable from a third party amounting of HK$15,000,000 (equivalent to RMB13,143,000) bearing a fixed interest rate of 12% per annum and receivable within one year, was guaranteed by the chairman and the chief executive officer of the debtor's holding company.

As at 31 December 2018, accumulated impairment losses included in the carrying amount of loan receivable is RMB157,000. Details of impairment assessment are set out in note 35(b).

As at 31 December 2017, the Group placed security deposits to independent third parties, which are the customers of manufacturers in the medical sector in the PRC, to guarantee the satisfaction of certain performance obligations of the manufacturers to their customers.

In the meantime, the Group collected deposits from the counter guarantors under the guarantee arrangement, based on a certain percentage of the amount provided by the Group to the manufacturer's customers as security deposits for guarantee. When all the performance obligations under the guarantee contracts had been fulfilled by the manufacturers and the corresponding security deposits for guarantee are refunded to the Group, the Group shall return the full deposits to the counter guarantors. The Group has the right to set off the deposits from counter guarantors with the security deposits for guarantee for the corresponding guarantee contracts when the security deposits for guarantee are not fully recovered. As at 31 December 2017, deposits of RMB61,477,000 was received from the counter guarantors.

During the year ended 31 December 2018, the Group disposed of its 80% equity interest in SYNFGL that carried out

The bank balances of the Group carry interest at market rates are as follows:

| | 31/12/2018<br>% | 31/12/2017<br>% |
|---|---|---|
| Range of interest rates (per annum) | | 0~0.42 |

As at 31 December 2018, a sixth-months fixed deposit of HK$10,002,000 (equivalent to RMB8,764,000) carried a fixed interest rate at 2.15% per annum.

The fixed deposit and bank balances that are denominated in currencies other than the functional currencies of each entities are set out below:

| | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB000 |
|---|---|---|
| Hong Kong Dollars ("HK$") | | 2,189 |
| US Dollars ("US$") | | 20 |
| Great Britain Pound ("GBP ") | | 17 |
| | | 2,226 |

## 25. OTHER PAYABLES AND ACCRUED CHARGES

| | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB000 |
|---|---|---|
| Other tax payables | | 11,371 |
| Accrued charges | | 6,140 |
| Deposits from customers | | 1,757 |
| Advance receipt from customers | | 4,623 |
| Other payables | | 656 |
| | | 24,547 |

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The exposure of the Group's variable-rate borrowing and fixed-rate borrowings are as follows:

| 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB000 |
|---|---|
| | |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The share capital presented as at 31 December 2017 represented the share capital of the Company and the share capital presented as at 1 January 2017 represented the aggregate of share capital of SYIC, Nice Day and the Company in issue as at 1 January 2017.

Details of movements of share capital of the Company are as follows:

| Number of shares | Share capital<br>HK$ |
|---|---|

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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| | | |
|---|---|---|
| Shown in the consolidated statement of financial position | 7,623 | 6,442 |

Notes:

(i) On 29 December 2016, the Company was incorporated with 1,000,000 authorised ordinary shares of HK$0.01 each and 1 share was issued upon incorporation and outstanding as at 1 January 2017.

(ii) Pursuant to the resolution passed by the shareholders of the Company on 19 June 2017, the authorised share capital of the Company was increased from HK$10,000 to HK$50,000,000 by the creation of additional 4,999,000,000 ordinary shares of HK$0.01 each.

According to the reorganisation agreement dated 19 June 2017 entered into between the Company and Sheng Ye Financial Group Limited, the Company acquired the entire issued share capital of SYIC from Sheng Ye Financial Group Limited, pursuant to which the Company allotted and issued one share to Wisdom Cosmos Limited, the immediate holding company of the Company on 19 June 2017.

(iii) On 6 July 2017, the Company issued a total of 185,000,000 ordinary shares of HK$0.01 each at HK$2.00 (equivalent to RMB1.741) pursuant to the initial public offering of the Company's shares. On the same date, the Company allotted and issued 554,999,998 ordinary shares of HK$0.01 each credited as fully paid to the shareholders by capitalising an amount of HK$5,550,000 (equivalent to RMB4,831,000) from the share premium account of the Company.

(iv) On 28 June 2018, the Company, Wisdom Cosmos Limited ("Wisdom Cosmos"), the immediate holding of the Company, Oversea-Chinese Banking Corporation Limited ("OCBC") and Macquarie Capital Limited ("Macquarie") (OCBC and Macquarie referred to as the "Joint Placing Agents") entered into a placing agreement pursuant to which Wisdom Cosmos agreed to place, through the Joint Placing Agents on a best effort basis, a maximum of 148,000,000 existing placing shares at the placing price of HK$6.00 per placing share (the "Placing").

At the same date, Wisdom Cosmos and the Company also entered into a subscription agreement under which Wisdom Cosmos conditionally agreed to subscribe for, and the Company conditionally agreed to issue, the subscription shares (the "Subscription").

The Placing and the Subscription were completed on 4 July and 11 July 2018 respectively. An aggregate of 138,484,000 subscription shares (equals to the number of the placing shares successfully placed under the Placing) were subscribed by Wisdom Cosmos at the subscription price of HK$6.00 for each subscription share. The Company received total net proceeds of approximately HK$819.5 million (equivalent to approximately RMB698 million, net of transaction cost amount of RMB9.2 million) from the Placing and the Subscription. Details are set out in the Company's announcements dated 28 June 2018 and 11 July 2018.

All the shares issued during the year ranked pari passu in all respects with the then existing shares in issue.

The Group is the lessee of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon expiry when all terms are re-negotiated.

The total future minimum lease payment under non-cancellable operating leases are payable as follows:

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| Within one year | | 3,109 |
| After one year but within five years | | 2,262 |
| | | 5,371 |

(b) Capital Commitments

| | 31/12/2018 RMB'000 | 31/12/2017 RMB000 |
|---|---|---|
| Capital expenditure contracted for but not provided for in the consolidated financial statements | | |
| – Investments in associates | | — |
| – Intangible assets | | — |
| | | — |

## 30. CONTINGENT LIABILITY

As at 31 December 2018, the Group provided a guarantee to a loan amounting to RMB120,000,000, raised by an associate of the Group from the controlling shareholder of the associate. The guaranteed amount was approximately 40% of all sums payable by the associate.

At the end of the reporting period, the Directors of the Company has assessed the past due status of the debts under guarantee, the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate, and concluded that there has been no significant increase in credit risk since initial recognition of the loan guarantee contract.

For the loan guarantee contract, the maximum amount that the Group has guaranteed under the contract was RMB48,002,000 as at 31 December 2018. During the year ended 31 December 2018, fair value and impairment in relation to the loan guarantee given by the Group had not been recognised as, in the opinion of the directors of the Company, the fair value of the guarantee at inception and impairment were not significant.

The Company's share option scheme (the "Scheme"), was adopted pursuant to resolutions passed on 11 September 2017 and 14 November 2018 ("Option Grant Date") for the primary purpose of providing incentives to Directors and eligible employees, and will expire on 10 September 2022 and 13 November 2023 respectively. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including a Director of the Company and the management of an associate of the Company, to subscribe for shares in the Company.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 19,873,500 (31 December 2017:12,470,000), representing 2.26% (31 December 2017: 1.69%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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The following table discloses movements of the Company's share options held by the directors of the Company and employees of the Group during both years:

| Grantee | Exercise period | Outstanding at 1 January 2018 | Granted during year | Forfeited during year | Exercised during year | Outstanding at 31 December 2018 |
|---|---|---|---|---|---|---|
| Directors | 11/9/2018-10/9/2022 | 500,000 | — | — | — | 500,000 |
| | 11/9/2019-10/9/2022 | 500,000 | — | — | — | 500,000 |
| | 11/9/2020-10/9/2022 | 1,000,000 | — | — | — | 1,000,000 |
| | 14/11/2019-13/11/2023 | 400,000 | — | — | — | 400,000 |
| | 14/11/2020-13/11/2023 | — | 400,000 | — | — | 400,000 |
| | 14/11/2021-13/11/2023 | — | 800,000 | — | — | 800,000 |

14/11/2019-13/11/2023477 Tm (14/11/2019-13/11/202i4700,000(14/11/2019-13/11/202i430085318c 0 8.5 283.4643 438.0000Tm ( )Tj ET EMC /GS0 gs

| | | | | | |
|---|---|---|---|---|---|
| Director | 11/9/2018-10/9/2022 | — | 500,000 | — | 500,000 |
| | 11/9/2019-10/9/2022 | — | 500,000 | — | 500,000 |
| | 11/9/2020-10/9/2022 | — | 1,000,000 | — | 1,000,000 |
| | | — | 2,000,000 | — | 2,000,000 |
| Exercisable at the end of the reporting period | | | | | — |
| Employees | 11/9/2018-10/9/2022 | — | 2,655,000 | (37,500) | 2,617,500 |
| | 11/9/2019-10/9/2022 | — | 2,655,000 | (37,500) | 2,617,500 |
| | 11/9/2020-10/9/2022 | — | 5,310,000 | (75,000) | 5,235,000 |
| | | — | 10,620,000 | (150,000) | 10,470,000 |
| Exercisable at the end of the reporting period | | | | | — |

No share options were exercised during the year ended 31 December 2017.

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Under the rule of MPF Scheme, the Group and its employees are each required to make a contribution to the MPF Scheme at 5% of the employees' relevant income subject to a cap of monthly relevant income as specified in the rules. No forfeited contribution is available to reduce the contribution payable in the future years.

The Group participates in a state-managed defined contribution retirement scheme organised by the relevant local government authority in the PRC. PRC employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The Group is required to make monthly contributions to the retirement scheme of the eligible employees at specified percentage, ranging from 13% to 20% of the payroll and the local government authority is responsible for the pension liabilities to these employees upon their retirement.

Total cost recognised in profit or loss and capitalised in development costs in respect of contributions paid or payable to the schemes by the Group for the year ended 31 December 2018 is RMB2,787,000 (2017: RMB1,478,000). As at 31 December 2018, contributions due in respect of the year ended 31 December 2018 had been paid over to the plans.

## 33. RELATED PARTY TRANSACTIONS

### (a) Related party balances

#### (i) Amounts due from related parties

| Name of Related Party | Relationship | At 31 December | | Maximum outstanding during the year ended 31 December | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Mr. Tung Chi Fung | Controlling shareholder | — | — | 88 | — |
| ZGSY | Joint venture | — | 90 | 90 | 90 |
| Wisdom Cosmos Limited | Immediate holding company | — | 1 | 1 | 1 |
| | | — | 91 | 179 | 91 |

The amounts are non-trade in nature, except amount due from ZGSY, which represents consulting fee to be received from ZGSY, and are unsecured, interest-free and repayable on demand.

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| | | | |
|---|---|---|---|
| HJ | Associate | 10,760 | — |
| SYNFGL | Associate | 539 | — |
| SPNFGL | Associate | 445 | — |
| ZGSY | Joint venture | — | 85 |
| | | 11,744 | 85 |

(ii) Interest income from loans to an associate



| | | | |
|---|---|---|---|
| Bondlink Investment Limited | Related company with controlling shareholder | 1,487 | 1,105 |

(v) Compensation of key management personnel

The remuneration of Directors of the Company and other members of key management of the Group during the year is as follows:

| | 2018 RMB'000 | 2017 RMB000 |
|---|---|---|
| Salaries, allowances and other benefits | | 5,278 |
| Share-based payment | | 1,176 |
| Performance related bonuses | | 859 |
| Retirement benefit scheme contributions | | 165 |
| | | 7,478 |

The remuneration of these key executives of the Group is determined by Chairman of the Company having regard to the performance of individuals and market trends.

## (c) Borrowing and guarantee

During the year ended 31 December 2018, a related company with controlling shareholder bought bonds issued by the Group amounting of RMB700,000,000 and the interest of these bonds for the current period was RMB13,490,000.

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The Group's major financial instruments include factoring assets at FVTOCI/factoring assets, receivables from sales of factoring assets, loan receivable, security deposits for guarantee, amounts due from related parties, other receivables, fixed deposit, bank balances and cash, loans from an associate, other payables, deposits from counter guarantors, financial liability arising from repurchase agreements and borrowings. Details of these instruments are disclosed in respective notes.

The risks associated with the financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group's exposure to foreign currency risk related primarily to certain bank balances, certain other receivables, borrowings and certain amounts due from (to) related parties that are denominated in HK$, US$ and GBP . The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currencies denominated monetary assets and liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 31/12/2018 RMB'000 | 31/12/2017 RMB'000 | 31/12/2018 RMB'000 | 31/12/2017 RMB'000 |
| HK$ | | 2,421 | | — |
| US$ | | 20 | | — |
| GBP | | 17 | | — |

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(i) Currency risk (continued)

The following table details the Group's sensitivity to a 5% appreciation and depreciation in RMB against HK$, US$ and GBP , which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts the translation of the Group's foreign currency denominated monetary assets and liabilities at the year-end by a 5% change in the respective foreign currency rates.

| | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB'000 |
|---|---|---|
| HK$ impact: | | |
| 5% appreciation of RMB against HK$ | | |
| Decrease in profit before taxation for the year | | (121) |
| 5% depreciation of RMB against HK$ | | |
| Increase in profit before taxation for the year | | 121 |
| US$ impact: | | |
| 5% appreciation of RMB against US$ | | (1) |
| Decrease in profit before taxation for the year | | |
| 5% depreciation of RMB against US$ | | |
| Increase in profit before taxation for the year | | 1 |
| GBP impact: | | |
| 5% appreciation of RMB against GBP | | (1) |
| Decrease in profit before taxation for the year | | |
| 5% depreciation of RMB against GBP | | |
| Increase in profit before taxation for the year | | 1 |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end date exposure does not reflect the exposure during the reporting period.

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk in relation to bank balances and borrowings. The Group takes on exposure to the effects of fluctuation in the prevailing market interest rates on the cash flow risks.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate factoring assets, fixed-rate borrowings, loans from an associate and financial liability arising from repurchase agreements. The Group does not have a fair value interest rate hedging policy as the directors of the Company considered the effect is immaterial.

Management monitors the related interest exposure closely to ensure the interest rate risks are maintained at an acceptable level. The level of mismatch of interest rate repricing that may be undertaken is monitored closely.

The Group's exposures to interest rates on financial assets and liabilities are mainly concentrated on the fluctuation of the People's Bank of China/HIBOR rate arising from bank balances and bank borrowing in which the Directors of the Company considered the effect is immaterial.

(iii) Other price risk

The Group's other price risk is mainly concentrated on the factoring assets at FVTOCI. Details are set out in note 19.

For the outstanding factoring assets at FVTOCI, if the discount rate from valuation curve of debt financing instrument pricing had been 1% (2017: nil) increase/decrease, OCI before taxation for the year ended 31 December 2018 would decrease/increase by RMB9,719,000/RMB9,852,000 as a result of the changes in the market price of debt financing instrument.

As at 31 December 2018, the Group's maximum exposure to credit risk which may cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

As at 31 December 2018, the Group's concentration of credit risk on factoring assets included five major counterparties accounting for 33% (2017: 57%), of the aggregate outstanding balance at the respective year end date.

The Group has closely monitored the recoverability of the receivables (i.e. factoring assets and loan receivable) to these counterparties, ensured adequate collateral is received from these counterparties and taken effective measures to ensure timely collection of outstanding balances.

The Group is exposed to the concentration of geographical risk on revenue which is mainly generated from customers located in PRC. The Group has closely monitored the business performance of these customers in PRC and will consider diversifying its customer base as appropriate.

In order to minimise the credit risk in relation to factoring assets, credit limits and credit terms granted to customers are approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, the management of the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) based on internal credit rating. As at 31 December 2018, the total past due amount is RMB35,000 (2017: nil).

For guarantee service provided to customers and the loan guarantee issued by the Group to an associate, the management had set up the credit limit and credit terms to delegated officers. Any further extension of credit beyond the approved limit had to be approved by the management of the Company. As at 31 December 2018, there were no outstanding guarantee contracts for service provided to customers. For the loan guarantee to an associate, the maximum amount that the Group has guaranteed under the contract was RMB48,002,000 as at 31 December 2018.

In this regard, the directors of the Company consider that the credit risk of the Group is significantly reduced.

The credit risk on liquid funds (i.e. fixed deposit and bank balances) is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Factoring assets/ other financial assets | Financial guarantee contracts |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | 12m ECL | 12m ECL |
| Watch list | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL - not credit-impaired | Lifetime ECL - not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired or more than 90 days past-due | Lifetime ECL - credit-impaired | Lifetime ECL - credit-impaired |
| Write-off | There is evidence indicating that the cur88mer is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

| | | | | |
|---|---|---|---|---|
| Factoring assets at FVTOCI | | | | |
| Low risk | 12m ECL | 0.95% | 2,719,359 | 25,707 |
| Doubtful | Lifetime ECL (not credit impaired) | 6.43% | 136,089 | 8,747 |
| Loss | Credit-impaired | N/A | — | — |
| | | | 2,855,448 | 34,454 |
| Financial assets at amortised cost | | | | |
| *Fixed deposit* | | | | |
| BBB+ (note i) | 12m ECL | N/A | 8,764 | — |
| *Bank balances and cash* | | | | |
| AAA/BBB+ (note i) | 12m ECL | N/A | 226,069 | — |
| *Loan receivable* | | | | |
| Low risk | 12m ECL | N/A | 13,143 | 157 |
| *Other receivables* | | | | |
| N/A (note i) (note ii) | 12m ECL | N/A | 2,498 | — |
| | | | 250,474 | 157 |
| Other items | | | | |
| *Loan guarantee contract (notes i and iii)* | | | | |
| Low risk | 12m ECL | N/A | 48,002 | — |
| | | | 3,153,924 | 34,611 |

Notes:

(i) The directors of the Company reviewed and assessed the impairment under ECL model, considering that these financial assets and loan guarantee contract were determined to have low credit risk as these financial assets and loan guarantee contract have a low risk of default and the debtors have a strong capacity to meet their contractual cash flow obligations in the near term, and no loss allowance was recognised as the amount was immaterial.

(ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2018, all of other receivable were not past due.

(iii) For financial guarantee contract, the amount represents the maximum amount the Group has guaranteed under the contract.

The measurement of ECL is a function of the PD, LGD and the exposure at default. The assessment of the PD and LGD is by referencing the external data adjusted by macroeconomic factors, industry practice and forward-looking information.

The movements in the allowance for impairment in respect of factoring assets at FVTOCI during the reporting period were as follows:

| | 12m ECL | Lifetime ECL not credit-impaired | Provisions under HKAS 39 | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The movements of factoring assets at FVTOCI with the gross amount were as follows:

| | 12m ECL RMB'000 | Lifetime ECL not credit-impaired RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2018 | | | |
| Changes due to factoring assets recognised as at 1 January: | | | |
| – Transfer to lifetime ECL-not credit-impaired | | | |
| – Impairment losses, net of reversal | | | |
| New financial assets settled | | | |
| New financial assets purchased | | | |
| As at 31 December 2018 | | | |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | |
|---|---|
| At 31 December 2017 | N/A |
| Restated under HKFRS 9 (note 2) | 1,336,209 |
| At 1 January 2018 | 1,336,209 |
| Purchases | 12,661,443 |
| Settlements | (11,162,527) |
| Fair value through OCI | (16,810) |
| At 31 December 2018 | 2,818,315 |

All gains and losses included in OCI relate to factoring assets at FVTOCI held at the end of the reporting period and are reported as changes of FVTOCI reserves.

## (d) Transfers of financial assets

The following were the Group's factoring assets that were transferred to an asset management company or a financial trading centre platform by discounting those factoring assets on a full recourse basis or with repurchase obligation. As the Group has not transferred the significant risks and rewards relating to these factoring assets, it continues to recognise the full carrying amount of the factoring assets and has recognised the cash received on the transfer as a financial liability arising from repurchase agreements (note 26).

These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

| | Factoring assets | |
|---|---|---|
| | 31/12/2018<br>RMB'000 | 31/12/2017<br>RMB'000 |
| Carrying amount of transferred assets | | 10,000 |
| Carrying amount of associated liabilities | | 10,248 |
| Net position | | (248) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

As at 31 December 2018, the Company has direct and indirect shareholders/equity interests in the following subsidiaries:

| Name of subsidiary | Place and date | [redacted] |
|---|---|---|

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

In January 2018, the Group disposed of its 80% investment in SYNFGL, a directly wholly-owned subsidiary of the Group, to an independent third party at consideration of RMB24,000,000. There were no profit or loss and cash flows of SYNFGL recognised on the consolidated financial statements for the current period.

| Consideration received: | RMB'000 |
|---|---|
| Cash received | 24,000 |

The net assets of SYNFGL at the date of disposal were as follows:

| | 2018<br>RMB'000 |
|---|---|
| Bank balances and cash | |
| Security deposit for guarantee | |
| Deferred tax asset | |
| Deposits from counter guarantors | |
| Loans from related parties | |
| Amount due to related parties | |
| Other payables and accrued charges | |
| Income tax payable | |
| Net assets disposed of | |
| Gain on disposal of a subsidiary: | |
| Cash consideration received | |
| Net assets disposed of | |
| Retained interest in an associate | |
| Gain on disposal | |
| Net cash inflow arising on disposal: | |
| Cash consideration | |
| Less: bank balances and cash disposed of | |

During the year ended 31 December 2017, the Group disposed of its 49% investment in ZGSY, directly wholly-owned subsidiary of the Group, to independent third parties at consideration of RMB24,500,000.

| Consideration received: | RMB'000 |
|---|---|
| Cash received | 24,500 |

The net assets of ZGSY at the date of disposal were as follows:

| | |
|---|---|
| Bank balances and cash | 50,000 |
| Net assets disposed of | 50,000 |
| Gain on disposal of a subsidiary: | |
| Investment in a joint venture | 25,500 |
| Consideration received and receivable | 24,500 |
| Net assets disposed of | (50,000) |
| Gain on disposal | — |
| Net cash outflow arising on disposal: | |
| Cash consideration | 24,500 |
| Less: bank balances and cash disposed of | (50,000) |
| | (25,500) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | | Financing cash flows | | | | |
|---|---|---|---|---|---|---|
| | As at 1 January 2018 RMB'000 | Cash in RMB'000 | Cash out RMB'000 | Net cash financing activities RMB'000 | Non-cash changes Interest accruals RMB'000 | As at 31 December 2018 RMB'000 |
| Borrowings - principal | | | | | | |
| Borrowings - interest | | | | | | |
| Financial liability arising from | | | | | | |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | | |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Interests in subsidiaries | 800,822 | 666,664 |
| Amounts due from a subsidiary | 833,456 | 247,231 |
| | 1,634,278 | 913,895 |
| CURRENT ASSETS | | |
| Prepayments | 320 | 335 |
| | | 335 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018