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SFUND INTERNATIONAL HOLDINGS LIMITED

廣州基金國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1367)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	% Change
	HK\$'000	HK\$'000	
Revenue	64,330	137,744	(53.3)%
Gross profit	22,407	33,543	(33.2)%
Loss for the year and attributable to owners of the Company	(111,390)	(101,279)	10.0%
Basic loss per share	HK(23.21) cents	HK(21.10) cents	

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2019.

ANNUAL RESULTS

The board (the “Board”) of directors (the “Directors”) of SFund International Holdings Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019, together with the comparative figures for the corresponding period of 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	3 & 4	64,330	137,744
Cost of sales and services rendered		<u>(41,923)</u>	<u>(104,201)</u>
Gross profit		22,407	33,543
Other income and gains	4	2,022	18,897
Selling expenses		(2,731)	(3,704)
Administrative expenses		(85,783)	(120,171)
Other expenses, net		(44,603)	(4,695)
Finance costs	5	(19,235)	(21,094)
Share of profit of an associate		<u>486</u>	<u>125</u>
LOSS BEFORE TAX	6	(127,437)	(97,099)
Income tax credit/(expense)	7	<u>2,016</u>	<u>(1,898)</u>
LOSS FOR THE YEAR		<u>(125,421)</u>	<u>(98,997)</u>
Attributable to:			
Owners of the Company		(111,390)	(101,279)
Non-controlling interests		<u>(14,031)</u>	<u>2,282</u>
		<u>(125,421)</u>	<u>(98,997)</u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	8	<u>HK(23.21) cents</u>	<u>HK(21.10) cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(125,421)</u>	<u>(98,997)</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(441)</u>	<u>(2,717)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR	<u>(441)</u>	<u>(2,717)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u><u>(125,862)</u></u>	<u><u>(101,714)</u></u>
Attributable to:		
Owners of the Company	<u>(111,658)</u>	(102,817)
Non-controlling interests	<u>(14,204)</u>	<u>1,103</u>
	<u><u>(125,862)</u></u>	<u><u>(101,714)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipments		2,244	3,165
Right-of-use assets		6,432	10,824
Goodwill		–	11,110
Intangible assets		4,000	17,100
Investment in an associate		2,219	1,770
Financial assets at fair value through profit or loss		1,102	3,509
Deposits and other receivables		205	6,298
		<hr/>	<hr/>
Total non-current assets		16,202	53,776
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		–	50
Accounts receivable	10	4,229	42,139
Loans receivable	11	113,772	131,256
Prepayments, deposits and other receivables		47,551	43,398
Cash and cash equivalents		23,104	40,159
		<hr/>	<hr/>
Total current assets		188,656	257,002
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	12	4,596	7,337
Other payables and accruals		56,707	52,530
Other borrowings		24,060	7,816
Bond payables		219,229	79,962
Tax payables		8,487	10,109
		<hr/>	<hr/>
Total current liabilities		313,079	157,754
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(124,423)	99,248
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		(108,221)	153,024
		<hr/>	<hr/>

	2019	2018
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Other payables and accruals	3,062	6,528
Bond payables	–	138,131
Other borrowings	8,400	–
Deferred tax liabilities	681	2,867
	<hr/>	<hr/>
Total non-current liabilities	12,143	147,526
	<hr/>	<hr/>
Net (liabilities)/assets	(120,364)	5,498
	<hr/>	<hr/>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	4,800	4,800
Reserves	(132,856)	(21,198)
	<hr/>	<hr/>
	(128,056)	(16,398)
Non-controlling interests	7,692	21,896
	<hr/>	<hr/>
Total equity	(120,364)	5,498
	<hr/>	<hr/>

NOTES

1. PRESENTATION AND BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

As at 31 December 2019, the Group incurred loss attributable to owners of the Company of HK\$111,390,000 and HK\$101,279,000 respectively for two consecutive years of year ended 31 December 2019 and 2018, and as at 31 December 2019 the Group had net current liabilities of HK\$124,423,000 and net liabilities of HK\$120,364,000. The net current liabilities and the net liabilities position were attributable to material loss for the year as a result of the poor performance of the Group’s businesses and the outstanding bonds payable balance of HK\$219 million due within twelve months from the end of the reporting period. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are formulating proposals for fund raising exercises, further details of which will be disclosed by way of announcements and it has taken the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

- (i) Subsequent to the end of the reporting period, Kapok Spirit Investment Limited (“Kapok Spirit”), an entity indirectly wholly owned by a substantial shareholder of the Company, issued a letter of intent to extend the bond maturity date of a bond payable of HK\$80,000,000.
- (ii) A substantial shareholder of the Company has undertaken to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due.

The Directors have given careful consideration to the future liquidity of the Group and are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the apparel trading and related services segment engages in the trading of apparel products and provision of the apparel supply chain management services;
- (b) the financial services segment engages in the securities dealing business, provision of asset management services, corporate finance and related advisory services;
- (c) the money lending segment engages in the provision of loan financing; and
- (d) the securities investment segment engages in investment in listed and unlisted investments.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s loss before tax except that bank interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

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

- (a) all assets are allocated to operating segments other than unallocated assets, cash and cash equivalents and tax recoverable; and
- (b) all liabilities are allocated to operating segments other than unallocated liabilities, interest-bearing bank and other borrowings, bond payable, tax payable, deferred tax liabilities and other head office and corporate liabilities as these liabilities are managed on a group basis.

For the year ended 31 December 2019

	Apparel trading and related services <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from contracts with customers:					
Recognised at a point in time	46,570	–	–	–	46,570
Recognised over time	–	826	–	–	826
	46,570	826	–	–	47,396
Revenue from other sources	–	–	17,051	(117)	16,934
Segment revenue	46,570	826	17,051	(117)	64,330
Segment results	(27,611)	(48,595)	13,042	(131)	(63,295)
<i>Reconciliation:</i>					
Bank interest income					159
Corporate and other unallocated expenses					(45,066)
Finance costs					(19,235)
Loss before tax					(127,437)
As at 31 December 2019					
Segment assets	21,026	59,569	116,218	2,334	199,147
<i>Reconciliation:</i>					
Corporate and other unallocated assets					5,711
Total assets					204,858
Segment liabilities	41,882	138,886	117,348	8,142	306,258
<i>Reconciliation:</i>					
Elimination of intersegment payables					(225,941)
Corporate and other unallocated liabilities					244,905
Total liabilities					325,222
Other segment information:					
Capital expenditure*	567	133	–	–	700
(Reversal of impairment)/ impairment of accounts receivable	(540)	20,062	–	–	19,522
Impairment of loans receivable	–	–	1,019	–	1,019
Reversal of impairment of other receivables	(8)	–	–	–	(8)
Impairment of goodwill	–	11,110	–	–	11,110
Impairment of intangible assets	–	13,100	–	–	13,100
Depreciation of property, plant and equipment#	907	483	–	–	1,390
Depreciation of right-of-use assets#	1,714	601	201	–	2,516
Investment in an associate	–	2,219	–	–	2,219
Share of profit of an associate	–	486	–	–	486

Depreciation of property, plant and equipment and depreciation of right-of-use assets amounting to HK\$213,000 and HK\$2,932,000, were included under corporate and other unallocated expenses.

* Capital expenditure consists of additions to property, plant and equipment.

For the year ended 31 December 2018

	Apparel trading and related services <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from contracts with customers:					
Recognised at a point in time	107,652	–	–	–	107,652
Recognised over time	–	15,685	–	–	15,685
	107,652	15,685	–	–	123,337
Revenue from other sources	–	–	20,423	(6,016)	14,407
Segment revenue	107,652	15,685	20,423	(6,016)	137,744
Segment results	(50,534)	(563)	15,115	(6,022)	(42,004)
<i>Reconciliation:</i>					
Bank interest income					339
Corporate and other unallocated expenses					(34,340)
Finance costs					(21,094)
Loss before tax					(97,099)
As at 31 December 2018					
Segment assets	38,722	86,717	135,686	1,227	262,352
<i>Reconciliation:</i>					
Corporate and other unallocated assets					48,426
Total assets					310,778
Segment liabilities	24,374	94,753	128,503	8,134	255,764
<i>Reconciliation:</i>					
Elimination of intersegment payables					(197,662)
Corporate and other unallocated liabilities					247,178
Total liabilities					305,280
Other segment information:					
Capital expenditure*	683	871	–	–	1,554
Impairment of accounts receivable	435	82	–	–	517
Impairment of loans receivable	55	–	133	–	188
Impairment of other receivables	124	–	–	–	124
Impairment of goodwill	–	1,210	–	–	1,210
Reversal of provision for slow-moving inventories	(91)	–	–	–	(91)
Depreciation of property, plant and equipment [#]	1,276	687	–	–	1,963
Depreciation of right-of-use assets [#]	2,020	506	184	–	2,710
Investment in an associate	–	1,770	–	–	1,770
Share of profit of an associate	–	125	–	–	125

[#] *Depreciation of property, plant and equipment and depreciation of right-of-use assets amounting to HK\$213,000 and HK\$3,000,000, were included under corporate and other unallocated expenses.*

* *Capital expenditure consists of additions to property, plant and equipment.*

Geographical information

(a) Revenue from external customers

During the year, approximately 58.3% (2018: 71.0%) of the Group's total revenue from external customers, based on the locations of the products shipped to/locations of customers, were attributed to the United States of America ("USA"). For the purpose of identifying the total revenue from external customers, revenue derived from the fair value change on financial assets at fair value through profit or loss is excluded.

An analysis of disaggregation of revenue from the sales of goods and provision of services based on the locations of the products shipped to is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
USA	37,599	102,131
Mainland China	302	1,090
Hong Kong	74	–
Others	8,595	4,431
	<u>46,570</u>	<u>107,652</u>

Revenue from the financial services segment amounting to HK\$823,000 (2018: HK\$15,413,000) and HK\$3,000 (2018: HK\$272,000), based on the locations of customers, was derived in Mainland China and Hong Kong, respectively. Revenue from the money lending segment, based on the location of the customers, was derived in Hong Kong.

(b) Non-current assets

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Hong Kong	7,481	29,210
Mainland China	7,064	14,302
Others	350	457
	<u>14,895</u>	<u>43,969</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

Information about major customers

Revenue from external customers each contributing 10% or more of the Group's total revenue for the year are set out below:

	Segment	2019 HK\$'000	2018 HK\$'000
Customer A	Apparel trading and related services	23,051	–
Customer B	Apparel trading and related services	14,245	–
Customer C	Money lending	7,770	14,523
Customer D	Apparel trading and related services	N/A*	14,533
Customer E	Apparel trading and related services	–	55,856
Customer F	Apparel trading and related services	–	36,048

* *Less than 10% of revenue*

4. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue, other income and gains is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers		
Sales of goods	43,125	107,019
Service fee income	3,445	633
Advisory service income	3	272
Fund management fee income	823	15,413
Revenue from other sources		
Interest income from the money lending business	17,051	20,423
Fair value loss on financial assets at fair value through profit or loss	(117)	(6,016)
	<u>64,330</u>	<u>137,744</u>

Revenue from contracts with customers

Disaggregated revenue information

For the year ended 31 December 2019

Segments	Apparel trading and related services <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Type of goods or services			
Sales of goods	43,125	–	43,125
Service fee income	3,445	–	3,445
Advisory service income	–	3	3
Fund management fee income	–	823	823
	<u>46,570</u>	<u>826</u>	<u>47,396</u>
Geographical markets			
USA	37,599	–	37,599
Mainland China	302	823	1,125
Hong Kong	74	3	77
Others	8,595	–	8,595
	<u>46,570</u>	<u>826</u>	<u>47,396</u>
Timing of revenue recognition			
Goods or services transferred at a point in time	46,570	–	46,570
Services transferred over time	–	826	826
	<u>46,570</u>	<u>826</u>	<u>47,396</u>

For the year ended 31 December 2018

Segments	Apparel trading and related services <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Type of goods or services			
Sales of goods	107,019	–	107,019
Service fee income	633	–	633
Advisory service income	–	272	272
Fund management fee income	–	15,413	15,413
	<u>107,652</u>	<u>15,685</u>	<u>123,337</u>
Geographical markets			
USA	102,131	–	102,131
Mainland China	1,090	15,413	16,503
Hong Kong	–	272	272
Others	4,431	–	4,431
	<u>107,652</u>	<u>15,685</u>	<u>123,337</u>
Timing of revenue recognition			
Goods or services transferred at a point in time	107,652	–	107,652
Services transferred over time	–	15,685	15,685
	<u>107,652</u>	<u>15,685</u>	<u>123,337</u>

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Other income		
Bank interest income	159	339
Distribution income	128	134
Sale of scrap materials	353	385
Rework and compensation income	713	966
Imputed interest income on non-interest-bearing financial arrangement	88	83
Rental income	126	504
Sundry income	242	113
	<u>1,809</u>	<u>2,524</u>
Gains		
Gain on disposal of a property	–	15,600
Gain on foreign exchange differences, net	213	773
	<u>213</u>	<u>16,373</u>
	<u><u>2,022</u></u>	<u><u>18,897</u></u>

5. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest on trade finance loans	–	53
Interest on bonds payable	17,764	20,211
Interest on other borrowings	1,149	347
Interest on a finance lease	2	6
Unwinding of finance costs on lease liability	320	477
	<u>19,235</u>	<u>21,094</u>

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Auditor's remuneration	1,450	2,080
Cost of inventories sold	41,383	103,445
Depreciation of property, plant and equipment	1,603	2,176
Depreciation of right-of-use assets	5,448	5,710
Employee benefit expense (including directors' remuneration)		
– Wages and salaries, allowances, bonuses, commission and benefits in kind	50,918	62,720
– (Reversal of provision for)/provision for long service payments	(153)	196
– Termination payments	116	6
– Pension scheme contributions (defined contribution schemes)#	3,087	4,699
	<u>53,968</u>	<u>67,621</u>
Impairment of accounts receivable*	19,522	517
Impairment of loans receivable*	1,019	188
(Reversal of impairment)/impairment of other receivables*	(8)	124
Impairment of goodwill*	11,110	1,210
Impairment of intangible assets*	13,100	–
Reversal of provision for slow-moving inventories*	–	(91)
Minimum lease payments under operating leases	<u>2,546</u>	<u>2,549</u>

At the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

* *The balances were included in "Other expenses, net" in the consolidated statement of profit or loss.*

7. INCOME TAX (CREDIT)/EXPENSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	–	259
Overprovision in prior years	(1,432)	(471)
Current – Elsewhere		
Charge for the year	1,602	2,221
Deferred	(2,186)	(111)
	<hr/>	<hr/>
Total tax charge for the year	(2,016)	1,898
	<hr/> <hr/>	<hr/> <hr/>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The subsidiary of the Company established in Mainland China is subject to the PRC corporate income tax at a standard rate of 25% (2018: 25%) during the year.

No provision for Macao complementary tax has been made as the Company's subsidiary established in Macao is exempted from Macao complementary tax pursuant to Macao's relevant tax legislations (2018: Nil).

No provision for Cambodian tax has been made on the Company's subsidiary as no assessable profit in Cambodia was generated during the current year. Cambodian tax on profit was provided at the rate of 1% of total revenues arising during the prior year.

No provision for Bangladesh income tax has been made on the liaison office of the Company's subsidiary as no assessment profit in Bangladesh was generated during the year (2018: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK\$111,390,000 (2018: HK\$101,279,000), and the weighted average number of ordinary shares of 480,000,000 (2018: 480,000,000) in issue during the year.

Diluted loss per share equals to basic loss per share as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

9. DIVIDEND

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

10. ACCOUNTS RECEIVABLE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	4,407	22,019
Fund management fee receivables	20,191	20,967
	<u>24,598</u>	<u>42,986</u>
Impairment	(20,369)	(847)
	<u>4,229</u>	<u>42,139</u>

Trade receivables

Trade receivables relate to the Group's apparel trading and related services business. The Group's trading terms with its customers in the apparel trading and related services business are mainly on credit. The credit periods generally range from 30 to 90 days (2018: 30 to 90 days). Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 month	4,229	9,874
1 to 2 months	–	9,281
2 to 3 months	–	753
Over 3 months	–	1,393
	<u>4,229</u>	<u>21,301</u>

Fund management fees receivables

Fund management fees receivables relate to the Group's fund management business and are due from investment funds in which the Group acts as the fund manager. Pursuant to the respective fund management agreements, the fund management fees shall be paid in advance at the beginning of each year.

An ageing analysis of fund management fees receivables as at the end of the reporting period, based on the period in which services were rendered and net of loss allowance, is as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Not yet due	–	721
Less than 1 year past due	–	13,363
More than 1 year past due	–	6,754
	<u>–</u>	<u>20,838</u>

11. LOANS RECEIVABLE

	2019 HK\$'000	2018 <i>HK\$'000</i>
Loans receivable	115,000	131,465
Impairment	(1,228)	(209)
	<u>113,772</u>	<u>131,256</u>

Loans receivable arising from the money lending business of the Group bear interest at a rate of 10% to 12% (2018: 8% to 13%) per annum. As at 31 December 2019, certain loans receivable with an aggregate carrying amount of HK\$113,772,000 (2018: HK\$119,889,000) were secured by the pledge of collaterals.

12. TRADE PAYABLES

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

	2019 HK\$'000	2018 <i>HK\$'000</i>
Within 1 month	<u>4,596</u>	<u>7,337</u>

The trade payables are non-interest-bearing and are normally settled on an average term of 30 days.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF THE GROUP

Revenue

During the financial year under review, the Group recorded a revenue of approximately HK\$64.3 million (2018: HK\$137.7 million), representing a decrease by 53.3% as compared to last year. The decrease was mainly due to the net effect of (i) a decrease in revenue derived from apparel supply chain management services business of approximately HK\$46,570,000 (2018: HK\$107,652,000) due to significant decrease in the Group's sales in the USA because of the loss of significant customers, which the change in sourcing strategies by the USA customers. The Group has been devoted in securing replacements for the lost customers; (ii) an unrealised loss and realised gain on an investment in listed equity investment at fair value through profit and loss of approximately HK\$132,000 and HK\$15,000, respectively (2018: an unrealised loss of approximately HK\$6,016,000 and realised gain: nil), which was arising from the Group's securities investment business segment; (iii) a decrease in revenue derived from money lending business of approximately HK\$17,051,000 (2018: HK\$20,423,000); and (iv) a decrease in revenue derived from financial services business of approximately HK\$826,000 (2018: HK\$15,685,000), which were mainly derived from the Group's fund management services and other consultancy services in Mainland China and Hong Kong.

Loss for the Year

The net loss attributed to the owner of the Company for the year ended 31 December 2019 amounted to approximately HK\$111,390,000 (2018: HK\$101,279,000), resulted in a basic loss per share for the year ended 31 December 2019 of HK23.21 cents (2018: basic loss per share of HK21.10 cents), representing a increase in loss attributed to the shareholders of the Company (the "Shareholders") by 10.0%. The increase in loss was resulted from the effects of (i) decrease in revenue as described above; (ii) decrease in other income and gains of approximately HK\$2,022,000 (2018: HK\$18,897,000), which was mainly due to decrease in gain on disposal of a property; (iii) increase in other expenses of approximately HK\$44,603,000 (2018: HK\$4,695,000), which was mainly due to increase in provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets.

BUSINESS REVIEW

The Group was principally engaged in (i) apparel supply chain management services business; (ii) financial services business; (iii) money lending business; and (iv) securities investment during the year.

Apparel Supply Chain Management Services Business

The Group provides apparel supply chain management services for woven wear (such as shirts, pants, jeans and jackets) and accessories. This includes sourcing of raw materials and third-party manufacturers, sample creation, product design and development, production management, merchandising, quality control, logistics management and social compliance monitoring services. The Group acts as a one-stop solution provider to its customers to meet their needs along the apparel supply chain. Revenue is derived primarily from the sale of apparel products it procures for its customers.

Sales in 2019 to the USA customers declined because of the change in their sourcing strategies. The impact was mitigated as new customers in Hong Kong, China and Vietnam have been sought. Hence, the Group's revenue from apparel operation decreased by approximately 56.8% from HK\$107,652,000 in 2018 to HK\$46,570,000 in 2019. The segment loss from the respective segment was HK\$27,611,000 as compared to segment loss of HK\$50,534,000 for the corresponding period last year.

The manufacturing environment were concentrated in Cambodia, Bangladesh and the PRC. The continual strengthening of United States dollars ("US\$") against Renminbi ("RMB") in 2019 has helped to stabilize the material costs which are mainly sourced in China.

Overheads decreased significantly during the year as most of the IT projects related to improving supply chain management process have been completed.

Financial Services Business

During the year, the Group carried out financial services business through its subsidiaries including Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") in Hong Kong as well as equity interests investment management, investment consultancy services, investment management services, entrusted management of equity interests investment fund and corporate management consultancy services in the People's Republic of China (the "PRC").

During the year, the revenue and operating loss generated in this segment were HK\$826,000 (2018: HK\$15,685,000) and HK\$48,595,000 (2018: HK\$563,000), respectively.

The segment loss in this segment were mainly due to increase in provision for impairment of accounts receivable, impairment of goodwill and impairment of intangible assets amounting to HK\$44,272,000. As at 31 December 2019, the Group had overdue fund management fee receivables of HK\$12,314,000 and HK\$7,877,000 due from 湖南匯垠湘天投資合夥企業 (Hunan Huiyin Xiangtian Investment Partnership*) and 湖南匯垠眾益投資合夥企業 (Hunan Huiyin Zhongyi Investment Partnership*), respectively, investment funds registered in the Mainland China (the "PRC Funds"), of which the Group acts as the fund manager. The Group has carried out a comprehensive assessment on the recoverability of such fund management fee receivables based on currently available information. Taken into account of the initiated litigation on 唐山境界實業有限公司 (Tangshan Jingjie Industry Co., Ltd*) (investee company of the PRC Funds) and its related parties and the fact that part of their assets are frozen under judiciary, the Group hereby recognised an impairment amounted to HK\$20,191,000 due to the significant doubt of the recoverability of the fund management fee receivables based on prudent approach even though the PRC lawyer stated that the Company could have approximately to recover the outstanding amount. No related management fee income was recognised during the year.

Money Lending Business

The Group engaged in the money lending business through Capital Strategic Partners Limited (“Capital Strategic”), an indirect wholly-owned subsidiary of the Company, which holds a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) to carry out money lending business in Hong Kong. During the year, the interest income and operating profit generated in this segment were HK\$17,051,000 (2018: HK\$20,423,000) and HK\$13,042,000 (2018: HK\$15,115,000), respectively.

As at 31 December 2019, there were two transactions of loan advanced to customers. The loan were still outstanding as at 31 December 2019 with an aggregate outstanding loan principal of HK\$115,000,000.

On 24 November 2017, Capital Strategic entered into a loan agreement with Yuan Heng Gas Holdings Limited (“Yuan Heng”), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 332). Pursuant to the loan agreement, Capital Strategic agreed to grant to Yuan Heng a loan of HK\$180,000,000 (“Original Facility”) for a term of 6 months from the date of the drawdown, which was 25 January 2018, and could be further extended for another 6 months with written consent of Capital Strategic (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). The loan is secured by the charge over the entire issued share capital of an indirect wholly-owned subsidiary of Yuan Heng and the floating charge over all or any part of the property and/or assets of an indirect wholly-owned subsidiary of Yuan Heng in favour of Capital Strategic. Yuan Heng had repaid HK\$100,000,000 of the Original Facility to Capital Strategic by 6 August 2018.

On 25 January 2019, Capital Strategic and Yuan Heng entered into the first supplemental agreement (the “1st Supplemental Agreement”) pursuant to which Capital Strategic had agreed to extend the maturity date of the remaining HK\$80,000,000 of the Original Facility to 25 July 2019 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). Yuan Heng had further repaid HK\$5,000,000 of the Original Facility to Capital Strategic by 16 July 2019.

On 26 July 2019, Capital Strategic and Yuan Heng entered into the second supplemental agreement (the “2nd Supplemental Agreement”) with retrospective effect from 25 July 2019 pursuant to which Capital Strategic had agreed to extend the maturity date of the remaining HK\$75,000,000 of the Original Facility to 25 January 2020 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). The loan continues to be secured by the share charge and the floating charge.

Subsequent to the financial year under review, on 21 January 2020, Yuan Heng had further repaid HK\$35,000,000 of the Original Facility to Capital Strategic.

Further details of the transaction is also set out in the Company’s announcements dated 24 November 2017, 25 January 2018, 25 January 2019 and 26 July 2019 and circular dated 22 December 2017, respectively. The loan is still outstanding as at 31 December 2019.

On 14 February 2018, Capital Strategic entered into another loan agreement with China-HK Holdings Investment Limited (“China-HK”), a company incorporated in Hong Kong with limited liability, pursuant to which Capital Strategic had agreed to provide a loan facility to the China-HK in the principal amount of HK\$40,000,000 for a term of 6 months from the dates of the relevant drawdown, which could be further extended upon the request of China-HK and subject to agreement of Capital Strategic in writing. The loan is secured by the charge over the entire issued share capital of China-HK and 2 wholly-owned subsidiaries of China-HK. On 14 August 2018, Capital Strategic and China-HK entered into a supplemental loan agreement to extend the repayment date to 14 February 2019. Further details of the transaction is set out in the Company’s announcements dated 14 February 2018 and 14 August 2018. The loan is still outstanding as at 31 December 2019.

Management had formulated a fundamental policy to establish its internal control systems. The Group would adopt a prudent approach and conduct regular reviews of the composition of the loans portfolio and lending rates charged to each customer to maximise the return of the money lending business as well as diversify the credit risk.

Securities Investment

During the year, the Group carried out the Group’s investment business in securities investment.

During the year, the revenue arising from this segment was negative revenue of HK\$117,000 (2018: negative revenue of HK\$6,016,000). Revenue was attributable to the net unrealised loss on listed securities investment of HK\$132,000 (2018: net unrealised loss of HK\$6,016,000) and realised gain on listed securities investment of HK\$15,000 (2018: nil) for the year ended 31 December 2019.

The overall performance of the securities investment business recorded a loss of HK\$131,000 for the year ended 31 December 2019 (2018: HK\$6,022,000), which was primarily attributable to the unrealized loss on securities investment stated above. As at 31 December 2019, the market value of the Group’s listed securities portfolio was HK\$1,091,000 (31 December 2018: HK\$1,222,000).

The Group is currently looking into other investment opportunities including private equities, debt securities, derivatives and funds. The management plans to revise its investment strategies and formulate new investment policies in the near future.

FINANCIAL REVIEW

During the year under review, the Group has diversified its operations into four segments, being

- (a) Apparel supply chain management services;
- (b) Financial services;
- (c) Money lending; and
- (d) Securities investment.

Financial results from the Group's operations are summarized as follows:

Revenue

Revenue by Business Segments

Ratio analysis by business segments for the Group's revenue for the year ended 31 December 2019 is as follows:

- Apparel supply chain management services business: HK\$46,570,000, 72.4% of revenue (2018: HK\$107,652,000, 78.2%)
- Financial services business: HK\$826,000, 1.3% of revenue (2018: HK\$15,685,000, 11.4%)
- Money lending business: HK\$17,051,000, 26.5% of revenue (2018: HK\$20,423,000, 14.8%)
- Securities investment: negative revenue of HK\$117,000, -0.2% of revenue (2018: negative revenue of HK\$6,016,000, -4.4%)

Revenue by Geographical Segments

Ratio analysis by geographical segments for the Group's revenue for the year ended 31 December 2019 is as follows:

- USA: HK\$37,599,000, 58.4% of revenue (2018: HK\$102,131,000, 74.1%)
- Mainland China: HK\$1,140,000, 1.8% of revenue (2018: HK\$16,503,000, 12.0%)
- Hong Kong: HK\$16,996,000, 26.4% of revenue (2018: HK\$14,679,000, 10.7%)
- Other countries: HK\$8,595,000, 13.4% of revenue (2018: HK\$4,431,000, 3.2%)

The Group's revenue for the year ended 31 December 2019 was HK\$64,330,000, being a decrease of HK\$73,414,000 when compared to the corresponding period last year of HK\$137,744,000. The decrease was mainly due to the net effect of (i) a decrease in revenue derived from apparel supply chain management services business of HK\$46,570,000 (2018: HK\$107,652,000) due to the significant decrease in the Group's sales in the USA because of the loss of significant customers, which the change in sourcing strategies by the USA customers. The Group has been devoted in securing replacements for the lost customers; (ii) a decrease in revenue derived from financial services business of HK\$826,000 (2018: HK\$15,685,000), which were mainly derived from the Group's fund management services and other consultancy services in Mainland China and Hong Kong; (iii) a decrease in interest income from loans advanced to independent third parties of HK\$17,051,000 (2018: HK\$20,423,000); and (iv) an unrealised loss and realised gain on an investment in listed equity investment at fair value through profit or loss of HK\$132,000 and HK\$15,000, respectively (2018: unrealised loss of HK\$6,016,000 and realised gain: nil), which was arising from the Group's business segment on securities investment.

Cost of Sales

Cost of sales of the Group relates to (i) its apparel supply chain management services business and includes raw materials, subcontracting fees, and other costs. Raw materials were fabrics and ancillary raw materials, including buttons, zippers and threads that the Group purchased and supplied to the third-party manufacturers for their production. Subcontracting fees represented fees paid to the third-party manufacturers for production of apparel products. Other costs include miscellaneous costs such as freight charges, inspection charges, declaration fees, depreciation and insurance; and (ii) the direct cost of fund management services mainly consists of fund manager costs.

Subcontracting fees continues to be the major component of the Group's total cost of sales.

Gross Profit and Margin

The Group's gross profit for the year ended 31 December 2019 was HK\$22,407,000, representing a decrease of approximately 33.2% from HK\$33,543,000 in the corresponding period last year. The decrease in gross profit was because there were decrease in sales, gross profit margin for its apparel supply chain management services business and some fund management income in the PRC have not been recognised.

Other Income and gains

Other income and gains for the year ended 31 December 2019 was HK\$2,022,000, representing a decrease of approximately 89.3% from the corresponding period last year of HK\$18,897,000. The decrease was mainly due to the decrease in rental income, compensation income, bank interest income, gain on disposal of a property and gain on foreign exchange difference, net.

Selling Expenses

Selling and distribution costs primarily consist of (i) sample cost; (ii) promotion expenses; (iii) staff cost; and (iv) other selling and distribution expenses. Selling and distribution costs decreased by approximately 26.3% from HK\$3,704,000 to HK\$2,731,000, which was mainly due to decrease in sample cost.

Administrative Expenses

Administrative expenses mainly represented employee benefit expenses for the Group's management, finance and administrative personnel, rental expenses for the Group's office premises and travelling expenses. Administrative expenses decreased by approximately 28.6% from HK\$120,171,000 to HK\$85,783,000, which was mainly due to the decrease in salaries, consultancy fees for enhancement of IT system for apparel supply chain management services business.

Other Expenses, Net

Other expenses, net mainly represented the expected credit losses on loans receivable, reversal of impairment of accounts receivable, provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets. Other expenses, net for the year as HK\$44,603,000, representing an increase of approximately 850.0% from HK\$4,695,000 in the corresponding period last year. The significant increase was mainly due to increase in provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets.

Finance Costs

Finance costs decreased by approximately 8.8% from HK\$21,094,000 to HK\$19,235,000. The decrease was mainly due to decrease in interest expenses for bonds payable.

Loss for the Year

The net loss attributed to the owners of the Company for the year ended 31 December 2019 amounted to HK\$111,390,000 (2018: HK\$101,279,000), resulted in a basic loss per share for the year ended 31 December 2019 of HK23.21 cents (2018: HK21.10 cents), representing an increase in loss attributed to the shareholders of the Company (the “Shareholders”) by 10%. The increase in loss was resulted from the effects of (i) decrease in sales and gross profits; and (ii) increase in other expenses, mainly due to increase in provision for impairment of fund management fees receivable, impairment of goodwill and impairment of intangible assets (as stated above).

PROSPECTS

To improve the financial position of the Group, the Company is considering various options to strengthen the capital of the Company and will, when appropriate, disclose further development on the above matter, if any, by way of further announcement(s) in accordance with regulatory requirements.

Apparel Supply Chain Management Services business

The management of the Group expects the business environment for the apparel supply chain management services business in 2020 not favorable. As goods sold to our new customers are mostly sold to department and specialty stores in the USA, the increasing coronavirus infection in the US is expected to hit their business as people will avoid going out for shopping. Recent stock market volatility will also have negative wealth effect that deter consumer spending on apparels.

The trade war between US and China are still not yet concluded. The management expects that apparel buyers will continue to diversify their production base away from China. This should help the apparel business as the Group has production base in Cambodia and Bangladesh.

Money Lending Businesses

The management expects that the money lending business segment will become one of the Group's stable income sources. The management will go on paying close attention to the development of this business segment and promptly react to the demand in the market. It is expected that the Group will not expand its loan portfolio unless the Group managed to raise abundant funds through fund raising exercises.

Financial Services Businesses

The management continues looking into possible acquisitions of asset management companies and other financial service platforms located in both Hong Kong and the PRC, in order to build a strong, growing and diversified financial services sector.

Subsequent to the financial year under review, on 31 January 2020, the Group has entered into an agreement to acquire 30% equity interest in 廣俊粵港澳產業投資基金管理(廣州)有限公司 (Guangjun Guangdong–Hong Kong–Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the “GJ Fund Management Company”) at a consideration of approximately HK\$3 Million. GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC. The Group is optimistic about the prospect of GJ Fund Management Company and believe such acquisition would strengthen the Group's network in the PRC fund industry, which is in line with the expansion plan of the Group.

The Group will continue to expand its financial services segment by applying for the necessary licenses for, or acquiring licensed corporation to conduct regulated activities, or acquiring interest in, or setting up funds to invest in, companies or projects which have good potentials and prospect.

As at the date of this announcement, the Company has been considering potential targets with an aim to maintaining a sufficient level of business operations and assets of the Group. The management expects that the contribution from financial services business segment will increase significantly in the near future.

Securities Investment

During the year, the Hong Kong stock market was highly volatile due to both domestic and worldwide social and economic issues. To cope with such situations, the Group will continue to closely monitor the market conditions and may consider to change its investment portfolio from time to time. We will also explore other investment opportunities including but not limited to investment in private equities, debt securities, derivatives and funds.

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, including bonds, interest-bearing other borrowings, and equity attributable to owners of the Company, comprising issued capital and reserves. The management of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this,

the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issuance of debts and redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

As at 31 December 2019, the other borrowings were HK\$32,460,000 (31 December 2018: HK\$7,816,000) and bonds payables were HK\$219,229,000 (31 December 2018: HK\$218,093,000). As at 31 December 2019, all borrowings are carried at fixed interest rates ranging from 5% to 8% per annum and repayable in 2020 to 2024. As at 31 December 2018, all borrowings are carried at fixed interest rates ranging from 5% to 8% per annum and repayable from 2019 to 2020.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's working capital was financed by both internal resources and other borrowings.

As at 31 December 2019, cash and cash equivalents amounted to HK\$23,104,000, which decreased by approximately 42.5% as compared to HK\$40,159,000 as at 31 December 2018.

As at 31 December 2019, the Group's total borrowings amounted to HK\$251,689,000 (31 December 2018: HK\$225,909,000), mainly consist of finance lease liabilities amounting to HK\$nil (31 December 2018: HK\$82,000), other borrowings amounting to HK\$32,460,000 (31 December 2018: HK\$7,734,000) and bonds payable amounting to HK\$219,229,000 (31 December 2018: HK\$218,093,000). The other borrowings of the Group as at 31 December 2019 and 31 December 2018 were incurred for operation and business purpose.

The current ratio of the Group as at 31 December 2019 was 0.6 (31 December 2018: 1.6). The gearing ratio is calculated based on (i) the total liabilities divided by the total assets and (ii) the total borrowings divided by the total Shareholders' equity. The gearing ratio of the Group as at 31 December 2019 was approximately 158.8% and not applicable (31 December 2018: approximately 98.2% and 4,108.9%, respectively).

Pursuant to a subscription agreement entered into between the Company as the issuer and GF Investments (Hong Kong) Company Limited as the subscriber (the "GF Investments") in relation to the issuance of notes (the "Notes") in the aggregate principle amount of up to HK\$230,000,000 due on 13 January 2020. The remaining principal balance as at 31 December 2019 was HK\$135,000,000. The Company received a demand letter dated on 19 March 2020 from solicitors of GF Investments requesting the Company to repay the full amount of principal amount and interest up to date of full payment. After the year date, the Company subsequently repaid HK\$110,000,000 and the remaining principal amount as at today is HK\$25,000,000. The Company is taking action to request the repayment of the loan receivables to repay the remaining outstanding balance.

As at 31 December 2019, the Group had net current liabilities of HK\$124,423,000 (31 December 2018: net current assets of HK\$99,248,000) and net liabilities of HK\$120,364,000 (31 December 2018: net assets of HK\$5,498,000). The net current liabilities and the net liabilities position were attributable to material loss for the period as a result of the poor performance of the Group's businesses and the outstanding bonds payable balance of HK\$219,229,000 due within twelve months from the end of the reporting period. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company are formulating proposals for fund raising exercises and will, when appropriate, disclose further development on the above matter, if any, by way of further announcement(s) in accordance with regulatory requirements and it has taken the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

- (i) Subsequent to the end of the reporting period, Kapok Spirit Investment Limited ("Kapok Spirit"), an entity indirectly wholly owned by a substantial shareholder of the Company, issued a letter of intent to extend the bond maturity date of a bond payable of HK\$80,000,000.
- (ii) A substantial shareholder of the Company has undertaken to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due.

The directors of the Company have given careful consideration to the future liquidity of the Group and are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the year. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

FOREIGN EXCHANGE EXPOSURE

The Group's foreign currency transactions are mainly denominated in RMB and United States dollars ("US\$"). The Group has currency exposure as certain income and expenses incurred in the PRC were denominated in RMB. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in RMB. During the year, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL EXPENDITURES

During the year, the Group's capital expenditures consisted of additions to property, plant and equipment amounting to HK\$700,000 (2018: HK\$1,554,000).

CAPITAL COMMITMENT

As at 31 December 2019, the Group had a capital commitment of HK\$4,385,000 (31 December 2018: HK\$4,461,000) in relation to the further capital contribution to Hunan Guokai.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 175 (2018: 206) employees, including the Directors. Total staff costs (including Directors' remuneration) was approximately HK\$53,967,000 for the year ended 31 December 2019, as compared to approximately HK\$67,621,000 for the corresponding period last year.

Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of the basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. Other major staff benefits include contributions to Mandatory Provident Fund retirement benefits scheme in Hong Kong and the provision of social insurances for employees who are employed by the Group pursuant to the applicable PRC rules and regulations.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme adopted by the Company on 20 June 2014 where options to subscribe for shares of the Company may be granted to the Directors and employees of the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any plans for material investments during the year.

SIGNIFICANT INVESTMENT

Save as disclosed in this announcement, there were no significant investments held during the year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the year.

RISK MANAGEMENT

The Group adopts the following risk management policies and monitoring system to mitigate the risks associated with interest rate, foreign currency, credit, liquidity and equity price in its major operation.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates incurred for trade finance. The Group reviews interest rate risk regularly and monitors closely the fluctuation of interest rates and will make proper adjustment if necessary.

Foreign Currency Risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group has currency exposure as income earned and expenses subcontracting fees incurred in Mainland China were denominated in RMB.

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of RMB against US\$ may have impact on the operating results of the Group.

The Group has not entered into any hedging arrangement as the foreign currency risk is considered not material. The management has monitored the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Credit Risk

The accounts receivable and loan receivable balances included in the condensed consolidated statement of financial position of the Group represent the Group's maximum exposure to credit risk in relation to the Group's accounts receivable and loan receivables. Concentrations of credit risk are managed by customer and borrower.

The Group performs ongoing credit evaluations of its debtors' financial conditions and requires collateral from its customers. The allowance for doubtful debts is based on a review of the expected collectability of all accounts receivable and loan receivables.

The Group seeks to maintain strict control over its outstanding receivables and has its credit control policy to minimise the credit risks. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by management.

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

Equity Price Risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investment classified as financial asset at fair value through profit or loss. The Group's listed investment is listed on the Stock Exchange and is valued at quoted market prices at the end of the reporting period. Management manages this exposure by assessing the risk associated with each individual investment and maintaining a portfolio of investments with different risks in the future if necessary.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 December 2019.

CHARGE ON THE GROUP'S ASSETS

No charges on the Group's assets was noted as at 31 December 2019.

DIVIDEND

The Board does not recommend the distribution of any dividends for the year ended 31 December 2019 (2018: nil).

FINANCIAL ASSISTANCE FROM SUBSTANTIAL SHAREHOLDER

On 27 October 2017, the Company, as the issuer (the "Issuer"), entered into a subscription agreement (the "Subscription Agreement A") with a company indirectly wholly-owned by 廣州產業投資基金管理有限公司 (Guangzhou Industrial Investment Fund Management Co., Ltd.*), a substantial Shareholder, as the subscriber (the "Subscriber"), in relation to the subscription of unsecured bonds to be issued by the Company (the "Bonds"). The issue of Bonds constituted an exempt connected transaction of the Company under Rule 14A.90 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange. Pursuant to and subject to the satisfaction (or waiver) of the conditions precedent set out in the Subscription Agreement A, the Company agreed to issue, and the Subscriber agreed to subscribe, for the Bonds in the principal amount of up to HK\$80,000,000 with a coupon rate of 8% per annum payable quarterly in arrears for a term of 23 months from the date of issue of the Bonds. The maturity date of the Bonds will be intended to extend upon maturity. The net proceeds from the issuance of the Bonds are used by the Group as general working capital of the Group, in particular towards money lending and financial services business and to finance suitable investment opportunities if and when they arise.

Subsequent to the end of the reporting period, the Subscriber issued a letter of intent to extend the bond maturity date of a bond payable of HK\$80,000,000.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

There had not been any other equity or debt fund raising activity conducted by the Group in the past twelve months.

PROVISION OF FINANCIAL ASSISTANCE AND ADVANCE TO AN ENTITY

Provision of Financial Assistance Amounting to HK\$20,000,000

On 19 December 2016, Capital Strategic (as lender) entered into a loan agreement (the “DT Loan Agreement”) with a third party independent of the Company and its connected person (as defined under the Listing Rules) (the “Borrower”), pursuant to which, Capital Strategic agreed to provide a loan to the Borrower in the principal amount of HK\$20,000,000 (the “DT Loan”) for a period of 6 months following the date of the first drawdown at an interest rate of 13% per annum payable on the date falling 6 months from the first drawing of the DT Loan (the “Provision of the Loan”). The DT Loan was extended in the prior years and was settled during the year.

Provision of Loan to an Entity Amounting to HK\$180,000,000

On 24 November 2017, Capital Strategic, as the lender, entered into a loan agreement (the “MT Loan Agreement”) with Yuan Heng, as the borrower, pursuant to which, Capital Strategic would provide a loan of HK\$180,000,000 (the “MT Loan”) to Yuan Heng for a term of 6 months from the date of drawdown, which was 25 January 2018, and could be further extended for another 6 months with written consent of Capital Strategic (or any other dates as may be agreed by Capital Strategic and Yuan Heng in writing) at the interest rate of 10% per annum which will be paid monthly.

The MT Loan is secured by (i) a share charge (the “Share Charge”) executed by Firmwill Investments Limited (“Firmwill”), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Yuan Heng, in favor of Capital Strategic, whereby, Firmwill would execute the charge over 1 share in Fully World Limited (“Fully World”), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Firmwill, representing the entire issued share capital of Fully World, to Capital Strategic; and (ii) a floating charge (“Floating Charge”) over all or any part of the property and/or assets of Fully World created by Fully World in favour of Capital Strategic. Yuan Heng had repaid HK\$100,000,000 of the MT Loan to Capital Strategic by 6 August 2018.

On 25 January 2019, Capital Strategic and Yuan Heng entered into the first supplemental agreement (the “1st Supplemental Agreement”) pursuant to which Capital Strategic agreed to extend the maturity date of the remaining HK\$80,000,000 of the MT Loan to 25 July 2019 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). Yuan Heng had further repaid HK\$5,000,000 of the MT Loan to Capital Strategic by 16 July 2019.

On 26 July 2019, Capital Strategic and Yuan Heng entered into the second supplemental agreement (the “2nd Supplemental Agreement”) with retrospective effect from 25 July 2019 pursuant to which Capital Strategic had agreed to extend the maturity date of the remaining HK\$75,000,000 of the MT Loan to 25 January 2020 (or any other date as may be agreed by Capital Strategic and Yuan Heng in writing). The MT Loan continues to be secured by the Share charge and the Floating charge.

Subsequent to the financial year under review, on 21 January 2020, Yuan Heng had further repaid HK\$35,000,000 of the Original Facility to Capital Strategic.

The grant of the MT Loan under the MT Agreement is a financial assistance provided by the Company within the meaning of the Listing Rules and the MT Loan constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Details of the MT Loan are also set out in the announcements of the Company dated 24 November 2017, 25 January 2018, 25 January 2019 and 26 July 2019 and circular dated 22 December 2017, respectively. The MT Loan was completed on 25 January 2018 and the MT loan is still outstanding as at 31 December 2019.

Provision of Financial Assistance Amounting to HK\$40,000,000

On 14 February 2018, Capital Strategic, as the lender, entered into a loan agreement (the “CH Loan Agreement”) with China-HK, as the borrower, pursuant to which Capital Strategic would provide a loan facility of HK\$40,000,000 (the “CH Loan”) to China-HK for a term of 6 months from the date of the relevant drawdown, which could be extended upon the requested of China-HK and subject to agreement of Capital Strategic in writing, at the interest rate of 12% per annum which will be paid on the relevant repayment dates of the CH Loan drawn down.

On 14 August 2018, Capital Strategic entered into a supplemental loan agreement with China-HK to, among other matters, extend the maturity date from 14 August 2018 to 14 February 2019. Other than the maturity date which had been extended to 14 February 2019 pursuant to the supplemental loan agreement, the principal terms of the CH Loan Agreement remains applicable to Capital Strategic and China-HK in connection with the CH Loan.

The CH Loan is secured by (i) charge over 10,000 shares of China-HK, being the entire issued share capital of the China-HK, in favour of Capital Strategic, by Wide Merit Limited, a company incorporated in the British Virgin Islands, being the holding company of China-HK; and (ii) charges over the entire share capital of 長三角徐州石油科技有限公司 (Changsanjiao Xuzhou Petroleum Technology Company Limited*), being a wholly-owned subsidiary of China-HK, and 鹽城賽孚石油化工有限公司 (Yancheng Saifu Petroleum & Chemical Company Limited*), being a wholly-owned subsidiary of Changsanjiao Xuzhou Petroleum Technology Company Limited.

The provision of the CH Loan under the CH Loan Agreement is a financial assistance provided by the Company within the meaning of the Listing Rules and the CH Loan constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Details of the CH Loan are set out in the announcement of the Company dated 14 February 2018 and 14 August 2018. The CH Loan is still outstanding as at 31 December 2019.

Save as disclosed above, the Group did not have any other provision of financial assistance and advance to an entity.

SUBSEQUENT EVENTS

On 17 January 2020, the Company, as the borrower, entered into a loan agreement (the ‘Loan Agreement’) with the lender, a business company incorporated under the laws of the British Virgin Islands (the ‘Lender’) and a third party independent of the Company and its connected person. Pursuant to and subject to the satisfaction of the conditions precedent set out in the Loan Agreement, the Lender agreed to provide a loan in the principal amount of HK\$75,000,000 (the ‘Loan’) for a term of one year from the date of the Loan but can be extended to two years subject to the consent of the Lender (at its absolute discretion) upon the request of the Company at the interest rate of 8.5% per annum which will be paid quarterly. The Loan was used for the Company’s loan repayment.

Regarding the Group’s financial services business, subsequent to the financial year under review, on 31 January 2020, the Group has entered into an agreement to acquire 30% equity interest in 廣俊粵港澳產業投資基金管理(廣州)有限公司 (Guangjun Guangdong–Hong Kong–Macao Industrial Investment Fund Management (Guangzhou) Company Limited*) (the ‘GJ Fund Management Company’) at a consideration of approximately HK\$3 Million. GJ Fund Management Company will establish a private equity fund for investing in an education project in Nansha district, Guangzhou Province, the PRC. The Group is optimistic about the prospect of GJ Fund Management Company and believe such acquisition would strengthen the Group’s network in the PRC fund industry, which is in line with the expansion plan of the Group.

After the outbreak of a respiratory illness caused by the COVID –19 coronavirus in early 2020 which was later characterised as a pandemic (the ‘Pandemic’), a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the Pandemic and evaluate its impact on the financial position and operating results of the Group in 2020. Pending development of such subsequent non– adjusting event, the Group’s financial results may be affected, the extent to which could not be estimated as at the date of this announcement.

Except as disclosed elsewhere in this announcement, there is no material subsequent event undertaken by the Group after 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining high standards of corporate governance consistent with the needs and requirements of its business and the Shareholders. The Company has adopted the code provisions (the ‘Code Provisions’) as set out in the Corporate Governance Code (the ‘CG Code’) contained in Appendix 14 of the Listing Rules. The corporate governance principles of the Company emphasise a quality board, sound internal controls, and transparency and accountability to all the Shareholders.

The Company has complied with all the Code Provisions of the CG Code during the year ended 31 December 2019.

Further information on the Company's corporate governance practices will be detailed in the corporate governance report contained in the annual report of the Company for the year ended 31 December 2019, which shall be sent to the Shareholders in due course.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 (the "Model Code") to the Listing Rules as its own code of conduct regarding the dealings in securities of the Company by the Directors.

Having made specific enquiry of all Directors, each Director has confirmed that he/she has complied with the required standard set out in the Model Code during the year.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, risk management and internal control systems of the Group. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Fok Ho Yin, Thomas (chairman), Mr. Chan Wai Cheung, Admiral and Mr. Lam Ho Pong.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and risk management and financial reporting matters, including the final results of the Group for the year ended 31 December 2019 with the management.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

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

EXTRACT OF THE INDEPENDENT AUDITOR’S REPORT ON THE COMPANY’S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

We draw attention to note 1 to the consolidated financial statements which mentions that the Group incurred loss attributable to owners of the Company of HK\$111,390,000 and HK\$101,279,000 respectively for two consecutive years of year ended 31 December 2019 and 2018 and as at 31 December 2019 the Group had net current liabilities and net liabilities of HK\$124,423,000 and HK\$120,364,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the substantial shareholders, at a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the financial support. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the uncertainty relating to the continued support of the Group’s substantial shareholders, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Tuesday, 2 June 2020 (the “AGM”). Details of the AGM are set out in the notice of the AGM which constitutes part of the circular to be sent to the Shareholders together with the annual report. Notice of the AGM and the proxy form will also be available on the websites of the Stock Exchange and the Company.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the Shareholders entitled to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 28 May 2020 to Tuesday, 2 June 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company’s branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 27 May 2020 (Hong Kong time).

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company at www.1367.com.hk.

The printed copy of the annual report will be sent to Shareholders and the soft copy of the same will be published on websites of the Stock Exchange and the Company in due course.

By order of the Board
SFund International Holdings Limited
Li Qing
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, the executive Directors are Mr. Li Qing, Mr. Lam Kwan Sing, Mr. Liu Zhijun, Ms. Yi Sha, Ms. Wang Mengsu and Mr. Hon Ming Sang and the independent non-executive directors are Mr. Fok Ho Yin, Thomas, Mr. Chan Wai Cheung, Admiral, and Mr. Lam Ho Pong.