



SOMERLEY CAPITAL HOLDINGS LIMITED

新百利融資控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8439

2020/21

INTERIM REPORT

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

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

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

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

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Dear Shareholders,

I am pleased to report that, following a small loss for the first quarter of our financial year ending 31 March 2021, the Group has performed strongly in the second quarter, allowing us to report an increase in revenue and an interim profit before tax of approximately HK\$6.6 million for the six months ended 30 September 2020 (the "Period"), compared to a loss before tax of approximately HK\$1.6 million for the corresponding period of the previous year. The detailed figures are set out on page 15 of this report. The overall interim profit benefited from an unrealised fair value gain on investment of approximately HK\$5.6 million, but looking at the second quarter on its own, profits before tax of approximately HK\$3.8 million were achieved before taking into account any fair value gain. In the corporate finance advisory segment, it is pleasing to note that our Beijing subsidiary is integrating very effectively with our Hong Kong teams.

Our asset management subsidiary, Environmental Investment Services Asia Limited ("EISAL"), deserves great credit for its management of the Climate Impact Asia Fund ("CIAF") during the Period, generating the fair value gain of approximately HK\$5.6 million (mentioned above) in respect of the Company's investment in CIAF. EISAL's own operations for the Period saw a small loss of approximately HK\$0.8 million, reflecting the early stage of the Group's asset management business.

Employee benefit costs are analysed on page 7 of this report and are almost the same as last year, with the assistance of a government grant of approximately HK\$1.7 million under the Employee Support Scheme. Depreciation and other operating costs set out on pages 7-8 of this report were also well controlled.

The Group's balance sheet is set out on pages 17–18 of this report. Our financial position remains strong with net assets of approximately HK\$104 million and cash and cash equivalents of approximately HK\$63 million as at 30 September 2020.

Prospects for the full financial year ending 31 March 2021 are hard to judge. The level of work on hand is encouraging, while competition remains strong. There is no doubt that the 'wind of change' is blowing through the Hong Kong financial services industry. It seems likely that Shanghai, Shenzhen and the Greater Bay Area will exercise an increasing gravitational pull on the business we do. This report is being issued in Hong Kong's Fintech week, as part of which Somerley is sponsoring the TADS awards (Tokenised Assets and Digitised Securities). Having returned to profitability, we hope to respond positively to these challenges and changes in the second half of our financial year.

Yours sincerely,
Martin Sabine
Chairman

BUSINESS REVIEW AND PROSPECT

The Group is an integrated financial services provider licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and is principally engaged in providing (i) corporate finance advisory services in Hong Kong and through its subsidiaries in Hong Kong and Beijing; and (ii) asset management services in Hong Kong.

The corporate finance advisory business operated by Somerley Capital Limited (“Somerley Capital”) and Somerley Capital (Beijing) Limited is the Group’s core business segment. The Group’s corporate finance advisory services mainly include (i) acting as financial adviser to Hong Kong public listed companies, major shareholders and investors of these companies and parties seeking to control or invest in listed companies in Hong Kong, mostly in transactions which involve the Rules Governing the Listing of Securities on the Stock Exchange, the GEM Listing Rules and/or the Codes on Takeovers and Mergers and Share Buy-backs; (ii) acting as independent financial adviser to independent board committees and/or independent shareholders of listed companies in Hong Kong; (iii) acting as compliance adviser, mostly for newly listed companies in Hong Kong; (iv) acting as sponsor to initial public offerings and listings of shares of companies on the Stock Exchange in Hong Kong and advising on secondary equity issues in Hong Kong; and (v) acting as advisor to the cross-border mergers and acquisitions.

Environmental Investment Services Asia Limited (“EISAL”) operates the Group’s asset management business. Currently, EISAL manages The Climate Impact Asia Fund (“CIAF”), an innovative climate impact fund focused on low carbon listed equity investments in the Asian region. On 15 September 2020, CIAF was awarded the Environmental Finance 2020 Award for Impact Initiative of the Year: Asia. Since the launch on 3 January 2020, the net asset value per CIAF Share increased from US\$100 to approximately US\$107.4 as at 30 September 2020.



During the Period, the Group recorded a profit after tax of approximately HK\$6.5 million, showing a sharp improvement over the loss for the corresponding period of 2019 of approximately HK\$1.6 million particularly in the second quarter of the financial year ending 31 March 2021.

For the six months ended 30 September

	2020			2019		
	CF HK\$'000	AM HK\$'000	Total HK\$'000	CF HK\$'000	AM HK\$'000	Total HK\$'000
Segment revenue	35,848	248	36,096	34,562	106	34,668
Segment profit (loss)	3,049	(794)	2,255	1,283	(1,290)	(7)
Fair value gain on the investment in CIAF			5,643			—
Corporate and other unallocated expenses, net			(1,324)			(1,635)
Profit (loss) before tax			6,574			(1,642)

The corporate finance advisory business segment recorded revenue of approximately HK\$35.8 million (2019: approximately HK\$34.6 million) and a segment profit before tax of approximately HK\$3.0 million (2019: approximately HK\$1.3 million). The increase in profit was mainly attributable to (i) a modest increase in revenue; and (ii) the reduction in employee benefits costs as a result of the government grant during the Period.

The asset management business segment recorded revenue of approximately HK\$0.2 million (2019: approximately HK\$0.1 million) and a segment loss before tax of approximately HK\$0.8 million (2019: approximately HK\$1.3 million). The segment loss reflects the early stage of development of the Group's asset management business.

During the year ended 31 March 2020, there was an approximately HK\$4.0 million decrease in the fair value of the Group's investment in CIAF, reflecting adverse stock market conditions. With a gradual recovery of stock market during the Period, the Group recorded an unrealised fair value gain of approximately HK\$5.6 million on its investment in CIAF.

The return to profit during the Period was mainly due to the combined effects of (i) the increase in revenue generated from corporate finance advisory services; (ii) a net decrease in total operating expenses; and (iii) an unrealised fair value gain on the investment in the shares in CIAF.

The Group's corporate finance segment recorded a profit of approximately HK\$3.0 million during the Period as a result of the continuous dedication of the Group's colleagues in such difficult operating environment and the Group's active participation in transactions favoured by the market — privatisations and restructurings for example. The Group's Beijing team continues to integrate effectively with Hong Kong and their physical presence in mainland China has becoming more important as travel between China and Hong Kong is still restricted. The Directors considers the Hong Kong financial market can weather the current economic uncertainty as China's economy is rebounding and the pandemic situation in China and Hong Kong seems to be under control. Leveraging on the Group's positive result for the Period and based on the existing deal flow, the Directors are cautiously optimistic for the Group's result for the second half of this financial year.



FINANCIAL REVIEW

Revenue

The Group's total revenue increased by approximately 4.0% to approximately HK\$36.1 million for the Period from approximately HK\$34.7 million for the six months ended 30 September 2019.

Revenue generated from acting as financial adviser ("FA") and as independent financial adviser ("IFA") for the Period amounted to approximately HK\$28.0 million (2019: approximately HK\$21.9 million), accounting for approximately 77.6% of the Group's total revenue (2019: approximately 63.1%). The increase is mainly attributable to winning a higher level of mandate and executing transactions efficiently. FA and IFA activities are expected to remain the major source of the Group's revenue in the immediate future.

Revenue generated from acting as compliance adviser ("CA") for the Period amounted to approximately HK\$7.9 million (2019: approximately HK\$8.4 million), accounting for approximately 21.9% of the Group's total revenue (2019: approximately 24.2%). CA activities continue to provide a stable source of income to the Group, complementing the more fluctuating corporate finance advisory income.

The rest of the Group's revenue for the Period were contributed by the provision of the asset management service.

Other Income

Other income mainly represented bank interest income, management service fee income from Somerley Group Limited ("SGL"), rental income and reimbursement of other premise expenses from SGL. Other income decreased to approximately HK\$0.5 million for the Period from approximately HK\$1.0 million for the six months ended 30 September 2019, primarily due to the decrease in interest income from bank deposits.

Employee Benefits Costs

The Group's employee benefits costs primarily consist of fees, salaries, bonuses, share-based payments and allowances as well as contributions to retirement benefits scheme for the Directors and the employees of the Group.

	For the six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Fees, salaries, allowances and other benefits	22,816	23,942
Discretionary bonus	1,400	—
Share-based payments	—	254
Contributions to retirement benefits scheme	428	527
	24,644	24,723
Analysed as:		
— corporate holding	360	614
— corporate finance advisory (Hong Kong)	22,715	22,080
— corporate finance advisory (Beijing)	989	1,097
— asset management	580	932
	24,644	24,723

Employee benefits costs amounted to approximately HK\$24.6 million and approximately HK\$24.7 million for the Period and the six months ended 30 September 2019, primarily due to the combined effects of (i) the increase in headcount during the Period; (ii) the absence of amortisation of share-based payments; (iii) the accrued bonus of approximately HK\$1.4 million as a result of the profit noted for the Period; and (iv) the recognition of the government grant of approximately HK\$1.7 million from the Employment Support Scheme under Anti-Epidemic Fund.

Depreciation and Other Operating Expenses

The Group adopted HKFRS 16 and all non-cancellable operating leases, except for short-term leases and leases for low-value assets, entered by the Group are recorded as right-of-use assets whose costs will be depreciated over the lease terms. Therefore, the rental expenses are included as depreciation of right-of-use assets under HKFRS 16.



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

	For the six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of property and equipment	518	527
Depreciation of right-of-use assets	5,066	4,486
	5,584	5,013
Rental expenses and other premises expenses	1,024	1,564
Travelling expenses	121	286
Impairment loss recognised in respect of trade receivables	452	341
Recurring GEM listing expenses (excluding remuneration of independent non-executive directors)	917	1,463
Others	2,540	3,214
	10,638	11,881
Analysed as:		
— corporate holding	1,395	1,926
— corporate finance advisory (Hong Kong)	8,184	8,342
— corporate finance advisory (Beijing)	607	1,146
— asset management	452	467
	10,638	11,881

The Group's depreciation and other operating expenses decreased by approximately 10.9% to approximately HK\$10.6 million for the Period from approximately HK\$11.9 million for the six months ended 30 September 2019. The decrease was mainly due to the absence of one-off agency cost incurred for new hires and the general decrease in other operating expenses.

Profit (Loss) for the Period

For the Period, the Group recorded a profit before tax of approximately HK\$6.6 million (2019: loss before tax of approximately HK\$1.6 million), and after-tax profit was approximately HK\$6.5 million (2019: loss after tax of approximately HK\$1.6 million). The profit was primarily due to (i) an increase in revenue; (ii) a net decrease in total operating expenses; and (iii) the unrealised fair value gain on the investment in CIAF.

Liquidity, Financial Resources and Capital Structure

The Group's working capital and other capital requirements were principally satisfied by cash generated from the Group's operations.

The Group's equity consists of ordinary shares of the Company (the "Shares"). The Group had neither banking facilities nor borrowings as at 31 March 2020 and 30 September 2020.

The Directors are of the view that the Group's financial resources are fully sufficient to support its business and operations at the date hereof.

Foreign Exchange Exposure

The majority of the Group's revenue is denominated in Hong Kong dollars and the Group's accounts are prepared in Hong Kong dollars. Consequently, exposure to the risk of foreign exchange rate fluctuations for the Group is not material.



Future Plans for Material Investments or Capital Assets

The Group had no capital commitments as at 30 September 2020 (31 March 2019: approximately HK\$0.3 million). Save for the business plan disclosed in the prospectus of the Company dated 15 March 2017 (the “Prospectus”), announcement of, among others, change in use of proceeds published on 22 June 2018 or as otherwise disclosed in this report, the Group did not have plans for making material investments or acquiring capital assets as at 30 September 2020.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

Save as disclosed in this report, there were no material acquisitions and disposals of subsidiaries, associates or joint ventures by the Group during the Period.

Significant Investments

On 27 December 2019, the Group subscribed for and was allotted Class A shares of CIAF at a consideration of US\$2.8 million, equivalent to approximately HK\$21.8 million. The subscription was settled by the internal resources of the Group in December 2019. Details of the subscription were set out in the announcement dated 27 December 2019. Except for investments in subsidiaries and the subscription of shares in CIAF, the Group did not hold any significant investments during the Period (2019: nil).

As at 30 September 2020, the Group held 28,000 units of CIAF (31 March 2020: 28,000 units), representing 26.6% interest in CIAF (31 March 2020: 26.6%) and the fair value amounted to approximately HK\$23.3 million (31 March 2020: approximately HK\$17.7 million), representing approximately 19.6% of the Group’s total assets (31 March 2020: approximately 14.7%). Unrealised fair value gain of approximately HK\$5.6 million was recognised for the Period and an unrealised fair value gain of approximately HK\$1.6 million was recognised since the inception.

The Group committed these funds as part of the launch capital for CIAF for its long term development. CIAF is an open-end fund with no fixed maturity. The timing of the launch was not ideal as CIAF invested the capital shortly before the January high of the Hong Kong stock market. The Group is confident that in the longer term this investment will yield a satisfactory return in itself and also serve its purpose in underpinning the development of CIAF.

Events After The Reporting Date

Save as disclosed elsewhere in this report, the Group has no significant events subsequent to 30 September 2020 and up to the date of this report.

Charge on Assets & Contingent Liabilities

As at 31 March 2020 and 30 September 2020, the Group did not have any charges on its assets or material contingent liabilities.

Gearing Ratio

As at 31 March 2020 and 30 September 2020, the Group did not have any borrowings and hence gearing ratio was not applicable.

Dividend

The board of Directors (the “Board”) does not recommend the payment of any dividend for the Period (2019: nil).

Treasury Policies

The credit risk facing the Group is primarily attributable to bank balances and trade receivables. Bank balances are held with leading licensed banks in Hong Kong. The management of the Group regularly reviews the recoverable amount of each individual trade receivable to monitor prompt recovery and if necessary to make adequate impairment losses for irrecoverable amounts.

Employees and Remuneration Policies

The Group employed 51 employees as at 31 March 2020 and 30 September 2020.

For the Period, employee benefits costs of the Group (including the Directors' emoluments) were approximately HK\$24.6 million (2019: approximately HK\$24.7 million). Remuneration is determined with reference to market terms, the financial results of the Group and the performance, qualifications and experience of employees. Apart from basic remuneration, share options may be granted under the share option scheme of the Company to eligible employees by reference to the Group's performance as well as the individual's contribution. The Directors believe that the compensation packages offered by the Group to its staff are competitive in comparison with market standards and practices.



Update of Business Progress and Use of Proceeds

Majority of the business objectives as stated in the Prospectus and the announcement of, among others, change in use of proceeds published on 22 June 2018 were accomplished as at 31 March 2019 except for the enhancement of the Group's information technology systems. As at 30 September 2020, the enhancement of the Group's information technology ("IT") infrastructure and the implementation of the business continuity plan are almost completed, but further upgrading and updating of IT is a continuing requirement.

The net proceeds from the Group's listing on GEM of the Stock Exchange on 28 March 2017 (the "Listing") were approximately HK\$55.9 million. The Group adjusted the use of net proceeds in the same manner as stated in the Prospectus and approximately HK\$27.7 million were utilised for the year ended 31 March 2018. On 22 June 2018, the Group announced the change in use of net proceeds of approximately HK\$28.2 million and approximately HK\$25.9 million were utilised for the year ended 31 March 2019.

As at 30 September 2020, the remaining proceeds of approximately HK\$2.3 million were unutilised and are expected to be utilised for further upgrading and updating IT in the second quarter of 2021.

As disclosed in the Prospectus, to the extent that the net proceeds from the Listing were not immediately required for the above purposes, they have been placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong. In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or hold the funds as short-term interest bearing deposits so long as the Directors consider it to be in the best interests of the Company and the shareholders.

TO THE BOARD OF DIRECTORS OF SOMERLEY CAPITAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Somerley Capital Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 15 to 41, which comprise the condensed consolidated statement of financial position as of 30 September 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended, and other explanatory notes. The GEM Listing Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standards 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the condensed consolidated statement of profit or loss and other comprehensive income for each of the three-month periods ended 30 September 2020 and 30 September 2019 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

6 November 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

The Board is pleased to present the unaudited condensed consolidated results of the Group for the Period, together with the comparative unaudited figures for the corresponding period in 2019, as follows:

	Notes	Three months ended 30 September		Six months ended 30 September	
		2020	2019	2020	2019
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	6	21,700	19,222	36,096	34,668
Other income	7	122	491	524	962
		21,822	19,713	36,620	35,630
Employee benefits costs		(12,250)	(12,459)	(24,644)	(24,723)
Fair value gain on financial asset at fair value through profit or loss		2,851	—	5,643	—
Depreciation	12	(2,795)	(2,495)	(5,584)	(5,013)
Introduction expenses		(249)	(134)	(249)	(454)
Finance cost		(72)	(103)	(158)	(214)
Other operating expenses		(2,559)	(3,522)	(5,054)	(6,868)
Profit (loss) before tax	8	6,748	1,000	6,574	(1,642)
Income tax (expense) credit	9	(138)	39	(104)	50
Profit (loss) for the period		6,610	1,039	6,470	(1,592)
Other comprehensive income (expense)					
Item that may be reclassified subsequently to profit or loss:					
Exchange difference arising on translation of foreign operations		20	(4)	23	(9)
Total comprehensive income (expense) for the period		6,630	1,035	6,493	(1,601)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

Note	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Profit (loss) for the period attributable to:				
Owners of the Company	6,703	1,212	6,671	(1,267)
Non-controlling interests	(93)	(173)	(201)	(325)
	6,610	1,039	6,470	(1,592)
Total comprehensive income (expense) for the period attributable to:				
Owners of the Company	6,723	1,208	6,694	(1,276)
Non-controlling interests	(93)	(173)	(201)	(325)
	6,630	1,035	6,493	(1,601)
Earnings (loss) per share				
— basic (HK cents)	10 4.73	0.86	10 4.71	(0.90)
— diluted (HK cents)	10 4.58	0.86	10 4.56	(0.90)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Notes	As at 30 September 2020 HK\$' 000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Non-current assets			
Property and equipment	12	1,825	2,249
Right-of-use assets	12	8,835	13,911
Goodwill		1,123	1,123
Intangible asset		6,000	6,000
Rental deposits	13	362	2,594
Deferred tax asset		62	47
		18,207	25,924
Current assets			
Trade receivables	13	8,354	6,854
Prepayments, deposits and other receivables	13	5,279	1,820
Amount due from ultimate holding company		426	—
Financial asset at fair value through profit or loss	14	23,311	17,674
Tax recoverable		603	827
Cash and cash equivalents		62,977	67,235
		100,950	94,410
Current liabilities			
Contract liability		526	334
Other payables and accruals	15	2,940	2,500
Lease liabilities	12	7,514	9,499
Provision for reinstatement cost		2,300	—
Tax payable		—	62
		13,280	12,395
Net current assets		87,670	82,015
Total assets less current liabilities		105,877	107,939

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020



	Notes	As at 30 September 2020 HK\$' 000 (Unaudited)	As at 31 March 2020 HK\$' 000 (Audited)
Non-current liabilities			
Lease liabilities	12	974	3,721
Provision for long service payment		303	303
Provision for reinstatement cost		—	2,300
Deferred tax liabilities		997	1,102
		2,274	7,426
Net assets		103,603	100,513
Capital and reserves			
Share capital	16	1,418	1,413
Reserves		100,739	97,453
Equity attributable to owners of the Company		102,157	98,866
Non-controlling interests		1,446	1,647
Total equity		103,603	100,513

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

	Attributable to the owners of the Company							Total	Non-controlling interests	Total
	Share capital	Share premium	Retained earnings	Shareholder contribution reserve	Share option reserve	Translation reserve	Other reserve (note)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2020 (Audited)	1,413	57,975	23,132	4,179	2,307	(40)	9,900	98,866	1,647	100,513
Profit (loss) for the period	—	—	6,671	—	—	—	—	6,671	(201)	6,470
Other comprehensive income:										
Exchange differences arising from translation of foreign operation	—	—	—	—	—	23	—	23	—	23
Total comprehensive income (expense) for the period	—	—	6,671	—	—	23	—	6,694	(201)	6,493
Dividends recognised as distribution (note 11)	—	(3,546)	—	—	—	—	—	(3,546)	—	(3,546)
Issue of shares upon exercise of share options (note 16)	5	319	—	—	(181)	—	—	143	—	143
At 30 September 2020 (Unaudited)	1,418	54,748	29,803	4,179	2,126	(17)	9,900	102,157	1,446	103,603
At 1 April 2019 (Audited)	1,410	64,847	28,948	4,179	2,029	4	9,900	111,317	3,020	114,337
Loss for the period	—	—	(1,267)	—	—	—	—	(1,267)	(325)	(1,592)
Other comprehensive expense:										
Exchange differences arising from translation of foreign operation	—	—	—	—	—	(9)	—	(9)	—	(9)
Total comprehensive expense for the period	—	—	(1,267)	—	—	(9)	—	(1,276)	(325)	(1,601)
Dividends recognised as distribution (note 11)	—	(7,064)	—	—	—	—	—	(7,064)	—	(7,064)
Issue of shares upon exercise of share options (note 16)	3	173	—	—	(92)	—	—	84	—	84
Recognition of equity-settled share-based payments (note 18)	—	—	—	—	254	—	—	254	—	254
At 30 September 2019 (Unaudited)	1,413	57,956	27,681	4,179	2,191	(5)	9,900	103,315	2,695	106,010

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020



	Six months ended	
	30 September	
	2020	2019
	HK\$' 000	HK\$' 000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit (loss) before tax	6,574	(1,642)
Adjustments for:		
Depreciation of property and equipment	518	527
Depreciation of right-of-use assets	5,066	4,486
Bank interest income	(98)	(576)
Finance cost	158	214
Government grant	(1,724)	—
(Reversal of) provision for long service payments	—	(29)
Impairment loss recognised in respect of trade receivables	452	341
Share-based payment expenses	—	254
Unrealised fair value gain on financial asset at fair value through profit or loss	(5,643)	—
Operating cash flow before movements in working capital	5,303	3,575
Increase in trade receivables	(1,952)	(6,258)
Increase (decrease) in contract liability	192	(143)
Increase in prepayments, deposits and other receivables	(852)	(209)
Increase (decrease) in other payables and accruals	440	(4,745)
Increase in amount due from ultimate holding company	(426)	(386)
Cash generated from (used in) operations	2,705	(8,166)
Profits tax paid	(62)	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES	2,643	(8,166)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Six months ended	
	30 September	
	2020	2019
	HK\$' 000	HK\$' 000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Bank interest received	89	518
Purchase of property and equipment	(92)	(279)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(3)	239
FINANCING ACTIVITIES		
Dividends paid	(3,546)	(7,064)
Government grant received	1,358	—
Repayment of principal element of lease liabilities	(4,732)	(4,054)
Interest paid in respect of lease liabilities	(158)	(214)
Proceeds from issuance of shares	143	84
NET CASH USED IN FINANCING ACTIVITIES	(6,935)	(11,248)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,295)	(19,175)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD	67,235	101,961
Effect of foreign exchange rate changes	37	(9)
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	62,977	82,777
represented by bank balances and cash		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



1. GENERAL

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements of Somerley Capital Holdings Limited and its subsidiaries (collectively, the Group) for the period have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

3. CHANGE IN ACCOUNTING POLICIES

The accounting policies used for the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2020, except as described below:

During the Period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards ("HKFRSs") and the following amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 April 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS and the amendments to HKFRSs in the Period has had no material impact on the Group's financial performance and position for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

In preparing this unaudited condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



5. SEGMENT INFORMATION

Information reported to the management of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The directors of the Company have chosen to organise the Group around differences in services.

Specifically, the Group's reportable segments are as follows:

1. Corporate finance advisory service
2. Asset management service

The following is an analysis of the Group's revenue and results by reportable and operating segments.

	For the six months ended 30 September 2020			For the six months ended 30 September 2019		
	Corporate finance advisory service HK\$'000	Asset management service HK\$'000	Total HK\$'000	Corporate finance advisory service HK\$'000	Asset management service HK\$'000	Total HK\$'000
Segment revenue	35,848	248	36,096	34,562	106	34,668
Segment profit (loss)	3,049	(794)	2,255	1,283	(1,290)	(7)
Fair value gain on financial assets at fair value through profit or loss			5,643			—
Corporate and other unallocated expenses, net			(1,324)			(1,635)
Profit (loss) before tax			6,574			(1,642)

Segment profit (loss) represents the profit earned (loss resulted) from each segment without allocation of fair value gain on financial assets at fair value through profit or loss and central administration costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

	As at 30 September 2020			As at 31 March 2020		
	Corporate finance advisory service HK\$'000	Asset management service HK\$'000	Total HK\$'000	Corporate finance advisory service HK\$'000	Asset management service HK\$'000	Total HK\$'000
Segment assets	61,062	8,479	69,541	62,520	9,548	72,068
Elimination of intersegment receivables			(66)			(66)
Corporate and other unallocated assets			49,682			48,332
Total assets			<u>119,157</u>			<u>120,334</u>
Segment liabilities	12,867	1,617	14,484	15,630	1,892	17,522
Elimination of intersegment liabilities			(2,130)			(1,280)
Corporate and other unallocated liabilities			3,200			3,579
Total liabilities			<u>15,554</u>			<u>19,821</u>

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

- all assets are allocated to operating segments other than certain of property and equipment, certain of right-of-use assets, financial asset at fair value through profit or loss, cash and cash equivalents, prepayments, deposits and other receivables; and
- all liabilities are allocated to operating segments other than provision for reinstatement cost, certain of lease liabilities, other payables and accruals and tax payable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



5. SEGMENT INFORMATION (CONTINUED)

Other segment information

For the six months ended 30 September 2020

	Corporate finance advisory service HK\$'000	Asset management service HK\$'000	Corporate HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property and equipment	92	—	—	92
Depreciation of property and equipment	417	—	101	518
Depreciation of right-of-use assets	4,540	221	305	5,066
Impairment loss recognised in respect of trade receivables	452	—	—	452

For the six months ended 30 September 2019

	Corporate finance advisory service HK\$'000	Asset management service HK\$'000	Corporate HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property and equipment	279	—	—	279
Depreciation of property and equipment	426	—	101	527
Depreciation of right-of-use assets	4,182	—	304	4,486
Impairment loss recognised in respect of trade receivables	341	—	—	341

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

No geographical segment analysis on revenue and assets is provided as substantially all of the Group's revenue are derived from Hong Kong and non-current assets are located in Hong Kong.

Information about major customers

No customer accounted for 10% or more of the Group's revenue for the six months ended 30 September 2020 and 2019.

6. REVENUE

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

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Corporate finance advisory fee income		
— from acting as financial adviser	9,462	6,631
— from acting as independent financial adviser	18,518	15,265
— from acting as compliance adviser	7,868	8,352
— from acting as sponsor and underwriter	—	4,314
	35,848	34,562
Asset management fee income	248	106
	36,096	34,668

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



7. OTHER INCOME

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	98	576
Management fee income from ultimate holding company	78	39
Office sharing income and recharge of other premises expenses from ultimate holding company	348	347
	524	962

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

8. PROFIT (LOSS) BEFORE TAX

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) for the period has been arrived at after charging (crediting):		
Directors' emoluments:		
Fees	360	360
Other emoluments	5,148	5,148
Share-based payments	—	107
Contributions to retirement benefits scheme	18	18
	5,526	5,633
Other staff costs (note)	18,708	18,463
Reversal of provision for long service payment	—	(29)
Share-based payments	—	147
Contributions to retirement benefits schemes	410	509
Total employee benefits costs	24,644	24,723
Auditor's remuneration	323	260
Exchange loss, net	8	34
Depreciation for property and equipment	518	527
Depreciation for right-of-use assets	5,066	4,486
Impairment loss recognised in respect of trade receivables	452	341

Note: Wage subsidies of HK\$1,724,000 granted from the Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees have been recognised during the Period. The amounts had been offset with the employee benefits costs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



9. INCOME TAX EXPENSE (CREDIT)

	Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	224	41
Deferred taxation	(120)	(91)
	104	(50)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the six months ended 30 September 2020 and 2019, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

10. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company are based on the following data:

	Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Earnings (loss)		
Profit (loss) attributable to ordinary equity holders of the Company, used in the basic earnings (loss) per share calculation	6,671	(1,267)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

10. EARNINGS (LOSS) PER SHARE (CONTINUED)

	Number of shares	
	2020	2019
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings (loss) per share calculation ('000)	141,608	141,048
Effect of dilutive potential ordinary shares — share options ('000)	4,642	—
Weighted average number of ordinary shares in issue during the period, used in the diluted earnings (loss) per share calculation ('000) (note)	146,250	141,048

Note:

For the six months ended 30 September 2019, the computation of diluted loss per share does not assume the exercise of the Company's outstanding options to subscribe for additional share set out in note 18 since their exercise would result in an anti-dilutive effect on the basic loss per share.

11. DIVIDENDS

In accordance with the laws of the Cayman Islands and the Company's articles of association, the Company's share premium account is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

A final dividend of 2.5 cents per share in respect of the year ended 31 March 2020 (2019: 5.0 cents per share), amounting to approximately HK\$3,546,000 (2019: HK\$7,064,000), was paid on 24 September 2020 to the shareholders of the Company whose names appear on the Company's register of members on 14 September 2020.

The Directors do not recommend the payment of interim dividend for the Period (30 September 2019: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



12. PROPERTY AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) Property and equipment and right-of-use assets

During the Period, the Group had addition of furniture and fixtures of approximately HK\$92,000 (2019: HK\$279,000).

As at 30 September 2020, the carrying amounts of property and equipment and right-of-use assets were approximately HK\$1,825,000 (31 March 2020: HK\$2,249,000) and HK\$8,835,000 (31 March 2020: HK\$13,911,000) respectively.

The Group's depreciation during the period amounted to approximately HK\$518,000 (2019: HK\$527,000) and HK\$5,066,000 (2019: HK\$4,486,000) in respect of property and equipment and right-of-use assets respectively.

(ii) Lease liabilities

As at 30 September 2020, the carrying amount of lease liabilities were approximately \$8,488,000 (31 March 2020: HK\$13,220,000).

(iii) Amounts recognised in profit or loss

	Six months ended 30 September	
	2020	2019
	HK\$' 000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation on right-of-use assets	5,066	4,486
Finance cost on lease liabilities	158	214
Expense relating to short-term leases	—	591

(iv) Other

During the Period, the total cash outflow for leases amounted to approximately HK\$4,890,000 (2019: HK\$4,859,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

13. TRADE RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Trade receivables from		
— Corporate finance advisory service (note i)	8,908	7,067
— Asset management service (note ii)	46	35
	8,954	7,102
Less: Impairment allowance on trade receivables from corporate finance advisory service (note i)	(600)	(248)
	8,354	6,854

At as 30 September 2020, the gross amount of trade receivable arising from contracts with customers amounted to approximately HK\$8,954,000 (31 March 2020: HK\$7,102,000).

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Prepayments, deposits and other receivables Analysed as:		
— non-current (rental deposits)	362	2,594
— current	5,279	1,820
	5,641	4,414

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



13. TRADE RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Note i: Trade receivables — Corporate finance advisory service

The trade receivables are, in general, due upon the issuance of invoices. The Group does not hold any collateral over these balances. The following is an ageing analysis of trade receivables net of allowance for impairment of trade receivables presented based on the invoice date.

	As at 30 September 2020	As at 31 March 2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 90 days	7,529	6,121
91–180 days	763	590
Over 180 days	16	108
Total	8,308	6,819

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated individually or collectively using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The movement in the allowance for impairment of trade receivables is set out below:

	For the six months ended 30 September 2020	For the year ended 31 March 2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
At the beginning of the period/year	248	112
Impairment losses recognised on trade receivables	452	536
Amount written-off as uncollectible	(100)	(400)
At the end of the period/year	600	248

During the Period, trade receivables amounted to approximately HK\$100,000 (for the year ended 31 March 2020: HK\$400,000) were written off. The Group writes off trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

13. TRADE RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Note ii: Trade receivables — Asset management service

Trade receivables related to one independent customer. No impairment loss allowance has been provided for trade receivables as the related allowances were considered immaterial and there was no credit default history. The trade receivables are aged within 90 days based on the invoice date.

14. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 September 2020 HK\$' 000 (Unaudited)	As at 31 March 2020 HK\$' 000 (Audited)
Financial asset at fair value through profit or loss		
— Unlisted investment fund	23,311	17,674

15. OTHER PAYABLES AND ACCRUALS

	As at 30 September 2020 HK\$' 000 (Unaudited)	As at 31 March 2020 HK\$' 000 (Audited)
Bonus payables	1,400	853
Other payables	1,182	1,227
Accruals	358	420
	2,940	2,500

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



16. SHARE CAPITAL

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

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2019, 31 March 2020, 1 April 2020 and 30 September 2020	200,000	2,000
Issued and fully paid:		
At 1 April 2019 (Audited)	140,989	1,410
Exercise of share options (note i)	330	3
At 31 March 2020 (Audited)	141,319	1,413
Exercise of share options (note ii)	510	5
At 30 September 2020 (Unaudited)	141,829	1,418

Notes:

- (i) During the year ended 31 March 2020, share options were exercised at subscription prices HK\$0.28 per ordinary share, resulting in the issue of 330,419 ordinary shares for proceeds of approximately HK\$92,000. An amount of approximately HK\$103,000 was transferred from share option reserve to the share premium account upon exercise of the share options.
- (ii) During the Period, share options were exercised at subscription prices HK\$0.28 per ordinary share, resulting in the issue of 510,318 ordinary shares for proceeds of approximately HK\$143,000. An amount of approximately HK\$181,000 was transferred from share option reserve to the share premium account upon exercise of the share options.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

17. RELATED PARTY TRANSACTIONS

(a) Transactions

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Somerley Group Limited		
— Office sharing income and recharge of other premises expenses	348	347
— Management fee income	78	39

(b) Balances

The amount due from ultimate holding company is unsecured, non-interest bearing and repayable on demand.

(c) Compensation of key management personnel

Other than the emoluments paid to the directors of the Company, who are also considered as the key management of the Company as set out in note 8, the Company did not have any other compensation to the key management personnel.

The emoluments of the directors of the Company and key executives are determined with regards to the performance of individuals.



18. SHARE-BASED PAYMENT TRANSACTIONS

Pre-IPO Share Option Scheme

On 19 May 2016, the Company entered into the conditional granted options under Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme") to directors, employees and other staff of the Group as the grantees ("Grantees"), pursuant to a written resolution passed on 11 May 2016. Pursuant to the Pre-IPO Share Option Scheme, in consideration of HK\$1 paid by each Grantee, the Company granted share options to the Grantees. The exercise of these share options would entitle the Grantees to purchase the Company's share in aggregate of 13,061,735 Shares held by Company.

The share option is valid after the listing date of the Company to 10 May 2024. According to the Pre-IPO Share Option Scheme, not more than 5,524,294 Shares comprised in the options under the Pre-IPO Share Option Scheme shall vest unto the Grantees and become exercisable with price of HK\$0.28 during the period commencing from the listing date of the Company and ending on expiry of the option period (the "First Vesting Period") and the remaining Shares comprised in the options under the Pre-IPO Share Option Scheme (being not more than 7,537,441 Shares) shall vest unto the Grantees and become exercisable during the period commencing on (i) the date on which the listing date of the Company of the Shares is transferred to the Main Board; or (ii) 1 January 2020, whichever is earlier, and ending on the expiry of the option period (the "Second Vesting Period").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

18. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

The estimated fair value of the options granted on the grant date is approximately HK\$4,485,000. During the six months ended 30 September 2019, the Group recognised the total expense of approximately HK\$254,000, while no such expense was recognised for the Period, in relation to share options granted by the Company.

The following table discloses movements of the Company's share options held by the Grantees:

	Outstanding as at 1 April 2020	Exercised during the period	Outstanding as at 30 September 2020
First Vesting Period	150,766	—	150,766
Second Vesting Period	6,066,154	(510,318)	5,555,836
	<u>6,216,920</u>	<u>(510,318)</u>	<u>5,706,602</u>
Exercisable at the end of the period			<u>5,706,602</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020



19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	30 September 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial asset				
Financial assets at fair value through profit or loss				
— Listed equity investment	—*	—	—	—*
— Unlisted investment fund	—	23,311	—	23,311
	—*	23,311	—	23,311

	31 March 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial asset				
Financial assets at fair value through profit or loss				
— Listed equity investment	—*	—	—	—*
— Unlisted investment fund	—	17,674	—	17,674
	—*	17,674	—	17,674

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 March 2020: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The valuation techniques and input used in the fair value measurement of financial instrument are as set out below:

Financial asset	Fair value of	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Financial asset at FVTPL				
— Listed equity investment outsides Hong Kong	—* (31 March 2020: —*)	Level 1	Quoted closing price in an active market	N/A
— Unlisted investment fund	HK\$23,311,000 (31 March 2020: HK\$17,674,000)	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investments	N/A

* The balance represents an amount less than HK\$500.



COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

COMPETING INTERESTS

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

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

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

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

As at 30 September 2020, the Directors and Chief Executive and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules were as follows:

Long position in ordinary shares of the Company

Name of Directors	Capacity/Nature of interests	Number of ordinary share(s) held	Number of underlying shares held pursuant to share options	Approximate percentage of the total number of issued shares of the Company
SABINE Martin Nevil	Interest of a controlled corporation	94,159,350 (Note 1)	—	66.39%
	A concert party to an agreement to buy shares described in s317(1)(a)	2,233,440 (Note 2)	—	1.57%
		—	645,717 (Notes 2 & 3)	0.46%
CHEUNG Tei Sing Jamie ("Mr. Cheung")	Beneficial owner	2,233,440 —	— 645,717 (Note 3)	1.57% 0.46%
	A concert party to an agreement to buy shares described in s317(1)(a)	94,159,350 (Note 1)	—	66.39%
		—	1,877,083 (Note 3)	1.32%
CHOW Wai Hung Kenneth	Beneficial owner	3,754,170	—	2.64%
		—	1,877,083 (Note 3)	1.32%



Notes:

1. SGL is directly interested in 94,159,350 Shares. SGL is wholly-owned by Mr. Sabine, Mr. FLETCHER John Wilfred Sword ("Mr. Fletcher"), Mr. Cheung and Ms. FONG Sau Man Cecilia.
2. Mr. Sabine, Mr. Fletcher and Mr. Cheung are acting in concert in respect of their interests in the Company and therefore each of Mr. Sabine, Mr. Fletcher and Mr. Cheung is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.
3. These share options were granted by the Company on 19 May 2016 under the Pre-IPO Share Option Scheme.

Long position in the ordinary shares of the associated corporations

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

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

Save as disclosed above, as at 30 September 2020, none of the Directors or Chief Executive and/or any of their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate. Save as disclosed above, at no time during the Period had the Directors and the Chief Executive (including their spouses and children under 18 years of age) any interest in, or been granted or exercised, any rights to subscribe for the shares (or warrants or debentures, as applicable) of the Company or any of its associated corporations (within the meaning of the SFO).

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

As at 30 September 2020, substantial shareholders (not being the Directors or Chief Executive) had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:



Long position in ordinary shares of the Company

Name of substantial shareholders	Capacity/Nature of interests	Number of ordinary share(s) held	Number of underlying shares held pursuant to share options	Approximate percentage of the total number of issued shares of the Company
Somerley Group Limited	Beneficial owner	94,159,350 (Note 1)	—	66.39%
SABINE Maureen Alice ("Dr. Sabine")	Interest of a spouse	96,392,790 (Note 2)	—	67.96%
		—	645,717 (Note 2)	0.46%
Mr. Fletcher	A concert party to an agreement to buy shares described in s317(1)(a)	96,392,790 (Note 1)	—	67.96%
		—	645,717 (Note 1)	0.46%
FLETCHER Jacqueline ("Mrs. Fletcher")	Interest of a spouse	96,392,790 (Note 3)	—	67.96%
		—	645,717 (Note 3)	0.46%
CHOI Helen Oi Yan ("Mrs. Cheung")	Interest of a spouse	96,392,790 (Note 4)	—	67.96%
		—	645,717 (Note 4)	0.46%

Notes:

1. SGL is directly interested in 94,159,350 Shares and SGL is wholly-owned by Mr. Sabine, Mr. Fletcher, Mr. Cheung and Ms. FONG Sau Man Cecilia. Mr. Sabine, Mr. Fletcher and Mr. Cheung are acting in concert in respect of their interests in the Company and therefore each of Mr. Sabine, Mr. Fletcher and Mr. Cheung is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.
2. Dr. Sabine is the spouse of Mr. Sabine. By virtue of the SFO, Dr. Sabine is deemed to be interested in the Shares held by Mr. Sabine.
3. Mrs. Fletcher is the spouse of Mr. Fletcher. By virtue of the SFO, Mrs. Fletcher is deemed to be interested in the Shares held by Mr. Fletcher.
4. Mrs. Cheung is the spouse of Mr. Cheung. By virtue of the SFO, Mrs. Cheung is deemed to be interested in the Shares held by Mr. Cheung.

Save as disclosed above, the Directors and Chief Executive are not aware that there is any party who, as at 30 September 2020, had an interest or short position in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of, and to provide an incentive to, certain key staff of the Group who have contributed or will contribute to the Group, in order to motivate and retain them for the operation and development of the Group.

The option period of each option granted to the grantees is a period commencing from 28 March 2017 to 10 May 2024 (i.e. 8 years from the adoption date of the Pre-IPO Share Option Scheme), with either (a) a part of the options shall become vested during the First Vesting Period and the remaining part of the options shall become vested during the Second Vesting Period; or (b) the whole options shall only become vested in the Second Vesting Period as mentioned below:

- (i) not more than 5,524,294 Shares comprised in the options under the Pre-IPO Share Option Scheme shall vest unto the grantees and become exercisable during the period commencing from 28 March 2017 and ending on expiry of the option period (the "First Vesting Period"); and
- (ii) the remaining Shares comprised in the options under the Pre-IPO Share Option Scheme (being not more than 7,537,441 Shares) shall vest unto the grantees and become exercisable during the period commencing on (i) the date on which the listing of the Shares is transferred to the Main Board; or (ii) 1 January 2020, whichever is earlier, and ending on the expiry of the option period (the "Second Vesting Period"). For the avoidance of doubt, any outstanding and unexercised option at the end of the First Vesting Period shall be carried over to the Second Vesting Period and shall be exercisable during the Second Vesting Period.



Details of the share options movements under the Pre-IPO Share Option Scheme during the Period are as follows:

Name or category of grantees	Date of grant of share options	Exercise		Balance as at 01.04.2020	Number of share options				Balance as at 30.09.2020
		Price (Note 2) (HK\$)	Exercise Period		Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	
Directors									
CHOW Wai Hung Kenneth	19/5/2016	0.21	Second Vesting Period	1,877,083	—	—	—	—	1,877,083
CHEUNG Tei Sing Jamie	19/5/2016	0.21	Second Vesting Period	645,717	—	—	—	—	645,717
Subtotal				2,522,800	—	—	—	—	2,522,800
Other Employees									
In aggregate	19/5/2016	0.21	First Vesting Period	150,766	—	—	—	—	150,766
	19/5/2016	0.21	Second Vesting Period	3,543,354	—	510,318	—	—	3,033,036
						(Note 1)			
Total				6,216,920	—	510,318	—	—	5,706,602

Notes:

1. The weighted average closing price of the Shares immediately before the date(s) of exercise(s) of the share options during the Period was approximately HK\$1.00 per Share.
2. As set out in Appendix IV to the Prospectus, in the event of substantial capital distribution, exercise price of share options was adjusted from 0.28 to 0.21 during the Period.

Share Option Scheme

The purpose of the Share Option Scheme is to provide incentive and/or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Group.

As at 30 September 2020, the total number of Shares available for issue under the Share Option Scheme is 13,500,000 Shares, representing approximately 9.52% of the total number of issued Shares. Since the adoption of the Share Option Scheme, no share option has been granted under the Share Option Scheme by the Company.

COMPLIANCE ADVISER'S INTERESTS

Halcyon Capital Limited acted as the compliance adviser of the Company until 28 June 2019 for which service they received fees. Neither Halcyon Capital Limited nor any of its directors or employees or close associates had any interest in the shares of the Company or any member of the Group (including options or rights to subscribe for such securities) during the Period.

After the completion of the engagement of Halcyon Capital Limited as the compliance adviser of the Company in compliance with rule 6A.19 of the GEM Listing Rules, the Company no longer has an external compliance adviser.

AUDIT COMMITTEE

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

The Company has engaged the external auditor of the Company, SHINEWING (HK) CPA Limited ("Shinewing"), to review the Group's unaudited condensed consolidated financial statements for the Period. Based on Shinewing's review, nothing has come to Shinewing's attention that causes Shinewing to believe that the unaudited condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

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



CHANGE OF DIRECTORS INFORMATION

Mr. LAW Cheuk Kin Stephen was appointed as an independent non-executive director of China Galaxy Securities Co., Ltd. (stock code: 6881) on 29 June 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, the Company has maintained sufficient public float in its shares as at the latest practicable date prior to the issue of this report.

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

Hong Kong, 6 November 2020

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