



SOMERLEY CAPITAL HOLDINGS LIMITED

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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2017

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

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This announcement, 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 the 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 announcement 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 announcement misleading.

FINANCIAL HIGHLIGHTS

- Total revenue of the Group grew by approximately 16.2% to approximately HK\$53.7 million for the nine months ended 31 December 2017 (the “Period”) from approximately HK\$46.2 million for the nine months ended 31 December 2016.
- Revenue generated from acting as financial adviser and as independent financial adviser for the Period amounted to approximately HK\$41.7 million (2016: approximately HK\$37.7 million), accounting for approximately 77.7% of the Group’s total revenue (2016: approximately 81.6%).
- Revenue generated from acting as compliance adviser for the Period amounted to approximately HK\$5.3 million (2016: approximately HK\$7.8 million), accounting for approximately 9.9% of the Group’s total revenue (2016: approximately 16.9%).
- Revenue generated from acting as sponsor and underwriter for the Period amounted to approximately HK\$6.5 million (2016: approximately HK\$0.5 million), accounting for approximately 12.1% of the Group’s total revenue (2016: approximately 1.1%).
- The Group made a profit before tax for the Period of approximately HK\$5.1 million, compared to a loss of approximately HK\$2.9 million for the corresponding period of the previous year.
- For the Period, profit attributable to owners of the Company was approximately HK\$4.3 million, as compared to approximately HK\$4.3 million loss attributable to owners of the Company for the nine months ended 31 December 2016. The improvement was primarily due to the combined effects of (i) approximately HK\$7.6 million increase in revenue; and (ii) absence of one-off listing expenses of approximately HK\$4.9 million, offset to a degree by the absence of other income from Somerley International Limited (“SIL”) and increase in other operating expenses.

THE FINANCIAL STATEMENTS

THIRD QUARTERLY RESULTS

The Board of Directors (the “Board”) is pleased to present the unaudited condensed financial information of the Group for the three months ended 31 December 2017 and the Period, together with the unaudited comparative figures for the three months and nine months ended 31 December 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 31 December 2017

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	5	18,946	16,139	53,733	46,166
Other income	6	90	448	292	1,979
		19,036	16,587	54,025	48,145
Employee benefit costs		(12,460)	(11,083)	(36,858)	(36,903)
Fair value gains on financial asset at fair value through profit or loss		—	—	319	—
Depreciation for property and equipment		(200)	(67)	(521)	(190)
Introduction expenses		(440)	(219)	(776)	(827)
Other operating expenses		(4,201)	(3,320)	(11,134)	(13,082)
Profit (loss) before tax	7	1,735	1,898	5,055	(2,857)
Income tax expense	8	(269)	(498)	(771)	(1,456)
Profit (loss) and total comprehensive income (expense) for the period attributable to the owners of the Company		<u>1,466</u>	<u>1,400</u>	<u>4,284</u>	<u>(4,313)</u>
Earnings (loss) per share					
— basic (HK cents)	10	<u>1.06</u>	<u>1.40</u>	<u>3.11</u>	<u>(4.31)</u>
— diluted (HK cents)	10	<u>1.05</u>	<u>1.40</u>	<u>3.06</u>	<u>(4.31)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2017

	Attributable to the owners of the Company						Total HK\$'000
	Share capital	Share premium	Retained earnings	Shareholder contribution reserve	Share option reserve	Other reserve (note)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2017 (Audited)	<u>1,350</u>	<u>65,180</u>	<u>13,618</u>	<u>4,179</u>	<u>2,228</u>	<u>9,900</u>	<u>96,455</u>
Profit and total comprehensive income for the Period	—	—	4,284	—	—	—	4,284
Issue of shares upon exercise of share options	36	2,090	—	—	(1,110)	—	1,016
Recognition of equity-settled share-based payments	—	—	—	—	552	—	552
At 31 December 2017 (Unaudited)	<u><u>1,386</u></u>	<u><u>67,270</u></u>	<u><u>17,902</u></u>	<u><u>4,179</u></u>	<u><u>1,670</u></u>	<u><u>9,900</u></u>	<u><u>102,307</u></u>
At 1 April 2016 (Audited)	<u>10,000</u>	—	<u>16,425</u>	—	—	—	<u>26,425</u>
Loss and total comprehensive expense for the period	—	—	(4,313)	—	—	—	(4,313)
Issues of shares to ultimate holding company	100	—	—	—	—	—	100
Recognition of equity-settled share-based payments	—	—	—	—	1,446	—	1,446
Contribution from shareholder	—	—	—	4,179	—	—	4,179
At 31 December 2016 (Unaudited)	<u><u>10,100</u></u>	<u><u>—</u></u>	<u><u>12,112</u></u>	<u><u>4,179</u></u>	<u><u>1,446</u></u>	<u><u>—</u></u>	<u><u>27,837</u></u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2017

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 the GEM of the Stock Exchange. Its parent is Somerley Group Limited (“SGL”) and its ultimate beneficial owners during the reporting period are Mr. SABINE Martin Nevil, Mr. CHEUNG Tei Sing Jamie, Mr. FLETCHER John Wilfred Sword and Ms. FONG Sau Man Cecilia. The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchison 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 only operating subsidiary is mainly engaged in the provision of corporate finance advisory services.

These unaudited 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 PRESENTATION

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2017 have not been audited by the Company’s independent auditors, but have been reviewed by the Company’s Audit Committee.

3. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 Cycles: amendments to HKFRS 12
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the above revised HKFRSs in the current accounting period has had no material effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of unaudited condensed consolidated financial statements 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 these unaudited condensed consolidated financial statements, 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 Group's annual report for the year ended 31 March 2017, except as described below.

Revenue recognition

Services contracts

Where the outcome of a service contract can be estimated reliably and it is probable that the contract will be profitable, service revenue is recognised over the period of the contract by reference to the stage of completion of service contract activity at the end of the reporting period.

When the outcome of a service contract cannot be estimated reliably, service revenue is recognised only to the extent of service costs incurred that are likely to be recoverable.

The Group uses the stage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period, when the underlying services have been rendered or the underlying transactions have been completed, in accordance with the terms of the service agreement.

The Group presents as an asset the gross amounts due from customers on service contracts for all service contracts in progress for which service costs incurred plus recognised profits exceed progress billings. Progress billings not yet paid by customers are included within trade receivables.

5. REVENUE

Revenue represented revenue arising on provision of corporate finance advisory services during the Period.

	Nine months ended 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Fee income from acting as financial adviser	16,347	10,960
Fee income from acting as independent financial adviser	25,365	26,673
Fee income from acting as compliance adviser	5,290	7,837
Fee income from acting as sponsor and underwriter	6,532	500
Others	199	196
	<u>53,733</u>	<u>46,166</u>

6. OTHER INCOME

	Nine months ended 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Exchange gain, net	64	—
Bank interest income	137	—
Management fee income from a fellow subsidiary	—	1,978
Management fee income from ultimate holding company	91	—
Others	—	1
	<u>292</u>	<u>1,979</u>

7. PROFIT (LOSS) BEFORE TAX

	Nine months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) for the period has been arrived at after charging (crediting):		
Directors' emoluments		
Fees	540	—
Other emoluments	7,452	7,308
Share-based payments	208	2,380
Contributions to retirement benefits scheme	27	27
	8,227	9,715
Other staff costs	27,863	23,533
(Reversal of provision) provision for long service payment	(32)	30
Share-based payments	344	3,245
Contributions to retirement benefits scheme	456	380
Total staff costs	36,858	36,903
Auditor's remuneration	418	173
Exchange loss, net	—	4
Bad debt expenses in respect of trade receivables	180	—
Listing expenses	—	4,875
Operating lease rental payments for rented premises	4,736	4,134

8. INCOME TAX EXPENSES

	Nine months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	486	1,423
Over provision in prior years:		
Hong Kong	(19)	—
Deferred taxation	304	33
	771	1,456

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Period (2016: 16.5%).

9. DIVIDENDS

The Directors do not recommend the payment of interim dividend for the Period (2016: nil).

10. EARNINGS (LOSS) PER SHARE

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

	Nine months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings (loss)		
Profit (loss) attributable to ordinary equity holders of the parent, used in the basic earnings (loss) per share calculation	4,284	(4,313)
Shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings (loss) per share calculation ('000)	137,720	100,000
Effect of dilutive potential ordinary shares ('000)	2,324	—
Weighted average number of ordinary shares in issue during the period, used in the diluted earnings (loss) per share calculation ('000)	140,044	100,000

Note: For the nine months ended 31 December 2016, the weighted average number of ordinary shares for the purpose of calculating basic loss per share has been taking into account the capitalisation issue pursuant to the group reorganisation (the “Reorganisation”) of the Company, as described in the section headed “History and Development — Reorganisation” in the prospectus of the Company dated 15 March 2017 (the “Prospectus”).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The services of the Group 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 “Listing Rules”), the GEM Listing Rules and/or the Codes on Takeovers and Mergers and Share Buy-backs (the “Takeovers Codes”), including acting as arranger in connection with the introduction of investors to listed companies in Hong Kong and/or their major shareholders in a takeover transaction; (ii) acting as independent financial adviser to independent board committees and/or independent shareholders of listed companies in Hong Kong; and (iii) acting as compliance adviser, mostly for newly listed companies in Hong Kong. In addition, the Group also acts as sponsor to initial public offering and listings of shares of companies on the Stock Exchange in Hong Kong (“IPO”) and has managed and underwritten secondary equity issues in Hong Kong.

Providing high quality corporate finance advisory services will remain as the core business of the Group and the Group expects that financial advisory and independent financial advisory engagements will continue to generate majority of the Group’s revenue in the future. During the Period, the Group has recruited new staff to expand the existing corporate finance teams as well as to further enhance its core competitiveness in corporate finance advisory business.

During the Period, the Group has also established a new team to develop its IPO and equity capital markets capability which is complementary to the Group’s expansion of its existing corporate finance advisory business.

Progress was evidenced by approximately 16.2% growth in total revenue for the Period. During the Period, the Group completed a major sponsorship engagement and revenue from acting as sponsor and as underwriter was approximately HK\$6.5 million (2016: approximately HK\$0.5 million).

FINANCIAL REVIEW

Revenue

The Group’s revenue was primarily derived from (i) advising on transactions or compliance matters under the Listing Rules, the GEM Listing Rules and/or the Takeovers Codes in the capacity of financial advisers; and (ii) giving opinions or recommendations to the independent board committees and/or the independent shareholders of listed companies in the capacity of independent financial advisers.

Total revenue of the Group increased by approximately 16.2% to approximately HK\$53.7 million for the Period from approximately HK\$46.2 million for the nine months ended 31 December 2016.

Revenue generated from acting as financial adviser and as independent financial adviser for the Period amounted to approximately HK\$41.7 million (2016: approximately HK\$37.7 million), accounting for approximately 77.7% of the Group's total revenue (2016: approximately 81.6%). These activities are expected to remain as the major sources of the Group's revenue in the immediate future.

Revenue generated from acting as compliance adviser for the Period amounted to approximately HK\$5.3 million (2016: approximately HK\$7.8 million), accounting for approximately 9.9% of the Group's total revenue (2016: approximately 16.9%). The decline in this source of income was due to the scheduled expiry of a number of compliance advisory mandates after the annual reports of the relevant companies for the year 2016 were published.

Revenue generated from acting as sponsor and underwriter for the Period amounted to approximately HK\$6.5 million (2016: approximately HK\$0.5 million), accounting for approximately 12.1% of the Group's total revenue (2016: approximately 1.1%).

Other Income

Other income mainly represented management service fee income from Somerley Group Limited, interest income and exchange differences for the Period and management service fee income from SIL, a former fellow subsidiary of the Company, for the nine months ended 31 December 2016. The significant decrease in other income was mainly due to the cessation of business of SIL in December 2016.

Employee Benefits Costs

The Group's employee benefits costs primarily consist of salaries, bonus, share-based payments and allowances as well as contributions to the mandatory provident fund for the Directors and employees of the Group. Employee benefits costs remained at approximately HK\$36.9 million for the Period and for the nine months ended 31 December 2016, primarily due to the combined effects of (i) the decrease in share-based payments to approximately HK\$0.6 million for the Period from approximately HK\$5.6 million for the nine months ended 31 December 2016 and (ii) approximately HK\$4.1 million increase in employee benefits costs as a result of an increment in basic salary and additional headcount for the Period and approximately HK\$0.9 million increase in accrued bonus.

Other Operating Expenses

The Group's other operating expenses decreased to approximately HK\$11.1 million for the Period from approximately HK\$13.1 million for the nine months ended 31 December 2016. Other operating expenses were mainly rental expenses, travelling expenses, professional fees and other expenses, including utility expenses, building management fees, telecommunication expenses and insurance expenses. The decrease was mainly due to the combined effects of (i) the absence of the one-off listing expenses for the Period (2016: approximately HK\$4.9 million); and (ii) the increase in professional fees, such as printing fees, compliance advisory fees and company secretarial fees, incurred after the Group's listing on GEM of the Stock Exchange on 28 March 2017.

Income Tax Expenses

The Group's income tax expenses primarily included provision for Hong Kong current and deferred income tax expenses. The effective tax rate for the Period was approximately 15.3%. Despite a loss before tax of approximately HK\$2.9 million for the nine months ended 31 December 2016, income tax expense of approximately HK\$1.5 million was incurred for that period because both share based payment expenses and listing expenses are not deductible for tax purposes in Hong Kong.

Profit (loss) for the Period

The Group made a profit before tax for the Period of approximately HK\$5.1 million, compared to a loss of approximately HK\$2.9 million for the corresponding period of the previous year. For the Period, profit attributable to owners of the Company was approximately HK\$4.3 million, as compared to approximately HK\$4.3 million loss attributable to owners of the Company for the nine months ended 31 December 2016. The improvement was primarily due to the combined effects of (i) approximately HK\$7.6 million increase in revenue; and (ii) absence of one-off listing expenses of approximately HK\$4.9 million, offset to a degree by the absence of other income from SIL and increase in other operating expenses.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period (2016: nil).

SIGNIFICANT INVESTMENTS HELD

Except for investments in subsidiaries, the Group did not hold any significant investments during the Period (2016: nil).

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred subsequent to 31 December 2017 and up to the date of this announcement.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 of the Company during the Period.

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. HIGGS Jeremy James and Mr. YUEN Kam Tim Francis. Mr. CHENG Yuk Wo is the chairman of the Audit Committee. The primary duties of the Audit Committee are mainly 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 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.

PUBLICATION OF THIRD QUARTERLY RESULTS AND THIRD QUARTERLY REPORT

This results announcement is published on the websites of the Stock Exchange (www.hkgem.com) and the Company (www.somerleycapital.com). The third quarterly report of the Company for the nine months ended 31 December 2017 containing all the information required by the GEM Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

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

Hong Kong, 9 February 2018

As at the date of this announcement, 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. HIGGS Jeremy James and Mr. YUEN Kam Tim Francis.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and will also be published on the Company's website at www.somerleycapital.com.