Differ Group Holding Company Limited
鼎豐集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6878

Annual Report 2017

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS:

Mr. HONG Mingxian *(Chairman)*
Mr. NG Chi Chung *(Chief Executive Officer)*
Mr. CAI Huatan *(Honorary Chairman)*

NON-EXECUTIVE DIRECTORS:

Mr. CAI Jianfeng
Mr. WU Qinghan

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. CHAN Sing Nun
Mr. TSANG Hin Man Terence (resigned on 7 June 2017)
Mr. LAM Kit Lam (appointed on 7 June 2017)
Mr. ZENG Haisheng

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

33/F, Differ Fortune Plaza
No. 503 Gaolin Middle Road
Huli District
Xiamen City
Fujian Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE COMPANIES ORDINANCE

Room 1602, Euro Trade Centre
13-14 Connaught Road Central
Central, Hong Kong

COMPANY SECRETARY

TAM Wai Tak Victor

AUDITOR

BDO Limited

AUTHORISED REPRESENTATIVES

HONG Mingxian
TAM Wai Tak Victor

MEMBERS OF AUDIT COMMITTEE

Mr. CHAN Sing Nun *(Chairman)*
Mr. TSANG Hin Man Terence (resigned on 7 June 2017)
Mr. LAM Kit Lam (appointed on 7 June 2017)
Mr. ZENG Haisheng

MEMBERS OF REMUNERATION COMMITTEE

Mr. TSANG Hin Man Terence *(Chairman)* (resigned on 7 June 2017)
Mr. LAM Kit Lam *(Chairman)* (appointed on 7 June 2017)
Mr. ZENG Haisheng
Mr. CHAN Sing Nun

MEMBERS OF NOMINATION COMMITTEE

Mr. ZENG Haisheng *(Chairman)*
Mr. TSANG Hin Man Terence (resigned on 7 June 2017)
Mr. LAM Kit Lam (appointed on 7 June 2017)
Mr. CHAN Sing Nun

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre, 183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Bank of China
Bank of Communications

COMPANY WEBSITE

www.dfh.cn

STOCK CODE

06878

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income from financial related services	**181,215**	201,659	162,150	118,091	76,066
Income from assets management business	**118,053**	93,209	21,000	–	–
Other income	**37,390**	3,385	4,432	4,664	5,260
Gain on disposals of subsidiaries	**–**	6,942	–	–	–
Gain on redemption of convertible bonds	**8,770**	–	–	–	–
Employee benefit expenses	**(19,528)**	(19,115)	(12,966)	(9,867)	(7,739)
Depreciation and amortisation expenses	**(1,730)**	(2,638)	(2,603)	(1,860)	(2,006)
Operating lease expenses	**(2,450)**	(2,601)	(1,357)	(807)	(326)
Equity-settled share-based payments	**(8,335)**	(12,120)	–	–	–
Other expenses	**(43,471)**	(47,357)	(24,531)	(11,439)	(15,056)
Share of results of an associate	**492**	7	–	–	–
Change in fair value of derivative financial instruments	**1,960**	14,028	–	–	–
Finance costs	**(56,337)**	(42,367)	(3,641)	–	–
Profit before income tax	**216,029**	193,032	142,484	98,782	56,199
Income tax expense	**(45,187)**	(50,639)	(36,960)	(25,769)	(15,963)
Profit for the year	**170,842**	142,393	105,524	73,013	40,236
Attributable to:					
Owners of the Company	**160,209**	135,509	103,788	73,013	40,236
Non-controlling interests	**10,633**	6,884	1,736	–	–
	170,842	142,393	105,524	73,013	40,236

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,982,919**	1,840,990	1,576,685	651,855	549,156
Total liabilities	**(779,890)**	(701,797)	(578,846)	(71,307)	(41,345)
Non-controlling interests	**–**	(110,395)	(96,044)	–	–
Equity attributable to owners of the Company	**1,203,029**	1,028,798	901,795	580,548	507,811

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I am pleased to report another successful year with satisfactory annual results for Differ Group Holding Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 (the "Year").

2017 was a year of opportunities and challenges for the Group. Amidst the transformation and upgrading of the Chinese economy, the Group continued to adopt a flexible business model to capture the opportunities presented under this change. The Group maintained sustainable growth by adjusting its focus to businesses with great profitability and high sustainability, including asset management and finance leasing. The Group witnessed a remarkable growth and reported a record high turnover of approximately RMB299 million, profit attributable to owners of the Company surged by 18.2% to approximately RMB160 million. The increase in turnover and profit are primarily attributable to the significant growth in our assets management and finance leasing businesses.

According to the China Banking Regulatory Commission, outstanding bad loans from commercial banks amounted to 1.71 trillion yuan as at the end of 2017, representing a non-performing loans ratio of 1.74%. The Group considered the asset management business as one of the key drivers to growth. The Group actively explored cooperative opportunities with sizable asset management companies particularly in distressed asset management and seek projects with high potential returns and manageable risks. With the extensive experience accumulated over the past few years, the Group recorded impressive results from its asset management business in 2017. Income from assets management services surged by 26.7% to approximately RMB118 million. The Board strongly believes that the Group will continue to generate considerate profits through the execution of non-performing loans and valued assets in the foreseeable future.

The acquisition of Differ Cultural Tourism Development Company Limited and its subsidiaries (collectively "Cultural Group") was completed in January 2018 (the "Acquisition"). The Acquisition has demonstrated that the Group is capable of diversifying its asset classes. It successfully extended its asset classes from non-performing asset to value asset. In view of the favorable economy and policies, in-depth experience in handling assets in the similar class by Cultural Group, and the capital appreciation potential of the value assets in our portfolio, the Board believes that the Acquisition will generate significant returns in the next few years.

In the capital market, the Company took advantage of its status as a reputable listed company in Hong Kong to raise funds through the issuance of bonds. The success in fund raising provided the backbone for the Group's rapid growth. The Board feels honored to have earned the trust of our investors. We will continue to actively seek and grasp market opportunities and increase the depth and breadth of our sources of revenue in order to generate satisfactory returns for shareholders on a continuous basis.

Going forward, the Group will continue to leverage its strengths and build on its core competencies. We will strive to become a leading integrated financial services provider in the PRC. By exploring collaboration opportunities with substantial institutions and state-owned companies, we are confident and capable of continuing to meet our stakeholders' expectations.

I would like to express my sincere appreciation to our Board members for their invaluable leadership and insights and our management team and staff for their dedication and contribution to our ongoing success. Finally, I must thank our business partners and shareholders for maintaining their support and confident in the Group over the years.

EXECUTIVE DIRECTORS

Mr. HONG Mingxian (洪明顯), aged 43, was appointed as our executive Director on 4 December 2012. Mr. Hong is the chairman of our Company. Mr. Hong is responsible for the overall strategic formulation, management and planning of our Group.

Mr. Hong attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in July 2004. Mr. Hong is the vice chairman of Xiamen City Federation of Industry and Commerce (Chamber of Commerce) (廈門市工商聯(總商會)), the vice chairman of 2nd Council of Xiame Glory Society (廈門光彩事業促進會), a chief supervisor of Capital Association of Fujian Chamber of Commerce (福建閩商資本聯合會), the founding chairman of Xiamen City Quanzhou Chamber of Commerce (廈門市泉州商會) and the honorary chairman of Fujian Youth Entrepreneurship Promotion Association (福建青年創業促進會).

Mr. Hong has about 8 years' experience in corporate management before he joined the Group in September 2008. From August 2007 and September 2009, Mr. Hong worked at a property development company based in Jiangsu Province, PRC and last held the position of executive director.

Mr. NG Chi Chung (吳志忠), aged 45, was appointed as an executive Director on 26 November 2013. Mr. Ng is the chief executive officer of our Company. Mr. Ng is responsible for the overall business development and management of our Group. Mr. Ng attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in January 2008. Mr. Ng has previously worked at various companies in Hong Kong and Shishi, Fujian Province, and has over 10 years' experience in corporate management. From 2002 to 2008, Mr. Ng was a member of the senior management of a vehicle trading company based in Shishi. Mr. Ng joined the Group in September 2008.

Mr. CAI Huatan (蔡華談), aged 58, was appointed as an executive Director on 26 November 2013. Mr. Cai is the honorary chairman of our Company. He is also responsible for overall expanding strategy formulation of our Group. Mr. Cai graduated from a postgraduate programme in economic law from the Law School of Sichuan University (四川大學) in 1996. Before he joined the Group in September 2008, Mr. Cai has approximately 30 years of experience in management and public administration. From 1980 to 2005, Mr. Cai worked for various departments of the governments of Shishi and Quanzhou.

NON-EXECUTIVE DIRECTORS

Mr. CAI Jianfeng (蔡劍鋒), aged 50, was appointed as a non-executive director on 26 November 2013. Mr. Cai Jianfeng has over 15 years of experience in the manufacturing industry. He has been a vice-chairman of Shishi Lingxiu General Chamber of Commerce (石獅市靈秀商會) since 2005. Mr. Cai Jianfeng is also a member of the Chinese People Political Consultative Committee of Shishi City (石獅市政治協商會議). Mr. Cai Jianfeng is a brother-in-law of Mr. Cai Huatan.

Mr. WU Qinghan (吳清函), aged 54, was appointed as a non-executive director on 26 November 2013. Mr. Wu has over 25 years experience in trading and manufacturing. He has been the chairman of a manufacturing company in Shishi since 2000. He has been the chairman of Shishi Lingxiu General Chamber of Commerce (石獅市靈秀商會) since 2005. Mr. Wu was a director of a group company from April 2010 to May 2012 and a director of another group company from July 2009 to January 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZENG Haisheng (曾海聲), aged 59, was appointed as an independent non-executive director on 26 November 2013. Mr. Zeng graduated from a postgraduate programme in economic law from the Law School of Sichuan University (四川大學) in October 1996. Since 2006, Mr. Zeng has been the chairman of an investment company in Xiamen.

Mr. LAM Kit Lam (林洁霖), aged 43, joined the Group as an independent non-executive Director on 7 June 2017. Mr. Lam is an Honorary Citizen of Xiamen City and is the chairman of DEBON Asset Management Inc.. He has over 15 years of experience in the banking industry. He became a deputy general manager of the Bank of East Asia (China) Ltd. ("BEA") Shanghai branch in 2007, he then worked as a general manager at BEA Wuhan branch and subsequently at BEA Xiamen branch until August 2014.

Mr. Lam obtained a bachelor's degree in commerce from the University of Victoria in 1997, a master's degree in world economics from the Beijing University in 2005 and a master's degree in international real estate from the Hong Kong Polytechnic University in 2010. He was appointed as a professional member of the Royal Institution of Chartered Surveyors since 2014. He was a committee member of the Chinese People's Political Consultative Conference ("CPPCC") of Xiamen City (2012) and an invited guest member of CPPCC of Hubei Province (2010). He is currently the vice chairman of the North American Alliance of Commerce Association.

Mr. CHAN Sing Nun (陳星能), aged 43, joined the Group as an independent non-executive Director on 26 November 2013. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Mr. Chan has over 15 years' experience in auditing, accounting and financial management. Mr. Chan currently is the principal of an audit firm in Hong Kong. Other than his directorship in the Company, Mr. Chan is currently an independent non-executive director of Guangdong Kanghua Healthcare Co., Ltd (stock code: 3689).

SENIOR MANAGEMENT

Mr. HUANG Bin (黃斌), aged 58, is the president of the Group and responsible for the overall business execution. Mr. Huang graduated from Fujian Agriculture and Forestry University, majoring in rural finance. Before joining our Group in October 2016, Mr. Huang has over 36 years experience in banking industry. He was the branch manager of Sanming City, Ningde City and Quanzhou City, Fujian province branch of Agricultural Bank of China and the general manager of the rural finance department in the headquarter of Agricultural Bank of China. He was also the chairman of rural commercial bank of Quanzhou.

Mr. CAI Xiacheng (蔡廈程), aged 35, is the chief operations officer in finance lease business and is responsible for the overall finance lease business management of our Group. He is also the director of certain subsidiaries of finance lease business of the Group. Mr. Cai had about 5 years of experience in the finance industry before he joined our Group in February 2012. He is the son-in-law of Mr. Cai Huatan.

Mr. CHENG Yun Chung RONIE (鄭潤聰), aged 45, is the manager in charge of corporate finance and fund raising activities within the Group. Graduated from University of Warwick, Mr. Cheng is a fellow member of the Institute of Chartered Accountant of England and Wales with over 20 years of experience in the financial industries with experience spanning from auditing to private equity fund to listed companies.

Mr. TAM Wai Tak Victor (譚偉德), aged 40, is the financial controller and company secretary of the Company. Mr. Tam joined our Group in late January 2013. He is responsible for financial reporting and company secretarial matters of the Company. Mr. Tam graduated with a bachelor of arts in accounting & finance (first class honours) from the University of Glamorgan (now known as the University of South Wales) in June 2001. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

From January 2002 to February 2005, Mr. Tam was employed as an audit assistant at a local audit firm and was subsequently promoted to senior auditor. From April 2005 to January 2010, he assumed the positions of senior accountant and manager at Grant Thornton where he acted as audit in-charge/manager to lead the audit teams in providing professional audit services. From January 2010 to November 2010, he worked as a financial controller for a private company. From January 2011 to January 2013, he was employed as an audit manager at BDO Limited and was subsequently promoted to senior manager.

BUSINESS REVIEW

As an integrated financing service provider, the Group mainly provide short to medium-term financing and financing-related solutions in the PRC. During the year ended 31 December 2017, the turnover was mainly derived from the provision of (i) assets management services (including investment on land and properties, equities and non-performing loans and provision of asset management solutions), (ii) finance lease services and (iii) financial services (including financial consultancy services, express loan services, guarantee services and supply chain agency services).

FINANCIAL REVIEW

Turnover

The turnover increased from approximately RMB294.9 million for the year ended 31 December 2016 to approximately RMB299.3 million for the year ended 31 December 2017, representing an increase of approximately RMB4.4 million or 1.5%. The increase was attributable to the net effect of the following reasons:

Assets management services

In 2017, the Group continued to expand the assets management business in order to capture the opportunities presented by abundant supply of distressed assets in Fujian Province. The Group is actively looking for the good quality distressed assets which potentially offer high-percentage returns.

Our Group's income from assets management services increased by 26.7% from approximately RMB93.2 million for the year ended 31 December 2016 to RMB118.1 million for the year ended 31 December 2017. Although the Group has not disposed any property during the year ended 31 December 2017 as compared with four properties has been disposed for the corresponding period in 2016, the increase of the income was mainly due to the fact that (i) more obligors of non-performing loans have settled the debts according to the terms as set out in the relevant contracts and the Group has recorded finance income of approximately RMB44.7 million; (ii) the Group recorded income from disposal/executions of distressed financial assets and other assets of approximately RMB25.4 million; and (iii) the Group received dividend income of approximately RMB8.8 million from its equity investments.

Besides, the Group also provide the asset management solutions to certain clients in PRC and recorded the service income of approximately RMB39.1 million during the year ended 31 December 2017. The Group provided corporate finance and business reorganisations advice to clients. In addition, the Group also assisted with the clients to restructure and market their underlying assets in the most appropriate manner to maximize the selling value. The asset management service incomes are based on the pre-agreed percentage of the selling prices of the underlying assets of clients.

Finance lease services

Following the acquisition of Jiashi International Financial Limited and its subsidiaries in late 2015, the Group further developed its finance lease business. Apart from the finance lease business for machineries, distant marine fisheries industry and car leasing to individuals, the Group has started its finance lease business for properties in late 2016. Besides, the Group also commenced its finance lease business in Hong Kong in first half of 2017. During the year ended 31 December 2017, the Group has recorded the income of approximately RMB10.7 million in relation to the finance lease business in Hong Kong.

Our Group's finance lease services income increased by 27.6% from approximately RMB41.4 million for the year ended 31 December 2016 to RMB52.8 million for the year ended 31 December 2017. The increase of finance lease service was mainly due to the contribution of the finance lease income from Hong Kong.

Financial services

Financial consultancy services

The financial consultancy service income of our Group decreased from approximately RMB40.4 million for the year ended 31 December 2016 to RMB28.4 million for the year ended 31 December 2017. We mainly focused on the financial services which charge our customers based on 2.5% to 5% of the amount of financing obtained by the customers as a result of our consultation. The decrease of the number of the customers which lead to decrease of our income from financial consultancy services.

Express loan services

Entrusted loan services

In 2017, the Group is adopting a prudent approach to approve the application of our entrusted loan services from potential customers. In addition, the Group has kept greater amount of funds at banks during the period to be available for early redemption of convertible bonds and potential acquisition for good quality distressed assets. As such, the number of our customers decreased.

Our Group's entrusted loan service income decreased by 26.5% from approximately RMB73.7 million for the year ended 31 December 2016 to RMB54.2 million for the year ended 31 December 2017. The decrease of entrusted loan service income was mainly due to the decrease of the number of our customers and average interest rate charge.

Money lending services

The Group continued to expand the Hong Kong money lending business in 2017. Income from Hong Kong money lending business increased by 81.4% from approximately RMB7.0 million for the year ended 31 December 2016 to RMB12.8 million for the year ended 31 December 2017. In addition, the Group has also provided short-team financing to certain customers in the PRC and recorded the interest income of approximately RMB18.8 million.

Guarantee services

We provided the financing guarantee services during the year ended 31 December 2017 and 2016. Our Group's guarantee service income decreased by 7.9% from approximately RMB9.6 million for the year ended 31 December 2016 to approximately RMB8.9 million for the year ended 31 December 2017. In 2017, the Group is adopting a prudent approach to approve the application of our guarantee services from potential customers. As such, the number of guarantee service decrease and the income from our guarantee services decrease accordingly.

Supply chain agency services

The Group continued to expand the supply chain business in 2017. The Group provided one-stop supply chain agency services for its customers ranging from sourcing and procurement of materials, production management, financing and negotiation the terms of sale and purchase agreements on behalf of its customers with the suppliers. The supply chain agency fee is based on the pre-agreed percentage of the relevant transaction amount.

During the year ended 31 December 2017, the Group recorded the supply chain agency fee of approximately RMB5.4 million and the relevant total transaction amount was over RMB1 billion.

Other income

Other income increased from approximately RMB3.4 million for the year ended 31 December 2016 to approximately RMB37.4 million for the year ended 31 December 2017, representing an increase of approximately RMB34.0 million or 1,004.6%. Our Group's other income mainly represented reversal of impairment loss recognised on finance lease, loan and account receivables, the government grants and bank interest income. The increase in other income in 2017 was mainly due to the fact that we have received large amount of settlements from certain obligors of non-performing loans which the relevant loan receivables have been impaired in previous years.

Employee benefit expenses

The employee benefit expenses increased from approximately RMB19.1 million for the year ended 31 December 2016 to approximately RMB19.5 million for the year ended 31 December 2017, representing an increase of approximately RMB0.4 million or 2.2%. Our Group's employee benefit expenses mainly comprised staff salaries, Directors' emoluments and other benefits. The increase in employee benefit expenses was mainly attributable to the increase of staff salaries.

Other expenses

The other expenses decreased from approximately RMB47.4 million for the year ended 31 December 2016 to approximately RMB43.5 million for the year ended 31 December 2017, representing a decrease of approximately RMB3.9 million or 8.2%. The decrease in other expenses was mainly attributable to decrease of impairment loss on finance lease, loan and account receivables of approximately RMB6.4 million and partly offset by the slightly increase of the operating expenses.

Profit for the year attributable to owners of the Company

Our Group's profit for the year attributable to owners of the Company was approximately RMB160.2 million for the year ended 31 December 2017, representing an increase of approximately RMB24.7 million, or 18.2%, from approximately RMB135.5 million for the year ended 31 December 2016.

Non-generally accepted accounting principles ("Non-GAAP") Financial Measures

To supplemental the consolidated results of the Group prepared in accordance with HKFRSs, certain non-GAAP financial measures have been presented in this financial review. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRSs.

The Directors believe that, in conjunction with GAAP financial measures, the non-GAAP financial measures provide meaningful supplemental information to both investors and management in assessing the Group's financial performance.

The non-GAAP financial measures do not include all items that impact the Group's financial performance prepared in accordance with HKFRSs. It excludes equity-settled share-based payments, gain on redemption of convertible bonds, change in fair value of derivative financial instruments and imputed interests on convertible bonds, which have been and might continue to be significant non-cash expenses in the Group's financial performance prepared in accordance with HKFRSs. In addition, the non-GAAP financial measures may not be comparable to similar titled measures utilised by other companies since such other companies may not calculate such measures in the same manner as the Company does.

The Directors expect to compute the non-GAAP financial measures using consistent methods going forward. The following table sets forth the reconciliations of the non-GAAP financial measures for the year ended 31 December 2017 to the nearest measures prepared in accordance with HKFRSs:

	Year ended 31 December 2017					
	As Reported	**Equity-settled share-based payments**	**Gain on redemption of convertible bonds**	**Changes in fair value of the embedded derivative of the convertible bonds**	**Imputed interests on convertible bonds**	**Non-GAAP**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before income tax	216,029	8,335	(8,770)	(1,960)	12,129	225,763
Profit for the year	170,842	8,335	(8,770)	(1,960)	12,129	180,576
Profit for the year attributable to owners of the Company	160,209	8,335	(8,770)	(1,960)	12,129	169,943
Basic earnings per share *(RMB cents)*	3.78					4.01

	Year ended 31 December 2016				
	As Reported	**Equity-settled share-based payments**	**Changes in fair value of the embedded derivative of the convertible bonds**	**Imputed interests on convertible bonds**	**Non-GAAP**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before income tax	193,032	12,120	(14,028)	12,670	203,794
Profit for the year	142,393	12,120	(14,028)	12,670	153,155
Profit for the year attributable to owners of the Company	135,509	12,120	(14,028)	12,670	146,271
Basic earnings per share *(RMB cents)*	3.20				3.45

OUTLOOK

The Group has continued to report remarkable business results. The Group is seeking to develop new business and explore the business opportunities to broaden its income stream. In the first quarter of 2018, the Group have obtained licenses from the Securities and Futures Commission to carry out Type 1 (Dealing in Securities) and Type 9 (Asset Management) regulated activities. The Group would commence a new business segment of financial services in Hong Kong in near future.

The Group continued to explore cooperative opportunities with various well-known and/or state-owned companies. Apart from the formation of 廈門創翼商業保理有限公司 (Xiamen Chuang Yi Commercial Factoring Company Limited) with certain state-owned companies in 2016, the Group entered into the investment agreement with Tsingstone Capital Management (Hong Kong) Limited (清石資產管理（香港）有限公司), an associate of Tsinghua Asset Management Co., Ltd (清控資產管理有限公司) in 2017. We believe that, upon the formation of the companies with these state-owned/well-known companies, the close ties forged are expected to broaden the customer base, bolster the competitiveness and also expand the geographical coverage of our business.

The Group considers the assets management business is the key growth driver and actively expanded the business. Although the Group has not disposed any property during the year ended 31 December 2017 as compared with four properties has been disposed for the corresponding period in 2016, the Group still recorded a tremendous results in 2017. The Group has acquired a number of properties and non-performing debts during the year. The total book value of assets under the assets management business increased from approximately RMB234.0 million as at 31 December 2016 to approximately RMB462.6 million as at 31 December 2017. The Directors expected that it will generate a considerate profits through execution of non-performing loans or disposal of the properties in upcoming years.

In addition, the acquisition of Differ Cultural Tourism Development Company Limited ("Differ Cultural") and its subsidiaries (collectively "Cultural Group") was completed in late January 2018 (the "Acquisition"). Before the completion of the Acquisition, the Company only conducted investments on land and properties by way of 1) disposal/executive of the collateral (i.e land and properties) of non-performing loans and 2) the acquisition of lands and properties (which usually embedded certain problems) at a comparative prices below market value. After the completion of the Acquisition, the Company will be able to diversify its investment and leverage on the Cultural Group's experience in the asset development and management market. The Directors believe that the Acquisition will generate cash flow through sales/lease of properties to the Group, which is essential to the further development of the Group.

Furthermore, the Group considers the finance lease business as another key growth driver. The launching of free-trade zone in Fujian, the issue of policies on "one belt one road" initiative and the National 13th Five-Year Plan are all leading to substantial business opportunities for finance lease industry.

In conclusion, our Directors have an optimistic view on our overall business and financial prospects in future. We will continue to actively capture the opportunities presented by the current rapidly changing economic environment in the PRC, further expand our market share and reinforce our leading position, so as to maintain sustainable growth momentum and maximum the value of shareholders.

ADVANCE TO AN ENTITY

Pursuant to Rule 13.13 of the Listing Rules, a general disclosure obligations arises where an advance to an entity from the Company exceeds 8% of the total assets of the Group. Pursuant to Rule 13.13 of the Listing Rules, details of advances as defined under Rule 13.15 of the Listing Rules which remained outstanding as at 31 December 2017 were as follow:

1) Entrusted loan Master Agreement with Customer A ("Entrusted Loan Master Agreement")

The Entrusted Loan Master Agreement was entered into among 廈門市鼎豐創業投資有限公司 (Xiamen Differ Venture Capital Company Limited, an indirect wholly-owned subsidiary of the Company) ("Differ VC"), 廈門市鼎豐貸投資諮詢有限公司 (Xiamen Differ Dai Investment Consulting Company Limited, an indirect wholly-owned subsidiary of the Company) ("Differ Dai") and 廈門豪豐投資有限公司 (Xiamen Hao Feng Investment Company Limited) ("Hao Feng") and 廈門倫輝貿易有限公司 (Xiamen Lun Hui Trading Limited) (together with Hao Feng, the "Customer A"). Pursuant to the Entrusted Loan Master Agreement, Differ VC and Differ Dai agreed to provide entrusted loans with an aggregate amount up to RMB180,000,000 to the Customer A through the lending banks for a period of 24 months. As at 31 December 2017, the outstanding principal amount was RMB178.2 million.

The principal terms of Entrusted Loan Master Agreement are as follows:

Date	:	20 April 2016
Entrusted Loan Cap	:	Up to RMB180 million
Interest rate	:	17.0% per annum
Loan period	:	As mentioned above
Repayment	:	Customer A shall repay the interests on a monthly basis and the principal amount at the end of the loan period
Security and guarantees	:	The pledge of the equity rights from the shareholder of the Customer A at fair value of approximately RMB232.7 million.

2) Entrusted loan Agreements with Customer B ("Entrusted Loan Agreements")

The Entrusted Loan Agreements were entered into among Differ Dai (as the entrusting party), the lending bank (as the entrusted party and the lender) and 泉州陽光盛世生物科技有限公司 (Quanzhou Sunshine Shengshi Biotechnology Company Limited) ("Sunshine") and 泉州泉美盛世生物科技有限公司 (Quanzhou Quanmei Shengshi Biotechnology Company Limited) (together with Sunshine, as the borrowers, collectively "Customer B"). Pursuant to the Entrusted Loan Agreements, Differ Dai has entrusted the lending bank with an aggregate amount of RMB375,000,000 for the purpose of lending the same to Customer B for a period of 12 months. As at 31 December 2017, the outstanding principal amount was RMB375 million.

The principal terms of Entrusted Loan Agreements are as follows:

Date	:	28 September 2017
Principal	:	RMB375,000,000
Interest rate	:	12.0% per annum
Loan period	:	As mentioned above
Repayment	:	Customer B shall repay the interests on a quarterly basis and the principal amount at the end of the loan period
Security and guarantees	:	The pledge of the equity rights from the shareholders of Customer B at fair value of approximately RMB517.7 million.

3) **Guarantee Service Master Agreement with Customer C ("Guarantee Service Master Agreement")**

The Guarantee Service Master Agreement was entered into among the Company and 鼎豐集團(中國)有限公司 (Differ Group (China) Company Limited) ("Differ China") (as the Guarantors), 龍之族(中國)有限公司 (Dragon China Company Limited) ("Dragon"), 石獅富融商貿有限公司 (Shishi Fu Rong Trading Company Limited) ("Fu Rong") and 福建京福輝紡織科技有限公司 (Fujian Jing Fu Huei Textile Technology Company Limited) (together with Dragon and Fu Rong as the borrowers, collectively "Customer C") for a period of two years. Pursuant to which, the Guarantors have guaranteed to pay all indebtedness in an aggregate amount of not exceeding RMB315,000,000 in respect of the facilities due and owing to the lending bank by the Customer C in the event of the default of Customer C.

The principal terms of Guarantee Service Agreements are as follows:

Date	:	14 September 2017
Guarantors	:	the Company and Differ China
Lender	:	the lending bank
Borrowers	:	Customer C
Guarantee Cap	:	Up to RMB315,000,000
Guarantee fee rate	:	2.1% per annum of the guarantee amount (which is calculated proportionally for each month, and any part thereof shall be charged at the full monthly rate)
Consultancy fee rate	:	1.0% per annum of the guarantee amount (which is calculated proportionally for each month, and any part thereof shall be charged at the full monthly rate)
Term	:	2 years
Security and guarantees	:	(i) the pledge of the equity rights from the shareholder of Customer C at fair value of approximately RMB694.7 million; and (ii) personal guarantee of the ultimate shareholder of the Customer C.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities (2016: Nil).

COMMITMENT

(i) Operating lease commitments

Future minimum rental payable under non-cancellable operating lease of the Group in respect of buildings at the reporting date are as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**5,342**	791
After one year but within two years	**5,866**	–
After two years but within five years	**15,972**	–
	27,180	791

The Group leases certain properties under operating leases. The leases run for an initial period of 1 to 5 years (2016: 3 to 4 years), with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of these leases include any contingent rentals.

(ii) As at 31 December 2017, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to its subsidiaries of RMB1,114,028,000 (2016: RMB1,664,028,000).

(iii) As at 31 December 2017, the Group had commitment, contracted but not provided for, to make direct injections for the investment of unlisted equity securities classified as available-for-sale financial assets, which is operating in PRC of approximately RMB20,000,000 (2016: RMB5,100,000).

(iv) On 21 August 2017, the Group through one of its wholly-owned subsidiaries, entered into an investment agreement with three independent third parties for establishing a company operated in the PRC and principally engaged in fund management. As at 31 December 2017, the Group had commitment, contract but not provided for, to make capital injection amounted to US$5,000,000 (equivalent to RMB32,479,000) to the company, representing 5% of the total registered capital.

(v) At the reporting date, the Group had the following other capital commitments:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for		
– Asset acquired for finance lease (as lessor) (US$3,900,000, equivalent to RMB26,770,000)	**–**	26,770
– Acquisition of property, plant and equipment	**3,874**	–

(vi) As at 31 December 2016, The Group committed to invest in an equity investment fund partnership limited amounted to RMB70,000,000. On 28 October 2016, Wen Ding, an indirectly wholly-owned subsidiary of the Company entered into the equity transfer agreement with 福建省鼎豐創業投資有限公司 ("Fujian Differ Venture Capital Company Limited") (the "Vendor"), pursuant to which the Vendor conditionally agreed to dispose of and Wen Ding conditionally agreed to acquire the 6.25% equity interest in 中南成長(天津市)股權投資基金合伙企業(有限合伙) (Zhongnan Chengzhang (Tianjin Shi) Equity Investment Fund Partnership Limited (Limited Partnership)) at a consideration of RMB70,000,000.

FOREIGN EXCHANGE RISK MANAGEMENT

The exposure to currency exchange rate of the Group is minimal as majority of the Group's subsidiaries operates in the PRC with most of the transaction denominated and settled in RMB. The Group has not entered into any foreign exchange hedging arrangement. The Directors consider that exchange rate fluctuation has no significant impact on our Group's financial performance.

TREASURY POLICIES

The Group continuously monitors our current and expected liquidity requirements as well as our cash and receivables in order to ensure that we maintain sufficient liquidity to meet our liquidity requirements. In particular, we monitor the ageing of our loan and account receivables as well as the maturity profile of our financial liabilities under the guarantees provided to our customers.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 27 September 2017, the Group has acquired 25% equity interest in Differ Supply Chain Development Group Limited ("Differ Supply") at the consideration of RMB8 million (the "25% Acquisition"). Differ Supply and its subsidiaries are principally engaged in supply chain business in PRC. Completion of the 25% Acquisition took place on 27 September 2017 and Differ Supply became an indirect wholly-owned subsidiary of the Company. For further details, please refer to the announcement dated 27 September 2017.

On 27 October 2017, the Group has acquired 37% equity interest in Jiashi Financial at the consideration of RMB120 million (the "37% Acquisition"). Jiashi Financial and its subsidiaries are principally engaged in finance lease business in PRC. Completion of the 37% Acquisition took place on 27 October 2017 and Jiashi Financial became an indirect wholly-owned subsidiary of the Company. For further details business, please refer to the announcement dated 27 October 2017.

EVENT AFTER THE REPORTING DATE

On 21 November 2017, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement with Ms. Shi Hongjiao ("Ms. Shi") to acquire the entire issued share capital of Differ Cultural at a consideration of RMB375,000,000. The Group and Differ Cultural were under common control and managed by Mr. Hong Mingxian ("Mr. Hong"), the substantial shareholder of the Company, via Ms. Shi through a trust arrangement, the Acquisition is considered as a combination of businesses under common control. The consideration is settled by 84,000,000 shares of the Company at issue price of HK$0.582 per share and the remaining by cash after considering the outstanding debts owned by Ms. Shi, Mr. Hong and their respective associate companies to Differ Cultural and its subsidiaries at the completion date as defined in the circular of the Company dated 23 December 2017. The principal activities of Differ Cultural and its subsidiaries are property development and management. The Acquisition was completed on 23 January 2018. Upon the completion of the Acquisition, Differ Cultural become the wholly owned subsidiary of the Company.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

HUMAN RESOURCES

As at 31 December 2017, the Group had a total of 105 employees (2016: 138). The staff costs (included Directors' emoluments) were approximately RMB19.5 million for the year ended 31 December 2017 (2016: RMB19.1 million). The remuneration package of the employees is determined by various factors such as their working experience and job performance, the market condition, industry practice and applicable employment law. Year-end bonus based on job performance will be paid to employees as recognition of and reward for their contributions.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of employees' salaries to the central pension scheme. The Group also maintains the Mandatory Provident Fund Scheme and insurance for its employees in Hong Kong.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this annual report, there was no specific plan for material investments or capital assets as at 31 December 2017 (2016: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group had total cash and bank balances and current restricted bank deposits of approximately RMB50.2 million (2016: RMB143.8 million). The gearing ratio, calculated as percentage of total borrowings to the total assets of the Group was 31.8% as at 31 December 2017 (2016: 28.2%). The current ratio is 4.1 times as at 31 December 2017 (2016: 3.0 times). During the year, the Group did not use any financial instruments for hedging purpose.

CHARGE ON ASSETS

The Group's restricted bank deposits of approximately RMB27.7 million (2016: RMB122.8 million) as at 31 December 2017 were pledged to secure for the Group's facilities of providing financial services to the customers. Bank borrowings with carrying amount of approximately RMB36 million (2016: RMB77.5 million) were secured by finance lease receivables with carry amount of approximately RMB49.5 million (2016: RMB88.2 million).

MAXIMUM EXPOSURE UNDER THE FINANCIAL GUARANTEE CONTRACTS

The Group maximum exposure under the financial guarantee contracts is disclosed as below:

	2017 **RMB'000**	2016 RMB'000
Financial guarantee issued		
Maximum amount guaranteed	**430,969**	218,710

To mitigate such risk, the Group requests the customers to provide collateral as appropriate. In the event of default or failure to repay any outstanding guarantee amounts by the customers, the Group will proceed with sale of collateral. In order to maintain the credit risk at desirable levels, the Group's average loan-to-value ratio was kept at a level that could ensure the recoverability of the outstanding guarantee amount. At the reporting date, the Group's exposures under unexpired financial guarantee contracts were secured by the collateral of the customers as follows:

	2017 **RMB'000**	2016 RMB'000
Real estate	**20,293**	52,611
Inventories	**47,800**	160,813
Machinery	**1,140**	1,100
Motor vehicles	**570**	1,425
Property rights	**936,161**	13,500
Others	**9,500**	32,500
	1,015,464	261,949

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the provision of (i) assets management services, (ii) finance lease services and (iii) financial services. The principal activities and other particulars of the subsidiaries are set out in note 31 to the financial statements.

CORPORATION ORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 December 2012. Pursuant to a reorganisation to rationalise the group structure in preparation for the listing ("Listing"), the Company became the holding company of the Group. Details of the reorganisation are set out in the prospectus of the Company dated 3 December 2013 (the "Prospectus"). The Company was listed on GEM of the Stock Exchange on 9 December 2013 and was transferred listing to Main Board on 6 July 2015.

RESULTS AND DIVIDENDS

The Group's financial performance for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the financial statements on pages 56 to 59 of this annual report.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the past five years is set out in the financial summary on page 3 of this annual report. This summary does not form part of the audited financial statements in this annual report.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 28 to the financial statements in this annual report.

PROPERTY, PLANT AND EQUIPMENT

The details of movements in the property, plant and equipment of the Group for the year ended 31 December 2017 are set out in note 14 to the financial statements in this annual report.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively in the report. Details of the distributable reserves of the Company are set out in note 29 to the financial statements. The Company's reserves available for distribution to members as at 31 December 2017 amounted to approximately RMB355.1 million (2016: RMB383.4 million).

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

MAJOR CUSTOMERS

For the year ended 31 December 2017, the percentage of revenue attributable to the Group's major customers are as follows:

Revenue

– The largest customer	22.6%
– The total of five largest customers	43.3%

Neither the Directors nor their associates nor any shareholders (which to the knowledge of Directors own more than 5% of the Company's issued share capital) had any interest in the five largest customers of the Group.

CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL LIABILITIES

Details of movements in the Company's convertible bonds and derivative financial liabilities during the year are set out in note 27 to the financial statements in this report.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Hong Mingxian ("Mr. Hong")
Mr. Ng Chi Chung ("Mr. Ng")
Mr. Cai Huatan

Non-executive Directors

Mr. Cai Jianfeng
Mr. Wu Qinghan

Independent Non-executive Directors

Mr. Chan Sing Nun
Mr. Tsang Hin Man Terence (resigned on 7 June 2017)
Mr. Lam Kit Lam (appointed on 7 June 2017)
Mr. Zeng Haisheng

In accordance with the Company's articles of association, Mr. Ng, Mr. Wu Qinghan, Mr. Chan Sing Nun and Mr. Mr. Lam Kit Lam will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical information of the Directors and senior management of the Group are set out on pages 6 to 8 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years and renewable automatically until terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company. Each letter of appointment is for an initial term commencing on the date of the letter of appointment of three years unless terminated by either party giving at least one month's notice in writing. All the Directors are subject to retirement by rotation and re-election at the AGM of the Company pursuant to its articles of association.

None of the Directors proposed for re-election at the AGM has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed elsewhere in the financial statements, no Directors had material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

EMOLUMENT POLICY AND REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

The remuneration committee is set up for reviewing the Group's emolument policy and structure of all remuneration of the Directors of the Company, having regard to the Group's operating results, individual performance and comparable market practices.

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in note 9 to the financial statements in this report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections "Share Option Scheme" and "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures" below, at no time during the year ended 31 December 2017 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme was adopted by the Company on 26 November 2013. Eligible participants of the Scheme include (a) full time or part time employees of our Group (including any Directors or directors of any subsidiary or any invested entity); (b) any suppliers, customers, consultants, agents, advisers, service providers; (c) any shareholder of any member of our Group or any invested entity or any holder of any securities issued by any member of our Group or any invested entity and partner or joint venture partner of our Company or any subsidiary or any invested entity; and (d) and person who, in the sole discretion of the board of directors, has contributed or may contribute to our Group or any invested entity eligible for any options under the Scheme. The Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted.

An offer of the grant of any option under the Scheme may be accepted within 21 business days from the date of grant together with a remittance of HK$1.00 by way of consideration for the grant thereof. No option shall be granted to any eligible person if any further grant of options would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person in the 12 month period up to and including such further grant would exceed 1% of the total number of shares in issue, unless such further grant has been duly approved by the Company's shareholders in general meeting.

The exercise price of the option shall be determined at the discretion of the board of directors which shall be the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. Details of the principal terms are set out in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" of the Prospectus.

The total number of shares in respect of which options may be granted under the Scheme shall not exceed 400,000,000 shares, being 9.26% of the total number of shares in issue as at the date of the report. On 25 April 2016, the Company granted an aggregate of 84,108,000 share options to the eligible persons. Details of movements in the Company's share options during the year are set out in note 41 to the financial statements in this report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year are set out in note 37 to the financial statements in this report.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions which are subject to annual reporting under Chapter 14A of the Listing Rules:

ACQUISITION OF 25% EQUITY INTEREST IN DIFFER SUPPLY CHAIN DEVELOPMENT GROUP LIMITED

On 27 September 2017, the Company and Mr. Yung Tin Yuet ("Mr. Yung") entered into the sale and purchase agreement, pursuant to which Mr. Yung agreed to sell and the Company agreed to purchase 25% interest in Differ Supply Chain Development Group Limited ("Differ Supply") at the consideration of RMB8 million (the "25% Acquisition"). Differ Supply and its subsidiaries is principally engaged in supply chain business in PRC. Completion of the 25% Acquisition took place on the same day and Differ Supply became a wholly-owned subsidiary of the Company. Prior to completion of 25% Acquisition, Differ Supply was owned as to 75% by the Company and 25% by Mr. Yung.

The Directors consider that the 25% Acquisition represents a good investment opportunity for using the Group's surplus fund. For further details, please refer to the announcement dated 27 September 2017.

ACQUISITION OF 37% EQUITY INTEREST IN JIASHI FINANCIAL LIMITED

On 27 October 2017, Differ Company Limited ("Differ Company"), a wholly-owned subsidiary of the Company and Jiashi Company Limited (the "Jiashi Company") entered into the sale and purchase agreement, pursuant to which Jiashi Company agreed to sell and Differ Company agreed to purchase Jiashi Financial Limited ("Jiashi Financial") at the consideration of RMB120 million (the "37% Acquisition"), which shall be settled by way of issuing the promissory note in the aggregate principal amount of RMB120,000,000. Jiashi Financial and its subsidiaries ("Jiashi Financial Group") is principally engaged in finance lease business in PRC. Completion of 37% Acquisition took place on the same day and Jiashi Financial became an indirect wholly-owned subsidiary of the Company. Prior to completion of 37% Acquisition, Jiashi Financial was owned as to 63% by Differ Company and 37% by the Jiashi Company.

The Directors consider that the 37% Acquisition represents a good investment opportunity for the Group as Jiashi Financial Group recorded a growing trend in the net profit. The Group can enjoy more benefits arising from the future growth and success of Jiashi Financial Group. For further details, please refer to the announcement dated 27 October 2017.

ACQUISITION OF ALL EQUITY INTEREST IN DIFFER CULTURAL TOURISM DEVELOPMENT COMPANY LIMITED

On 21 November 2017, Differ Asset Development Limited, a wholly-owned subsidiary of the Company (the "Purchaser") entered into the conditional sale and purchase agreement with Ms. Shi Hongjiao ("Ms. Shi") (the "Vendor"), spouse of Mr. Hong to acquire the entire issued share capital of Differ Cultural Tourism Development Company Limited ("Differ Cultural") at the consideration of RMB375,000,000 ("Consideration")(the "Acquisition"). The Consideration shall be settled by the Group in the following manners:

(i) RMB41,065,920 of the Consideration shall be satisfied by the Company to allot and issue 84,000,000 Shares;

(ii) the Purchaser to pay on behalf of the Vendor, Mr. Hong and their respective associate companies to Differ Cultural, to satisfy part or whole (in the sole and absolute discretion of the Purchaser) of the outstanding amount owed by the Vendor, Mr. Hong and their respective associate companies to Differ Cultural;

(iii) the retention sum shall be retained by the Purchaser if the existing charge executed by Jingning Differ Real Estate Limited (景寧鼎豐置業有限公司) is not fully released; and

(iv) the remaining balance, if any, of the Consideration after deducting the amounts as stated in (i), (ii) and (iii) above from the total Consideration, to be settled in cash within two (2) years from the completion date of the Acquisition.

Differ Cultural and its subsidiaries is principally engaged in property development and management. The completion of the Acquisition took place on 23 January 2018 and Differ Cultural became a wholly-owned subsidiary of the Company.

The Directors consider that the Acquisition represents a good investment opportunity for the Group as it represents a strategic expansion of the Group in line with the Group's general business strategy. For further details, please refer to the circular dated 23 December 2017.

DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES IN THE COMPANY

As at 31 December 2017, the interests and short positions of the Directors or chief executives of the Company and their associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" contained in the Listing Rules, were as follows:

Long positions in Shares, Underlying Shares or Debentures of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Number of underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the total issued share capital of the Company
Mr. Hong	Interest in controlled corporation *(Note 1)*	1,884,200,000	–	1,884,200,000	44.48%
	Beneficial owner	–	6,400,000	6,400,000	0.15%
	Interest of spouse *(Note 2)*	84,000,000	–	84,000,000	1.98%
Mr. Ng	Interest in controlled corporation *(Note 3)*	1,115,800,000	–	1,115,800,000	26.34%
	Beneficial owner	12,098,000	6,400,000	18,498,000	0.43%

Notes:

1. These Shares were held by Expert Corporate Limited ("Expert Corporate"), which was wholly and beneficial owned by Mr. Hong. By virtue of the SFO, Mr. Hong is deemed to be interested in the 1,884,200,000 Shares under the SFO.

2. Mr. Hong is the spouse of Ms. Shi, the vendor of the Differe Cultural. Mr. Hong is therefore deemed to be interested in all the Shares owned by Ms. Shi.

3. These Shares were held by Ever Ultimate Limited ("Ever Ultimate"), which was wholly and beneficial owned by Mr. Ng. By virtue of the SFO, Mr. Ng is deemed to be interested in the 1,115,800,000 Shares under the SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2017, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long positions in Shares, Underlying Shares or Debentures of the Company

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of the total issued share capital of the Company
Expert Corporate	Beneficial owner *(Note 1)*	1,884,200,000	44.48%
Ms. Shi	Interest of spouse *(Note 2)*	1,890,600,000	44.63%
	Beneficial owner	84,000,000	1.98%
Ever Ultimate	Beneficial owner *(Note 3)*	1,115,800,000	26.34%
Ms. Ting Pui Shan ("Ms. Ting")	Interest of spouse *(Note 4)*	1,134,298,000	26.77%
Jianda Value Investment Fund L.P. ("Jianda")	Person having a security interest in shares *(Note 5)*	350,000,000	8.26%
Caitong International Investment Co., Limited	Person having a security interest in shares *(Note 5)*	350,000,000	8.26%

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of the total issued share capital of the Company
Cinda International Holdings Limited	Person having a security interest in shares *(Note 5)*	350,000,000	8.26%
Caitong Securities Co., Limited	Person having a security interest in shares *(Note 5)*	750,000,000	17.71%
Ministry of Finance of Zhejiang Province, the People's Republic of China (中華人民共和國浙江省財政廳)	Person having a security interest in shares *(Note 5)*	750,000,000	17.71%

Notes:

1. These Shares were held by Expert Corporate, which was wholly and beneficial owned by Mr. Hong. By virtue of the SFO, Mr. Hong is deemed to be interested in the 1,884,200,000 Shares under the SFO.

2. Ms. Shi is the spouse of Mr. Hong.

3. These Shares were held by Ever Ultimate, which was wholly and beneficial owned by Mr. Ng. By virtue of the SFO, Mr. Ng is deemed to be interested in the 1,115,800,000 Shares under the SFO.

4. Ms. Ting is the spouse of Mr. Ng.

5. On 14 December 2017, Ever Ultimate had executed an account charge in favour of Jianda, being the lender to a term loan, pursuant to which Ever Ultimate charged the securities of at least 350,000,000 Shares and assets in the securities account opened by Ever Ultimate with Cinda International Securities Limited as a security for the repayment obligation of the Company under a term loan. On the same date, Ever Ultimate had executed on share and account charge in favour of Caitong Securities (Hong Kong) Co., Limited, being the lender to a term loan, pursuant to which Ever Ultimate charged the securities of at least 400,000,000 Shares and assets in the securities account opened by Ever Ultimate with Caitong International Securities Co., Limited as a security for the repayment obligation of the Company under a term loan.

Save as disclosed above and as at 31 December 2017, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of Cayman Islands in relation to the issue of new shares.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company’s issued share capital were held by members of the public as at the date of this report as required under the Listing Rules.

DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

As far as the Directors are aware of, none of the Directors or any of their respective associates (as defined in the Listing Rules) has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year ended 31 December 2017.

All the independent non-executive Director were delegated with the authority to review on an annual basis the compliance of the terms of the non-competition undertaking and the enforcement of the non-competition undertaking given by Mr. Hong, Mr. Ng, Expert Corporate Limited and Ever Ultimate Limited (collectively, the “Controlling Shareholders”). Each of the Controlling Shareholders confirmed that (a) they have provided all information necessary for the enforcement of the non-competition undertaking, as requested by all independent non-executive Directors from time to time; and (b) each of the Controlling Shareholders had fully complied with the non-competition undertaking for the year ended 31 December 2017. All independent non-executive Directors also confirmed that they were not aware of any non-compliance with the non-competition undertaking given by the Controlling Shareholders during the same period.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 31 to 38 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by BDO Limited which will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution to re-appoint BDO Limited and to authorise the Directors to fix its remuneration will be proposed at the forthcoming AGM.

By order of the Board of
Differ Group Holding Company Limited
Hong Mingxian
Chairman

Hong Kong, 28 March 2018

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2017.

The Company is committed to establishing good corporate governance practices, procedures and fulfilling its responsibilities to its shareholders, protecting and enhancing shareholders' value. The Company's corporate governance practices are based on the principles and code provision as set out in the Code on Corporate Governance Practices ("CG code") in Appendix 14 to the Listing Rules.

Throughout the year ended 31 December 2017, the Company had complied with the CG Code with the exception from the deviation from the code provisions A.1.8 as explained below:

Under the code provision A.1.8, the Company should arrange appropriate insurance cover in respect of legal action against its directors. No insurance cover has been arranged for Directors up to the date of this report since the Directors take the view that the Company shall support directors arising from corporate activities.

THE BOARD AND BOARD COMMITTEES

As at 31 December 2017, the Board consists of eight Directors and their respective roles are set out as follows:

Mr. Hong Mingxian	Executive Director and Chairman
Mr. Ng Chi Chung	Executive Director and Chief Executive Officer
Mr. Cai Huatan	Executive Director and Honorary Chairman
Mr. Cai Jianfeng	Non-executive Director
Mr. Wu Qinghan	Non-executive Director
Mr. Chan Sing Nun	Independent non-executive Director
Mr. Lam Kit Lam (appointed on 7 June 2017)	Independent non-executive Director
Mr. Zeng Haisheng	Independent non-executive Director

The biographical details of all directors are set out under the section headed "Directors' and Senior Management Biographical Details" on pages 6 to 8.

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board include but not limited to formulating the Group's business strategies, reviewing the Company's financial performance and results, deciding all significant financial and operational issues, monitoring and reviewing the Group's risk management, internal control system and corporate governance; and all other functions reserved to the Board under the Company's articles of association. In addition, the Board delegates to the Group's management certain functions include the implementation of general daily operation, strategies approved by the Board, the implementation of internal control procedures and ensuring of compliance with relevant requirements and other rules and regulations. All the Directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

During the year ended 31 December 2017, the Company has complied with Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive directors representing more than one-third of the Board and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors also meet the guidelines for assessment of their independence. Each of the independent non-executive Directors has made an annual confirmation of independence and the Board is satisfied that all the independent non-executive Directors were independent and met the independent guidelines set out in Rule 3.13 of the Listing Rules, up to the date of the annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals. The Chairman of the Board is Mr. Hong Mingxian, who is responsible for the overall strategic formulation, management and planning of our Group. The Chief Executive Officer is Mr. Ng Chi Chung, who is responsible for business development and day-to-day management and operations of the Group.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors of the Company is engaged on a service agreement with the Company for a term of three years. The Company has also issued a letter of appointment to each of the non-executive directors and independent non-executive directors for a term of three years. In accordance with Article 84 of the Company's Articles of Association, one-third of the directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting ("AGM") at least once every three years. All of the retiring directors, being eligible, will offer themselves for re-election at the forthcoming AGM. Pursuant to the aforesaid provision of the Articles of Association, three directors of the Company shall retire at the forthcoming AGM of the Company and being eligible, will offer themselves for re-election at the meeting. The Company's circular, sent together with this annual report, contains detailed information of the retiring directors pursuant to the Listing Rules.

BOARD COMMITTEE

The Board has established three board committees, namely the audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") of the Company, with written terms of reference which are available for viewing on the websites of the Company and the Stock Exchange to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

DIRECTORS' ATTENDANCE RECORD

The Board meets regularly for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

During the year ended 31 December 2017, the Board held four regular board meetings which were held at approximately quarterly intervals and one general meetings, being 2017 AGM. The attendance of each Directors is as follows:

	Number of regular board meetings attended/held	Number of general meeting attended/held
Executive Directors:		
Mr. Hong Mingxian	4/4	1/1
Mr. Ng Chi Chung	4/4	1/1
Mr. Cai Huatan	4/4	1/1
Non-executive Directors:		
Mr. Cai Jianfeng	4/4	0/1
Mr. Wu Qinghan	4/4	0/1
Independent non-executive Directors:		
Mr. Chan Sing Nun	4/4	1/1
Mr. Tsang Hin Man Terence (resigned on 7 June 2017)	1/1	0/0
Mr. Lam Kit Lam (appointed on 7 June 2017)	3/3	0/1
Mr. Zeng Haisheng	4/4	0/1

There were 4 additional board meetings held for normal course of business during the year with the presence of all executive Directors. Apart from the said meetings, matters requiring Board approval were arranged by means of circulation of written resolutions of Board members. The Board is provided with relevant materials in relation to the matters brought before the meetings. Reasonable notices of meetings are given to the Directors and the Directors are encouraged to propose new items as any other business for discussion at the meetings. Minutes are kept by the company secretary and are open for inspections by all Directors at any reasonable time. Procedures for convening meetings of the Board and Board committees and preparing minutes of the meetings have complied with the requirements of the Articles of Association of the Company and applicable rules and regulations.

AUDIT COMMITTEE

The Board has established the Audit Committee on 26 November 2013 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. As at 31 December 2017, the Audit Committee consists of three independent non-executive Directors, namely, Mr. Chan Sing Nun, Mr. Lam Kit Lam and Mr. Zeng Haisheng. Mr. Chan Sing Nun is the chairman of the Audit Committee.

The main duties of the Audit Committee include, among others:

– monitoring the integrity of the Company's financial statements, interim and annual financial reports, and to review significant financial reporting judgments and accounting policies contained in them;

– reviewing and examining the effectiveness of risk management and internal control measure;

– responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;

– reporting the finding and recommendations to the Board on a regular basis.

During the year ended 31 December 2017, the Audit Committee (1) reviewed the Group's annual and interim reports and result announcements, the related accounting principles and practices adopted by the Group and provided advice and comments thereon; (2) made recommendations to the Board and the management in respect of the Group's financial reporting, risk management and internal control procedures; and (3) reviewed the Group's connected transactions pursuant to the Listing Rules. The Audit Committee held four meetings during the year and the attendance of each member is as follows:

	Member of Audit Committee Meeting attended/held
Mr. Chan Sing Nun	4/4
Mr. Tsang Hin Man Terence (resigned on 7 June 2017)	1/1
Mr. Zeng Haisheng	4/4
Mr. Lam Kit Lam (appointed on 7 June 2017)	3/3

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee on 26 November 2013 with written terms of reference in compliance with the Listing Rules. As at 31 December 2017, the Remuneration Committee consists of three independent non-executive Directors, namely, Mr. Lam Kit Lam, Mr. Zeng Haisheng and Mr. Chan Sing Nun. Mr. Lam Kit Lam is the chairman of the Remuneration Committee.

The main duties of the Remuneration Committee include, among others:

– formulating remuneration policy for approval by the Board, which shall take into consideration factors such as salaries paid by comparable companies, time commitment, employment conditions, and responsibilities, and individual performance of the Directors, senior management, and the general staff;

– ensuring none of the Directors determine their own remuneration.

During the year ended 31 December 2017, the Remuneration Committee reviewed and made recommendation on the remuneration package of Directors and senior management of the Group and assessed the performance of executive Directors. The Remuneration Committee held 2 meetings, during the year and attendance of each member is as follows:

	Number of Remuneration Committee Meeting attended/held
Mr. Tsang Hin Man Terence (resigned on 7 June 2017)	2/2
Mr. Zeng Haisheng	2/2
Mr. Chan Sing Nun	2/2
Mr. Lam Kit Lam (appointed on 7 June 2017)	0/0

NOMINATION COMMITTEE

The Board has established the Nomination Committee on 26 November 2013 with written terms of reference in compliance with the Listing Rules. As at 31 December 2017, the Nomination Committee consists of three independent non-executive Directors, namely, Mr. Zeng Haisheng, Mr. Lam Kit Lam and Mr. Chan Sing Nun. Mr. Zeng Haisheng is the chairman of the Nomination Committee.

The main duties of the Nomination Committee include, among others:

– reviewing the structure, size and composition of the Board;

– make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors;

– identify suitable and qualified individuals to become Board members.

During the year ended 31 December 2017, the Nomination Committee reviewed and discussed the structure, size and composition of the Board; made recommendation on the re-election of the retiring Directors; and confirmed the independence of the independent non-executive Directors. The Nomination Committee held 2 meetings during the year and the attendance of each member is as follows:

	Number of Nomination Committee Meeting attended/held
Mr. Zeng Haisheng	2/2
Mr. Tsang Hin Man Terence (resigned on 7 June 2017)	2/2
Mr. Chan Sing Nun	2/2
Mr. Lam Kit Lam (appointed on 7 June 2017)	0/0

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by Directors of listed issuers as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the year ended 31 December 2017.

AUDITOR'S STATEMENT AND THEIR REMUNERATION

The statement of the auditor of the Company about their reporting responsibilities on the Group's financial statements for the year ended 31 December 2017 is set out in the section headed "Independent Auditor's Report" of this report.

The remuneration of the Company's external auditor, BDO Limited ("BDO"), in respect of audit services and non-audit services for the year ended 31 December 2017 amounted to HK$900,000 (2016: HK$800,000) and HK$1,000,000 (2016: Nil) accordingly.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective risk management and internal control system in order to safeguard the interests of the shareholders, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

Particularly, the core of our Group's business is to provide short and medium-term financings and financing-related solutions based on our risk assessment of our customers and their collateral. Our Group has taken sufficient measures and steps to identify those inherent risks relevant to our business. We aim at minimising and managing such risks at every stage along the approval process and the post-approval monitoring process.

The Company has set up a compliance committee in April 2013 that is charged with duties to oversee and report to the Directors and the Company's Audit Committee on a quarterly basis the continuous compliance status of the Company. On a quarterly basis, the finance department summarises significant information such as interest rate and status of pledged assets of loan transactions into a quarterly report for the review by the compliance committee. Besides, a corporate governance committee has been set up in December 2013. The corporate governance committee is closely monitoring the effectiveness of our internal controls and prepares monthly reports containing (1) monthly consolidated financial statements, (2) business performance analysis, (3) material events and transaction (such as takeovers and mergers, change of key personnel and shareholders), (4) summary of significant contracts, (5) information of related party transactions, connected transactions and notifiable transactions, and (6) compliance status in our loan and guarantee business. The corporate governance committee should report any non-compliance issues to our Directors and Audit Committee immediately once the non-compliance issues are noted.

The Company currently does not have an internal audit department, and has engaged an independent professional internal control consulting firm ("Internal Control Reviewer") to review the Group's internal control system, policy and procedures and report to the Audit Committee their findings and recommendations. The Board has reviewed the need for an internal audit function and is of the view that in light of the size and nature of the business of the Group, instead of setting up an internal audit department, it would be more cost effective to appoint external independent professionals to perform independent carry and evaluation to the internal control systems, and the risk management system of the Group on an on-going basis. The Board will review at least annually the need for setting up an internal audit function.

The Board concluded that in general, the Group's risk management and internal control system is effective and adequate. The Board will continue to assess the effectiveness of risk management and internal controls by considering reviews and recommendations made by the audit committee, senior management and Internal Control Reviewer.

TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

The Group provides continuing briefings and professional development to the Directors to update on the latest development in relation to the Listing Rules and other applicable regulatory requirements as well as the Group's business and governance policies.

During the year ended 31 December 2017, all Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group including reading materials in relation to regulatory update and/or attending training course to develop professional skills.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparation of the consolidated financial statements for the financial year ended 31 December 2017, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and properly prepared on going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

SHAREHOLDERS' RIGHTS

In accordance with Article 58 of the articles of association of the Company, shareholders holding not less than 10% of the paid up capital of the Company can convene an EGM by written requisition to the Board or the secretary of the Company. In addition, shareholders can raise any questions relating to published information and latest strategic plan of the Group with the Directors. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.

INVESTOR RELATIONS

The Company has maintained various communication channels with its shareholders and the investment public to ensure that they are kept abreast of the Company's latest news and development. The Company updates its shareholders on its development, financial results and major events through its annual and interim reports. All published information is promptly uploaded to the website of the Company at www.dfh.cn.

Shareholders can also submit enquires to the management and send proposals to be put forward at shareholders' meeting to the Board or senior management by sending emails to pr@dfh.cn or making phone calls to our investor relations team at +852 2619 9924. In addition, the Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

During the year ended 31 December 2017, there had been no change in the constitutional documents of the Company.

As an integrated financial service provider, Differ Group Holding Company Limited (the "Company") offers a diversified range of services including guarantee, express loan, financial service, financial lease and asset management. Meanwhile, being a responsible corporation, we have taken up our corporate social responsibility ("CSR") on areas concerning our operation, workplace, environment and community.

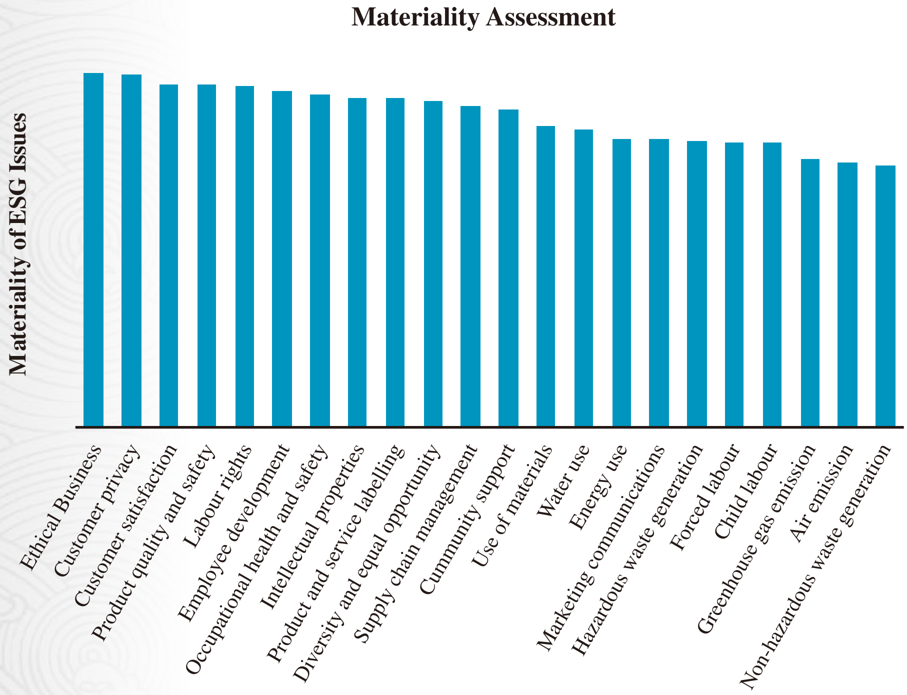
We are pleased to publish our Environmental, Social and Governance ("ESG") report which covers the financial year from 1 January 2017 to 31 December 2017 (the "Year"). The ESG report is prepared in accordance with Appendix 27 of the Rules Governing the Listing of Securities, Hong Kong Exchanges and Clearing Limited ('HKEx"), and has been reviewed and approved by the Board of Directors. The scope of this ESG report confines to the Company and our subsidiaries in Xiamen, Fujian Province (collectively, the "Group"). It aims to highlight our strategies in pursuit of sustainability, our efforts and ESG performance during the Year. This is also our first year to disclose environmental key performance indicators ("KPIs"), making another significant move towards sustainability.

Your feedback on this report is valuable for our continuous improvements. Please write to us at Room 1602, Euro Trade Centre, 13-14 Connaught Road Central, Central, Hong Kong or email us at pr@dfh.cn.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group strives to create long-term values for our stakeholders and thus places great emphasis on stakeholder engagement. We will continue to work hard to maintain an open and ongoing dialogue with our key stakeholders, including customers, employees, investors, shareholders, suppliers and media.

To understand and address concerns of both internal and external stakeholders, we have conducted a materiality assessment by means of online questionnaire which consists of a total of 22 ESG issues. The results, which are presented below, enable us to identify and prioritize the most material ESG issues that are important for the Group to consider and incorporate in strategic planning.



It is noted that the top 5 material issues identified are ethical business, customer privacy, customer satisfaction, product quality and safety and labour rights. We have paying serious attention to the above results to our business considerations, and we will continue to strive for excellence in our ESG performance. By making reference to the concerns of our stakeholders expressed above, details of our efforts during the Year are presented in the later sections of this report.

ETHICAL BUSINESS

We provide a wide range of high-quality financial services and products to our customers, and have established scientific management system and rigorous risk control system, supported by a team of experts in finance, legal, management, research and government policies. We provide our services with high degree of professionalism, and we create value added services with flexible and custom made solutions. This is how we connect and build mutual trust with our clients upon businesses. Continued with our good records in 2017 in complying with all applicable laws and regulations in our operation, we strive to maintain high standards of ethics and integrity.

Anti-corruption

Aiming to create an ethical corporate culture, we have zero tolerance on bribery and corruption. Internally, all employees are required to follow the Group's "Employee Code of Conduct", in which clearly states that such practices are strictly prohibited. In case of violation, we will conduct investigation timely and take disciplinary actions if necessary. Externally, we also expect our suppliers and customers to conduct business with integrity. During the Year, there was no violation of relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

Customer Privacy

Customers' valuable information has been collected for assessment and for offering comprehensive financial services as a natural process of our businesses. Understanding how important privacy means to our customers, we take customer privacy very seriously. To safeguard customers' confidential information, we have set out guiding principles on collecting, using, transferring, disclosing and storing information, complying with all applicable data privacy regulations. We are committed not to disclose any customers' information unless prior consent has been obtained from customers or required by the government. Various measures such as installing firewall for our own server are implemented to prevent unauthorized or accidental access, process, erasure and other uses of customers' data. Our headquarters in Xiamen also has been installed with a secured warehouse for file management.

Customer Relationship

Our customers are our most important and valuable assets and resources. To provide the best-tailored services to our customers with the largest extent of satisfaction, we strive to be customer-centric. We manage and control the quality of our customer services by establishing a Customer Services System, in which we promise to handle inquiries and complaints promptly. By collecting feedback, we continuously improve our service quality and enhance our competitiveness.

Responsible Lending

Whilst providing excellent services to our customers, we would like to go beyond that and do it in a more responsible manner. Prior to engaging in any kind of loan arrangement, we carry out a thorough and comprehensive evaluation on their financial situations, as well as financial and cash flow analysis to ensure our customers have the right reasons and positions to take the loans, and have the ability to repay the loans. We believe it is our fundamental responsibility to avoid risky loans which customers could not afford, and ending-up in selling their properties or assets for repayments.

Supply Chain Management

To further promote the idea of sustainability, the Group places great emphasis on managing our supply chain. We select suppliers not only based on their reputation and scale of business, but also their commitments on ESG issues. Suppliers and customers are required to active actions to follow our "Supplier and Customer Code of Conduct", as detailed below. This Code helps us to drive the suppliers to perform better than the basic requirements from laws and regulations. Inspections are conducted from time to time to ensure compliance with the Code, and we also provide appropriate supports or trainings where necessary. In case of violation of relevant laws and this Code of Conduct, we will respond immediately and take disciplinary actions if necessary.

<Supplier and Customer Code of Conduct>	
Legal compliance	Whilst relevant laws may vary from country to country, suppliers and customers must fully comply with all applicable national and local laws and regulations.
Fair and equal workplace	Suppliers and customers should treat their employees with respect and dignity, and promote a discrimination-free working culture.
Freedom of association and complaint	All employees should enjoy the rights to form and join trade unions of their choice, and to bargain collectively. Confidential measures should also be taken when handling employee's complaints.
Ethics and integrity	Suppliers and customers should do business with ethics and integrity, by avoiding conflicts of interests and discouraging the acceptance of gifts, hospitality, entertainment or insider dealing.
Environmental protection	We recognize our responsibility of protecting the environment and also hope that our suppliers and customers can do the same by actively adopting environmentally-friendly practices.

THE WORKPLACE

Believing our employees are the greatest assets of the Group, we strive to build long-term relationships with our people by creating the best working environment, as well as remunerate them in line with national policies and commercial market demands.

Employment

Our long-term success depends on our diverse pool of talents. To continuously motivate our staff members, we have a performance-based remuneration system in place. We also fulfil our employer responsibility to purchase mandatory social welfare scheme, the "5 insurances with Housing Fund" for our employees in China, so that they can enjoy full security in the areas of pensions, medical treatments, work-related injuries, maternities and accommodations. Apart from statutory holidays, additionally we offer annual, sick, marriage, maternity and bereavement leaves. Besides, we do not encourage over-time working. Prior approval from management for over-time is required in case of genuine work-related demands, and compensation leaves will be duly observed and repaid.

A fair and discrimination-free working environment is essential for maintaining a productive and energetic workforce. We are committed to recruiting, employing, promoting staff members solely based on the job requirements and their capabilities, and in doing so forbid to discriminate staff due to their nationality, age, gender, socioeconomic status, political inclination, religion, marital status, sexual orientation, disability, pregnancy, and/or other forms of differences that are unrelated to job requirements.

Labour Standards

In line with relevant labour laws and national regulations, child and forced labour are strictly prohibited through the implementation of "Prohibition of Child Labour Policy" and "Prohibition of Forced Labour Policy". Employment of any persons under the age of 16 is strictly prohibited, by following our standard measures such as verifying applicants' identification documents in the recruitment process. In doing so, we hope to play our parts to protect children's physical and psychological health, promoting the implementation of compulsory education system and safeguarding their legal rights and interests. We also prohibit illegal or inhuman exemplary measures as well as forced labour. Employees are welcomed to report suspicious cases to the management or via the complaint box. We are committed to conducting prompt investigation and taking necessary corresponding actions within one week for reported cases once received. During the Year, no cases involving child and forced labour were found in the Group.

Development & Training

Maintaining our competitive edge satisfies growing needs of both the Group and our employees, and thus we are committed to nurturing a good continuous learning and development atmosphere, and to actively encouraging our people to participate in various training opportunities.

With our "Training Management Policy" in place, we have already built a systematic procedure on managing training activities to provide platforms for our people to develop their potentials. Based on strategic planning and individual needs, an annual training plan is formulated at the beginning of each year. Training activities on various areas are then designed and held according to the plan. Participants' feedbacks on training outcomes and quality are highly valued by conducting subsequent evaluation for purposes of continuous improvements. Training records are well-kept for performance tracking, which will be used as one of the considerations of promotion decision.

During the Year, a board spectrum of training programmes was organized in the aspects of technical skills, personal competencies, team management, regulations and laws. Electronic materials and videos are also provided to facilitate e-learning. References resources and books on the topics of operation and management are available for lending to our staff members. Apart from internal trainings, a training funding scheme is further offered for our excellent staff to join external training programmes in order to polish their expertise.

Health & Safety

Given the Group's business nature which is mainly office-based, there is no material occupational hazard envisaged. Our core approach on occupational health and safety management is to raise employees' awareness on workplace safety issues. By providing training and education, our employees are well-informed about the ways to reduce and prevent all types of potential health and safety risks. For instance, to reduce fire hazards, we train and ensure that all staff are familiar with the escape routes and locations of fire extinguishers.

In addition, we strive to foster a culture of good work-life balance of our employees. Staff members are encouraged to develop a good reading habit in their spare time, in which to improve their general knowledge as well as cognitive skills. We also organize sport activities regularly, which not only help maintain their health and physical fitness, but are useful to de-stress their mind from work.

In April 2017, we successfully held the "Differ Group Mid & Senior Management Training Course 2017". Topics covered included OGSM management tool, cases studies of local and foreign cooperations, leadership building and talent selection.

OUR ENVIRONMENT

Although we do not pose significant impacts to the environment due to the Group's business nature, we recognize that protecting the environment is our responsibility as a corporate citizen. We strive to comply with all applicable laws and regulations in relation to environmental protection, as well as minimize our environmental footprints by implementing a wide array of policies and initiatives. Looking forward, we will continue to work towards sustainability and strike to maintain a good balance between our operations and the environment.

Greenhouse Gas Emissions

In view of the challenges due to climate change, the Group has made substantial efforts to reduce our carbon emissions in our daily operations by implementing initiatives which will be mentioned in the later sections. With regard to greenhouse gas contributed from transportation, we encourage employees to utilize electronic communication tools to avoid unnecessary business travel. During the Year, the Group has emitted a total of 199.61 tCO_2e of greenhouse gas, with an intensity of 1.52 tCO_2e per employee.

Greenhouse Gas		Emissions	Unit
Scope 1	Vehicle fuel	43.75	tCO_2e
Scope 2	Electricity	98.91	tCO_2e
Scope 3	Business air travel	56.95	tCO_2e
Total		199.61	tCO_2e
Intensity		1.52	tCO_2e per employee

Looking forward, we will continue to explore opportunities to cut down our carbon footprints and to minimize our impacts on the environment.

Resource Management

The main types of resources utilized by our Group are electricity, water and vehicle fuels. The consumption during the year is as follows:

Type of Resources	Consumption	Unit	*Intensity per employee*
Electricity	122,140.81	kWh	932.37
Vehicle fuel	14,183.50	L	108.27
Water	4,449.82	m^3	33.97
Paper	1.66	tonnes	0.01

To utilize our resources responsibly and thus reducing greenhouse gas emissions, we have established policies in place to govern our resources consumption and promote the culture of conservation within the Group. The Energy Saving Policy is formulated according to relevant national laws and regulations, aiming to enhance our energy efficiency with respect to lightings, air-conditioning and electrical appliances. Our Administrative Department monitors the actual implementation of the policy by having regular supervision and monitoring on the consumption, as well as the behaviour of the staff.

Lighting

- use energy-saving bulbs
- adopt sound-sensor control in corridors and washrooms
- use natural light as far as possible
- set up different lighting schedules for different seasons and weather
- turn off unnecessary lighting during non-operation hours

Air-conditioning

- adjust temperature according to weather
- maintain the indoor temperature at 26°C during summer time

Electrical appliances

- turn off all electrical appliances before leaving the office
- post energy saving remainders next to switches
- switch to low-energy-consumption sleep mode when not in use

Recognizing the importance of conserving our water resources, we are committed to reducing our water usage through strengthening the management framework, conducting regular maintenance and preventing water leakage. Practical initiatives taken include equipping taps with automatic sensors, lowering taps' water pressure and placing signs at washrooms to remind employees to treasure water resources.

In our office-based working environment, we actively encourage our employees to make good use of electronic platforms. Internal circulars and documents are distributed through our online system to reduce the use of paper and facsimile. Basic green office behaviours, such as those related to double-sided printing and reuse of stationary, etc., are also promoted as we believe that it is the joint responsibility of all of us to conserve our valuable resources.

Waste Disposal

As a service and office based corporation, the main types of waste generated are limited to domestic waste. To effectively manage our disposal and minimize our environmental impacts, we have a strict policy on waste separation for four types of waste which are recyclables, food waste, hazardous waste and other. Bins with different colour labels are placed in our operating units for different types of waste in order to facilitate source separation. For instance, designated food waste bins are available in pantries. Prior inspection and approval are required before replacement and disposal of used batteries to minimize environmental pollution.

Green Operation

Apart from managing our resources and emissions, we consider the potential impacts on the environment in early planning stage by practising green procurement. Factors such as energy-saving performance, health and safety, low-carbon and recycling readiness are incorporated in our procurement considerations. For example, electrical appliances certified with "China Environmental Labelling" and "Energy Savings", office supplies with national "Government Procurement List on Environmental Labelling" and renovation materials manufactured by cleaner production technologies will be given priority.

To further fulfil our responsibility of environmental protection and achieve low-carbon business, we also take the product life-cycle into account, from design, manufacture, consumption to disposal.

Design:
- instill the concept of "product life-cycle"

Manufacture:
- opt for environmentally-friendly raw materials
- adopt cleaner production
- increase resource efficiency
- comply with emission standards

Consumption:
- practice low-energy consumption
- achieve risk-free on users
- comply with relevant laws and regulations

Disposal:
- be able to recycle, renovate, store and dispose of easily and safely

CARE FOR COMMUNITY

Being a responsible corporation, we are committed to boosting the development of the communities in which we operate with an aim not only to build a good corporate image, but also to promote a harmonious corporate culture. With our “Community Involvement Policy”, we actively encourage our business partners and employees to participate in community activities, provide assistance to the needy and respond to government’s call for disaster reliefs. Charitable initiatives take forms in various aspects such as education, science, art and culture, community health and wellness, environmental protection and public facilities construction.

We have been focusing on child educational support during the Year. In March 2017, the campus of “Hope Primary School” was officially completed. Apart from basic classroom settings, the new campus has equipped with a library, a laboratory, an art room and many multi-functional rooms, which have greatly improved the teaching environment and quality. Each classroom is installed with multimedia facilities which have greatly enhanced learning with audio and video. Through our practical actions, we hope to raise public awareness on education issues and create a better learning environment for under-privileged children in rural areas of China. In future, we will continuously invest more resources in manpower, finance and community development that we are dedicated to.

Our staff volunteer team visited Hope Primary School and celebrated the International Children’s Day 2017 with students.

In October 2017, our Chairman Mr. Hong Mingxian visited Hope Primary School in Jiangxi Province and Brought necessities such as stationary and school bags to students.

HKEX ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures		Policy/Procedure	Remarks
A. Environment			
A1 Emission	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc. *Note:* Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.	– Waste Separation Management System	OUR ENVIRONMENT – Greenhouse Gas Emissions & Waste Disposal * Our operation does not involve air emissions, water discharge and generation of hazardous waste.
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials. Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	– Energy Saving Policy	OUR ENVIRONMENT – Resource Management * Our operation does not involve the use of raw and packaging materials.
A3 The Environment and Natural Resources	Policies on minimising the operation's significant impact on the environment and natural resources.	– Green Procurement Policy	OUR ENVIRONMENT – Green Operation

HKEx ESG Reporting Guide General Disclosures		Policy/Procedure	Remarks
B. Social			
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	– Recruitment System – Compensation Regulations	THE WORKPLACE – Employment
B2 Health and Safety	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.	– Occupational Health, Safety, Environment & Working Condition Management Policy	THE WORKPLACE – Health & Safety
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Training refers to vocational training. It may include internal and external courses paid by the employer.	– Training Management Policy	THE WORKPLACE – Development & Training

HKEx ESG Reporting Guide General Disclosures		Policy/Procedure	Remarks
B. Social			
B4 Labour Standard	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.	– Prohibition of Child Labour Policy – Prohibition of Forced Labour Policy	THE WORKPLACE – Labour Standards
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	– Supplier and Customer Code of Conduct	ETHICAL BUSINESS – Supply Chain Management
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	– Rules of Protecting Customer Privacy – Customer Services Systems – Procedures to Evaluate Customer's Ability to Repay Loan	ETHICAL BUSINESS – Quality Services and Products
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.	– Employee Code of Conduct – Supplier and Customer Code of Conduct	ETHICAL BUSINESS – Anti-corruption
B8 Community Investment	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests.	– Community Involvement Policy	CARE FOR COMMUNITY

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25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE SHAREHOLDERS OF DIFFER GROUP HOLDING COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Differ Group Holding Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 56 to 138, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment on finance leases, loans and account receivables (Refer to notes 5, 18 and 39 to the consolidated financial statements)

As at 31 December 2017, the Group’s finance lease, loan and account receivables amounted to RMB1,376,605,000, of which RMB34,793,000 were past due per contract terms while RMB35,477,000 and RMB77,701,000 were related to receivables paid on behalf of guarantee customers who had default in repayment to the bank and distressed assets classified as receivables representing non-performing debts acquired for daily operation, which are balances already past due to their original creditors according to relevant loan/guarantee agreements but no exact due date to the Group. The Group holds collaterals directly or indirectly to cover the credit risks associated with finance lease, loans and account receivables, including real estate, inventories, machineries, motor vehicles and property rights. Based on the fair value of the collaterals and other information, the directors concluded there was no impairment necessary for the Group’s finance lease, loans and account receivables except in respect of receivables in aggregate of RMB22,898,000 as at 31 December 2017 which were considered irrecoverable and gave rise to the provision of an impairment loss on these balances.

The fair value of collaterals was based primarily on management’s judgements, best estimates and assumptions relating to market observable inputs and data as far as possible. Independent external valuations were obtained in order to support management’s estimates.

The impairment of receivables is considered to be a key audit matter because it requires the application of judgement and use of subjective assumptions by management.

Our responses:

Our procedures in relation to management’s assessment of impairment on finance lease, loans and account receivables included:

– Reviewing the subsequent settlements of the finance leases, loans and account receivables;

– Reviewing the repayment histories and credit worthiness of the Group’s debtors;

– Assessing the qualifications and competencies of the independent valuers; and

– Assessing the methodologies used and appropriateness of the key assumptions adopted for the valuations of collaterals.

Valuation of available-for-sale financial assets (Refer to notes 5 and 20 to the consolidated financial statements)

As at 31 December 2017, the Group's available-for-sale financial assets amounted to RMB131,370,000, of which RMB53,600,000 represented distressed assets. The fair values of distressed assets were based primarily on management's judgements, best estimates and assumptions relating to recoverable amounts. Independent external valuations were obtained in order to support management's estimates.

Valuation involves high estimation uncertainty which gives rise to higher risk of material misstatement to the carrying amount of the available-for-sale financial assets.

Our responses:

Our procedures in relation to management's valuations of available-for-sale financial assets included:

– Assessing the qualifications and competencies of the independent valuers;

– Assessing the methodologies used and appropriateness of the key assumptions adopted for the valuations; and

– Assessing the credit worthiness of the counterparties which the Group pursues repayment.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

BDO Limited
Certified Public Accountants
Wong Kwok Wai
Practising Certificate no. P06047

Hong Kong, 28 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Income from financial related services	7	**181,215**	201,659
Income from assets management business	7	**118,053**	93,209
Other income	7	**37,390**	3,385
Gain on disposals of subsidiaries	32	**–**	6,942
Gain on redemption of convertible bonds	27	**8,770**	–
Employee benefit expenses		**(19,528)**	(19,115)
Depreciation and amortisation expenses		**(1,730)**	(2,638)
Operating lease expenses		**(2,450)**	(2,601)
Equity-settled share-based payments		**(8,335)**	(12,120)
Other expenses		**(43,471)**	(47,357)
Share of results of an associate		**492**	7
Change in fair value of derivative financial instruments	27	**1,960**	14,028
Finance costs	10	**(56,337)**	(42,367)
Profit before income tax	8	**216,029**	193,032
Income tax expense	11	**(45,187)**	(50,639)
Profit for the year		**170,842**	142,393

	Notes	**2017** **RMB'000**	2016 RMB'000
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods			
– Exchange differences on translating foreign operation		**9,359**	(11,259)
– Fair value gain on available-for-sale financial assets		**3,300**	22,833
– Release to profit or loss upon disposals of available-for-sale financial assets		**–**	(32,233)
		12,659	(20,659)
Total comprehensive income for the year		**183,501**	121,734
Profit for the year attributable to:			
Owners of the Company		**160,209**	135,509
Non-controlling interests		**10,633**	6,884
		170,842	142,393
Total comprehensive income attributable to:			
Owners of the Company		**172,868**	114,850
Non-controlling interests		**10,633**	6,884
		183,501	121,734
Earnings per share	13		
– Basic (RMB cents)		**3.78**	3.20
– Diluted (RMB cents)		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**13,070**	10,659
Prepaid land lease	15	**6,105**	6,512
Interest in an associate	16	**20,499**	20,007
Restricted bank deposits	17	**10,000**	–
Finance lease, loan and account receivables	18	**275,120**	392,695
Prepayments, deposits and other receivables	21	**83,038**	30,000
Goodwill	19	**33,400**	33,400
Available-for-sale financial assets	20	**131,370**	56,430
		572,602	549,703
Current assets			
Finance lease, loan and account receivables	18	**1,101,485**	912,861
Prepayments, deposits and other receivables	21	**258,628**	234,618
Restricted bank deposits	17	**17,729**	122,831
Cash and bank balances	22	**32,475**	20,977
		1,410,317	1,291,287
Current liabilities			
Accruals, other payables, deposits received and deferred income	23	**81,726**	89,508
Provision for taxation		**37,464**	32,146
Bank and other borrowings	24	**180,801**	95,074
Corporate bonds	25	**41,725**	–
Convertible bonds	27	**–**	197,895
Derivative financial liabilities	27	**–**	8,909
		341,716	423,532
Net current assets		**1,068,601**	867,755
Total assets less current liabilities		**1,641,203**	1,417,458

	Notes	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Deposits received and deferred income	23	**31,025**	61,714
Bank and other borrowings	24	**61,950**	121,335
Corporate bonds	25	**225,199**	95,216
Promissory note	26	**120,000**	–
		438,174	278,265
Net assets		**1,203,029**	1,139,193
EQUITY			
Share capital	28	**8,292**	8,292
Reserves		**1,194,737**	1,020,506
Equity attributable to owners of the Company		**1,203,029**	1,028,798
Non-controlling interests		**–**	110,395
Total equity		**1,203,029**	1,139,193

On behalf of the directors

Hong Mingxian
Director

Ng Chi Chung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000 *(Note 29)*	Capital reserve RMB'000 *(Note 29)*	Merger and other reserve RMB'000 *(Note 29)*	Statutory reserve RMB'000 *(Note 29)*	Financial assets revaluation reserve RMB'000 *(Note 29)*	Translation reserve RMB'000	Share Options reserve RMB'000 *(Note 29)*	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	8,292	356,029	277,562	(8,345)	27,774	9,700	(2,639)	–	233,422	901,795	96,044	997,839
Profit for the year	–	–	–	–	–	–	–	–	135,509	135,509	6,884	142,393
Other comprehensive income for the year	–	–	–	–	–	(9,400)	(11,259)	–	–	(20,659)	–	(20,659)
Total comprehensive income for the year	–	–	–	–	–	(9,400)	(11,259)	–	135,509	114,850	6,884	121,734
Transfer to statutory reserve	–	–	–	–	15,976	–	–	–	(15,976)	–	–	–
Recognition of equity-settled share-based compensation	–	–	–	–	–	–	–	12,120	–	12,120	–	12,120
Disposal of subsidiaries *(note 32)*	–	–	(30,000)	–	–	–	–	–	30,000	–	–	–
Arising from partial disposal of subsidiaries *(note 34)*	–	–	–	33	–	–	–	–	–	33	7,467	7,500
At 31 December 2016 and 1 January 2017	8,292	356,029	247,562	(8,312)	43,750	300	(13,898)	12,120	382,955	1,028,798	110,395	1,139,193
Profit for the year	–	–	–	–	–	–	–	–	160,209	160,209	10,633	170,842
Other comprehensive income for the year	–	–	–	–	–	3,300	9,359	–	–	12,659	–	12,659
Total comprehensive income for the year	–	–	–	–	–	3,300	9,359	–	160,209	172,868	10,633	183,501
Transfer to statutory reserve	–	–	–	–	17,198	–	–	–	(17,198)	–	–	–
Recognition of equity-settled share-based compensation	–	–	–	–	–	–	–	8,335	–	8,335	–	8,335
Arising from acquisition of additional interests in subsidiaries *(note 35)*	–	–	–	(6,972)	–	–	–	–	–	(6,972)	(121,028)	(128,000)
At 31 December 2017	8,292	356,029	247,562	(15,284)	60,948	3,600	(4,539)	20,455	525,966	1,203,029	–	1,203,029

* Retained profits included amount of approximately RMB26,517,000 as at 31 December 2017 (2016: RMB26,891,000) which was set aside in accordance with the relevant rules governing the financial guarantee business in the People's Republic of China (the "PRC") as reserve for non-matured obligation and guarantee indemnity reserve and was not distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Profit before income tax		**216,029**	193,032
Adjustments for:			
Bank interest income	7	**(995)**	(1,039)
Interest expenses	10	**56,337**	42,367
Depreciation of property, plant and equipment	8	**1,323**	2,231
Amortisation of prepaid land lease	8	**407**	407
Gain on disposal of subsidiaries		**–**	(6,942)
Share of results of an associate		**(492)**	(7)
Change in fair value of derivative financial instruments		**(1,960)**	(14,028)
Equity-settled share-based payment		**8,335**	12,120
Loss/(gain) on disposal of property, plant and equipment	8	**176**	(23)
Gain on redemption of convertible bonds		**(8,770)**	–
Impairment loss on finance lease, loan and receivables	8	**21,619**	28,056
Reversal of impairment loss recognised on finance lease, loan and account receivables	7	**(30,073)**	–
Adjustment to the carrying amount of liability component of convertible bonds arising from modification of terms and conditions		**(2,273)**	–
Operating profit before working capital changes		**259,663**	256,174
Increase in finance lease, loan and account receivables, net of deferred income		**(113,431)**	(222,306)
Increase in prepayments, deposits and other receivables		**(23,321)**	(181,551)
Decrease/(increase) in restricted bank deposits		**95,102**	(25,723)
Decrease in accruals, other payables and deposits received		**(42,465)**	(40,298)
Decrease in available-for-sale financial assets		**5,280**	21,800
Cash generated from/(used in) operations		**180,828**	(191,904)
Interest received		**995**	1,039
Income tax paid		**(39,869)**	(37,164)
Net cash from/(used in) operating activities		**141,954**	(228,029)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,685)**	(1,023)
Proceeds from disposals of property, plant and equipment		**751**	221
Disposals of subsidiaries, net of cash disposed	32	**–**	62,256
Investment in unlisted available-for-sale equity securities		**(76,920)**	(6,130)
Investment in an associate		**–**	(20,000)
Acquisition of additional interests in subsidiaries		**(8,000)**	–
Net cash (used in)/generated from investing activities		**(88,854)**	35,324
Cash flows from financing activities			
Proceeds from partial disposal of subsidiaries		**–**	7,500
Proceeds from issue of corporate bonds		**181,891**	78,416
Proceeds from issue of convertible bonds		**–**	197,812
Redemption of convertible bonds		**(205,621)**	–
Proceeds from bank and other borrowings		**196,219**	–
Repayment of bank and other borrowings		**(164,746)**	(127,019)
Repayment of corporate bonds		**(5,080)**	–
Interest paid		**(43,105)**	(31,609)
Net cash (used in)/generated from financing activities		**(40,442)**	125,100
Net increase/(decrease) in cash and cash equivalents		**12,658**	(67,605)
Cash and cash equivalents at beginning of the year		**20,977**	89,510
Effect of foreign exchange rates, net		**(1,160)**	(928)
Cash and cash equivalents at end of the year		**32,475**	20,977
Analysis of balances of cash and cash equivalents			
Cash and bank balances	22	**32,475**	20,977

1. CORPORATE INFORMATION

Differ Group Holding Company Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 4 December 2012. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited.

The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company and its subsidiaries (the "Group") is located at 23rd Floor, Tower 11, 166 Tapu East Road, Xiamen, the PRC. Subsequent to the year ended 31 December 2017, the principal place of business of the Group has been changed to 33/F, Differ Fortune Plaza, No. 503 Gaolin Middle Road, Huli District, Xiamen City, Fujian Province, the PRC with effect from 5 February 2018.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 31 to the financial statements.

The financial statements for the year ended 31 December 2017 were approved and authorised by the board of directors on 28 March 2018.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

2.3 Functional and presentation currency

The functional currency of the Company is Hong Kong Dollar ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB") since most of the companies comprising the Group are operating in RMB environment and the functional currency of most of the companies comprising the Group is RMB.

3. ADOPTION OF HKFRSs

3.1 Adoption of new/revised HKFRSs

In the current year, the Group has applied for the first time the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the annual period beginning on 1 January 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Other than as noted below, the adoption of the amendments has no material impact on the Group's financial statements.

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in note 40(b) to the financial statements.

3.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

3. ADOPTION OF HKFRSs – continued

3.2 New/revised HKFRSs that have been issued but are not yet effective – continued

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and revised HKFRSs that are expected to have impact on the Group's financial statements is provided below. Other new and revised HKFRSs have been issued but are not yet effective are unlikely to have material impact on the Group's financial statements upon application.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

3. ADOPTION OF HKFRSs – continued

3.2 New/revised HKFRSs that have been issued but are not yet effective – continued

HKFRS 9 – Financial Instruments – continued

The Group's financial assets currently measured at amortised cost will continue with their respective classification and measurement upon the adoption of HKFRS 9.

The available-for-sale financial assets which are currently stated at fair value or cost less impairment will be designated as FVTOCI. However, it is not practicable to provide a reasonable estimate of that effect until the Group performs a detailed review.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost and debt instruments measured at FVTOCI. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, the Group expects that the application of the expected credit loss model may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15 – Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

3. ADOPTION OF HKFRSs – continued

3.2 New/revised HKFRSs that have been issued but are not yet effective – continued

HKFRS 15 – Revenue from Contracts with customers – continued

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The directors of the Company anticipate that the application of HKFRS 15 in the future will not have a material impact on the recognition of revenue of the Group based on the existing business model of the Group as at 31 December 2017.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases "and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right-to-use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

3. ADOPTION OF HKFRSs – continued

3.2 New/revised HKFRSs that have been issued but are not yet effective – continued

HKFRS 16 – Leases – continued

The standard will affect primarily the accounting for Group's operating leases as lessee. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB27,180,000 (Note 36(i)). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of HKFRS 16. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year, are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.1 Business combination and basis of consolidation – continued

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, interest in subsidiaries is stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.3 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

4.4 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.4 Goodwill – continued

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4.5), and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

4.5 Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid land lease; and
- investments in subsidiaries and an associate.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see note 4.4), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life, as follows:

Buildings	20 years
Leasehold improvement	The shorter of the lease terms and 5 years
Motor vehicles	4 to 5 years
Furniture, fixtures and office equipment	3 to 5 years

The assets' estimated residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

4.7 Prepaid land lease

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight line method over the term of the lease except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.8 Leasing

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

Finance lease as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

4.9 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of capital are deducted from equity to the extent they are incremental costs directly attributable to the equity transaction.

4.10 Employee benefits

The Group operates a defined contribution retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"), for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee's relevant income.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of employees' salaries to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at the end of reporting period.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date.

Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

Available-for-sale financial assets

Available-for-sale debt investments are non-derivatives that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are initially measured at fair value plus directly attributable transaction costs and subsequently at fair value with changes in fair value recognised in other comprehensive income and accumulated in financial assets revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the financial assets revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

Available-for-sale equity securities are equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less any identified impairment loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 Financial assets – Continued

Impairment loss on financial assets

At the end of each reporting period, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.11 Financial assets – Continued

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4.12 Financial liabilities

The Group's financial liabilities include corporate bond, bank borrowings, accruals, other payables and deposits received, promissory note and convertible bonds issued by the Group.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the loans using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of each reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.12 Financial liabilities – continued

The derivative component of the convertible bonds is initially recognised at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently re-measured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss.

4.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and form an integral part of the Group's cash management.

4.14 Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 Provisions and contingent liabilities – continued

All provisions are reviewed at the end of reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.15 Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of reporting period between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary difference, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.15 Accounting for income tax – continued

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.16 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Income from financial guarantee (as the case may be, including assessment fee related to issuance of financial guarantee) is recognised over the contract period on a time apportionment basis.

(b) Interest income (as the case may be, including the administration fees that are an integral part of the effective interest rate) from entrusted loan, pawn loan, money lending and finance lease services and other financial assets which yield interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(c) Consultancy service income is recognised using the percentage of completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed. However, when a specific act is much more significant than any other acts, the recognition of consultancy service income is postponed until the significant act is executed.

(d) Income from assets management business is mainly generated from distressed debt assets classified as available-for-sale financial assets and loans receivable and consultancy income from provision of asset management solution. Income from distressed asset includes interest income, gains or losses from disposal of these instruments

4.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are deducted from the cost in arriving at the carrying amount of the assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.18 Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the average exchange rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.19 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the parent of the Company.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.20 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with the Group's accounting policy on "Provisions and contingent liabilities"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the Group's policy on "Revenue Recognition".

Where the Group issues a financial guarantee, the contracted fee of the guarantee is initially recognised as deferred income. Where the contracted fee is received or receivable for the issuance of the guarantee, it is recognised in accordance with the Group's policies applicable to that category of asset. Where no such contracted fee is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of the corresponding liability.

The contracted fee of the financial guarantee initially recognised as deferred income is amortised and recognised as revenue in profit or loss over the term of the guarantee as income from financial guarantee issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation in accordance with the Group's accounting policy on "Revenue Recognition", where appropriate.

4.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined by the Group's major operations.

The measurement policies the Group uses for reporting segment results under HKFRS 8 "Operating Segments" are the same as those used in its financial statements prepared under HKFRSs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.22 Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

Impairment of receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability, value of the collateral and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer and the related parties. If the financial conditions of the customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This may require an estimation of the value-in-use of the cash generating unit to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Estimation of provision for financial guarantee issued

The Group's management reviews the creditworthiness of its customers and re-assesses the fair value of collateral of individual customers for financial guarantee issued by the Group from time to time. The best evidence of fair value of collateral is current prices in an active market for similar collateral in the same location and condition. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of source including public accessible sources, such as internet searches, recent transaction prices, statistics on recent market development and market quote. If the Group's management considers the financial conditions of the customers of the Group deteriorate or they would default in payment or contracts, provisions will be made and the amount is based on the exposure which is the maximum guarantee amounts less the estimated fair value of the collateral.

Tax

Determining income tax provisions requires the Group to make judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Stage of completion of consultancy services

Revenue from consultancy services is recognised according to the percentage of completion of consultancy services. The revenue recognition on an uncompleted consultancy service is dependent on estimating the total work to be performed of the consultancy contract, as well as the work done to date. In order to ensure that the percentage of completion of consultancy services is accurate and up-to-date, the management frequently reviews and estimates the progress of the consultancy services rendered based on their past experience and the nature of the consultancy service provided by the Group.

Fair value measurement

A number of assets included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures available-for-sale financial assets at fair value. For more detailed information in relation to the fair value measurement, please refer to note 20.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Impairment of available-for-sale investments

The directors review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment charges on available-for-sale investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the directors evaluate, among other factors, the fair value of the underlying assets and the duration and extent to which the fair value of an investment is less than its cost.

6. SEGMENT INFORMATION

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group's executive directors in order to allocate resources and assess performance of the segment. Executive directors have determined that the Group has only one single business component/reportable segment as the Group is only engaged in provision of financial services which includes the provision of guarantee, express loan, consultancy, supply chain agency services, finance lease services and assets management. The executive directors allocate resources and assess performance on an aggregated basis. The Group's revenue from external customers is divided into certain groups of products which is disclosed in note 7.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC and Hong Kong. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile.

The geographical location of customers is based on the location at which the services were provided. The total revenue from external customers is principally sourced from the PRC (including Hong Kong). The total revenue is disclosed in note 7. The Group's non-current assets other than financial instruments are principally located in the PRC.

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

	2017 **RMB'000**	2016 RMB'000
Customer A	**67,763**	–

7. REVENUE AND OTHER INCOME

Revenue represents income from the Group's principal activities, net of value-added tax.

	2017	2016
	RMB'000	RMB'000
Income from financial related services		
Interest income from:		
– Pawn loans	**–**	7,669
– Entrusted loans	**54,162**	73,710
– Money lending	**31,558**	26,597
Income from financial consultancy services	**28,374**	40,367
Income from supply chain agency services	**5,402**	2,266
Income from guarantee services	**8,888**	9,646
Income from finance lease services	**52,831**	41,404
	181,215	201,659
Income from assets management business		
Income from disposals/executions of distressed financial assets	**20,233**	32,233
Income from disposals of other assets	**5,205**	20,000
Finance income	**44,726**	40,976
Income from provision of asset management solutions	**39,139**	–
Dividend income	**8,750**	–
	118,053	93,209
Other income		
Bank interest income	**995**	1,039
Gain on disposal of property, plant and equipment	**–**	23
Government grants*	**5,825**	1,777
Reversal of impairment loss recognised on finance lease, loan and account receivables	**30,073**	–
Others	**497**	546
	37,390	3,385

* The Group received grants from the relevant PRC government authorities in support of the Group's financial services and asset management business in the PRC. There were no unfulfilled conditions to receive the grants.

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2017	2016
	RMB'000	RMB'000
Auditor's remuneration		
– audit service	**781**	672
– non-audit service	**868**	–
Depreciation of property, plant and equipment	**1,323**	2,231
Amortisation of prepaid land lease	**407**	407
Impairment loss on finance lease, loan and account receivables	**21,619**	28,056
Reversal of impairment loss recognised on finance lease, loan and account receivables	**(30,073)**	–
Equity-settled share-based payments	**8,335**	12,120
Employee's costs (including directors' remuneration *(note 9)*)		
Salaries and allowances	**17,684**	16,981
Pension scheme contributions – Defined contribution plans	**873**	516
Other benefits	**971**	1,618
	19,528	19,115
Net foreign exchange loss	**977**	258
Operating lease charges in respect of properties	**2,450**	2,601
Loss/(gain) on disposal of property, plant and equipment	**176**	(23)

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

The remuneration of each of the directors for the years is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
Year ended 31 December 2017					
Executive directors:					
Mr. Cai Huatan ("Mr. Cai")	–	264	19	–	283
Mr. Hong Mingxian ("Mr. Hong")	–	660	21	927	1,608
Mr. Ng Chi Chung ("Mr. Ng")	–	524	21	927	1,472
	–	1,448	61	1,854	3,363
Non-executive directors:					
Mr. Cai Jianfeng	83	313	16	–	412
Mr. Wu Qinghan	83	–	–	–	83
	166	313	16	–	495
Independent non-executive directors:					
Mr. Chan Sing Nun	83	–	–	–	83
Mr. Tsang Hin Man Terence*	36	–	–	–	36
Mr. Lam Kit Lam#	47	–	–	–	47
Mr. Zeng Haisheng	83	–	–	–	83
	249	–	–	–	249
Total	415	1,761	77	1,854	4,107

* Resigned with effect from 7 June 2017

\# Appointed with effect from 7 June 2017

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS – continued

(a) Directors' remuneration – continued

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
Year ended 31 December 2016					
Executive directors:					
Mr. Cai	–	252	13	–	265
Mr. Hong	–	630	15	892	1,537
Mr. Ng	–	504	15	892	1,411
	–	1,386	43	1,784	3,213
Non-executive directors:					
Mr. Cai Jianfeng	81	403	15	–	499
Mr. Wu Qinghan	81	–	–	–	81
	162	403	15	–	580
Independent non-executive directors:					
Mr. Chan Sing Nun	81	–	–	–	81
Mr. Tsang Hin Man Terence	81	–	–	–	81
Mr. Zeng Haisheng	81	–	–	–	81
	243	–	–	–	243
Total	405	1,789	58	1,784	4,036

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS – continued

(b) Five highest paid individuals

The five highest paid individuals of the Group included two directors (2016: two) for the year ended 31 December 2017 whose emoluments are reflected in note 9(a).

The analysis of the emolument of the five highest paid individuals for the year ended 31 December 2017 and 2016, are set out below:

	2017 **RMB'000**	2016 RMB'000
Salaries, allowances and benefits in kind	**3,460**	2,873
Pension scheme contributions	**79**	80
Equity-settled share options compensation	**3,862**	3,160
	7,401	6,113

The five highest paid individuals whose remunerations fell within the following bands:

	Number of individuals	
	2017	2016
HK$500,001 to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**2**	3
	5	5

(c) During the year, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank and other borrowings	**18,581**	15,144
Interest on corporate bonds	**13,596**	5,161
Interest on promissory note	**1,103**	–
Interest on convertible bonds (including imputed interest)	**23,057**	22,062
	56,337	42,367

11. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax		
PRC		
– current year	**44,699**	50,062
– withholding tax	**488**	577
	45,187	50,639

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

Enterprise income tax arising from subsidiaries operated in the PRC for the year was calculated at 25% (2016: 25%) of the estimated assessable profits during the year, except for subsidiaries established and operated in Ganzhou, which are beneficial from a preferential tax policy from the local tax authorities and are entitled to a reduced tax rate of 15% for five years from 2016 to 2020.

Withholding tax was calculated at 7% (2016: 7%) of the interest paid by PRC entities to a non-PRC holding company during the year.

No provision for Hong Kong Profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year ended 31 December 2017 and 2016.

11. INCOME TAX EXPENSE – continued

As at 31 December 2017, the aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised are approximately RMB586,712,000 (2016: RMB405,204,000). For the PRC subsidiaries' undistributed retained earnings, no deferred tax liabilities was recognised because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

The Group had unrecognised deferred tax assets arising from tax losses of approximately RMB7,796,000 (2016: RMB2,760,000) as at 31 December 2017. Tax losses of RMB3,699,000 (2016: RMB1,292,000) are available, within a maximum period of five years in the PRC, for offsetting against future taxable profits of the relevant entities in the Group in which the losses arose. The remaining tax losses of RMB4,097,000 (2016: RMB1,468,000) may be carried forward indefinitely. Deferred tax assets have not been recognised for such losses at the reporting date due to the unpredictability of future profit streams in the relevant subsidiaries in the PRC and/or Hong Kong.

A reconciliation of the income tax expense applicable to profit before income tax at the statutory tax rate to the income tax expense at the effective tax rate for each year is as follows:

	2017 **RMB'000**	2016 RMB'000
Profit before income tax	**216,029**	193,032
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	**40,317**	54,960
Tax effect of incomes not taxable for tax purpose	**(5,489)**	(15,138)
Tax effect of expenses not deductible for tax purpose	**8,835**	9,799
Tax effect of tax losses not recognised	**1,304**	441
Utilisation of tax losses previously not recognised	**(268)**	–
Withholding tax for:		
– Distributed profits of PRC subsidiaries	**–**	–
– Interest paid by PRC subsidiaries	**488**	577
Income tax expense	**45,187**	50,639

12. DIVIDENDS

No dividend has been declared by the Company during the year (2016: nil).

13. EARNINGS PER SHARE

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

	2017 **RMB'000**	2016 RMB'000
Profit for the year attributable to owners of the Company	**160,209**	135,509

	2017 **Number of shares ('000)**	2016 Number of shares ('000)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,236,008**	4,236,008
Basic earnings per shares (RMB cents)	**3.78**	3.20
Dilutive earnings per shares (RMB cents) (Note)	**N/A**	N/A

Note:

No diluted earnings per share are presented for the year ended 31 December 2017 (2016: no diluted earnings per share) as the impact of convertible bonds outstanding during the year have an anti-dilutive effect on the basic earnings per share presented for the year and the exercise price of the Company's share options was higher than the average market price for shares during the period when those options are outstanding.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:					
At 1 January 2016	9,484	6,554	2,120	3,808	21,966
Additions	–	–	462	561	1,023
Disposal of subsidiaries *(note 32)*	–	(3,085)	(235)	(597)	(3,917)
Disposals	–	–	(234)	–	(234)
Exchange realignment	–	4	22	–	26
At 31 December 2016 and at 1 January 2017	9,484	3,473	2,135	3,772	18,864
Additions	–	3,840	577	268	4,685
Disposals	–	(1,261)	(1,408)	(85)	(2,754)
Exchange realignment	–	(4)	(28)	(2)	(34)
At 31 December 2017	9,484	6,048	1,276	3,953	20,761
Accumulated depreciation:					
At 1 January 2016	1,795	2,732	494	2,539	7,560
Charge for the year	452	653	453	673	2,231
Write back on disposals	–	–	(36)	–	(36)
Disposal of subsidiaries *(note 32)*	–	(985)	(224)	(348)	(1,557)
Exchange realignment	–	5	2	–	7
At 31 December 2016 and at 1 January 2017	2,247	2,405	689	2,864	8,205
Charge for the year	452	222	348	301	1,323
Write back on disposals	–	(1,261)	(503)	(63)	(1,827)
Exchange realignment	–	(4)	(4)	(2)	(10)
At 31 December 2017	2,699	1,362	530	3,100	7,691
Net carrying amount:					
At 31 December 2017	6,785	4,686	746	853	13,070
At 31 December 2016	7,237	1,068	1,446	908	10,659

15. PREPAID LAND LEASE

	2017 RMB'000	2016 RMB'000
At 1 January	**6,512**	6,919
Amortisation	**(407)**	(407)
At 31 December	**6,105**	6,512

16. INTEREST IN AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
Shares of net assets	**20,499**	20,007

Details of the Group's associate are as follows.

Name	Place of incorporation, operation and principal activity	Percentage of ownership interests/voting rights/profit share
廈門創翼商業保理有限公司 (Xiamen Chuang Yi Commercial Factoring Company Limited ^)	PRC, provision of commercial factoring services in the PRC	20%

^ English name is for identification only.

The above associate is accounted for using equity method in the consolidated financial statements. The financial statements of the above associate is conterminous with those of the Group.

16. INTEREST IN AN ASSOCIATE – continued

Summarised financial information, adjusted to reflect adjustments made by the Group when using equity method, is presented below:

	2017 RMB'000	2016 RMB'000
As at 31 December		
Current assets	**130,451**	100,170
Non-current assets	**81**	6
Current liabilities	**(28,037)**	(141)
Net assets	**102,495**	100,035

The total registered capital of the associate is RMB100,000,000. As at 31 December 2017, the unpaid registered capital receivable from other shareholders of the associate was RMB5,460,000 (2016: RMB5,460,000).

	2017 RMB'000	2016 RMB'000
Year ended 31 December		
Revenue	**7,340**	291
Profit from operation and total comprehensive income	**2,460**	35

17. RESTRICTED BANK DEPOSITS

Restricted bank deposits have maturity within one to two years as at 31 December 2017 (2016: within 1 year). Such deposits have been pledged to certain banks as securities for the Group's facilities of providing financial guarantee services to customers. The effective interest rates of the Group's restricted bank deposits as at 31 December 2017 ranged from 0.3% to 1.75% (2016: 0.3% to 1.75%) per annum. As at 31 December 2017, approximately RMB17,023,000 (2016: RMB74,026,000) of the balance were utilised for guarantee contracts entered.

As at 31 December 2016 and 2017, the Group's restricted bank deposits were denominated in RMB and kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

18. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES

	2017 RMB'000	2016 RMB'000
Non-current assets		
Finance lease receivables	**249,093**	352,690
Loan receivables	**24,505**	11,440
Distressed assets classified as receivables	**1,522**	28,565
	275,120	392,695
Current assets		
Entrusted loan receivables	**553,190**	366,350
Finance lease receivables	**185,098**	238,173
Loan receivables	**213,524**	154,717
Receivables from guarantee customers	**35,477**	48,498
Distressed assets classified as receivables	**76,179**	6,240
Account receivables	**38,017**	98,883
	1,101,485	912,861

The finance lease receivables as of each reporting date are further analysed as follows:

	2017 Minimum lease payments RMB'000	2017 Present value RMB'000	2016 Minimum lease payments RMB'000	2016 Present value RMB'000
Not later than one year	**205,459**	**185,098**	281,722	246,787
Later than one year and not later than five years	**230,127**	**184,205**	260,444	204,862
More than five years	**72,185**	**64,888**	164,887	147,828
	507,771	**434,191**	707,053	599,477
Unearned finance income	**(73,580)**	**–**	(107,576)	–
Present value of minimum lease payments	**434,191**	**434,191**	599,477	599,477
Less: Impairment allowance		**–**		(8,614)
		434,191		590,863

18. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

For finance lease receivables, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts, and must acquire the leased assets at the end of the lease period. The maturity date for each loan contract is ranging from one to ten years.

For entrusted loan receivables, they represented loans from the Group to customers through banks in the PRC. In an entrusted loan arrangement, the bank entered into loan agreements with the customers. The customers repaid the loan to the bank and then the bank returned the principal and accrued interest to the Group. While the bank exercises supervision over and receives repayment from the borrower, the bank does not assume any risk of default in repayment by the borrower. The maturity date for each loan contract is normally not more than 365 days.

For loan receivables, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts. The maturity date for each loan contract is normally not more than 2 years.

For account receivables, it represented interest receivables from entrusted loans, finance lease and loan receivables, financial consultancy fee receivables and proceeds receivables from assets management business. The customers are obliged to settle the amounts according to the terms set out in relevant contracts and, normally, no credit period was granted to customers.

For receivables from guarantee customers, it represented the repayment paid to the banks on behalf of the guarantee customers. The guarantee customers are obliged to settle the amounts according to the term set out in relevant contracts.

For distressed assets classified as receivables, these represented the receivables from the obligors of non-performing loans. These loans were acquired from various financial institutions and other outsiders. The borrowers/guarantors are obliged to settle the amount according to the term set out in relevant loan agreements/ guarantee agreements.

Interest rates on finance lease, loan and account receivables are offered to customers based on the assessment of a number of factors including the borrowers' creditworthiness and repayment ability, collaterals as well as the general economic trends. The effective interest rates of loan and account receivables charged by the Group are summarised below:

	2017	2016
	% per month	% per month
Entrusted loan receivables	**0.7 to 1.5**	0.8 to 1.7
Finance lease receivables	**0.5 to 1.4**	0.6 to 1.8
Loan receivables	**1.0 to 2.0**	1.0 to 2.0

18. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

The Group has certain concentration risk on finance lease, loan and account receivables as it has four (2016: three) customers with outstanding balances of approximately RMB795,056,000 (2016: RMB398,997,160) as at 31 December 2017.

The directors of the Company consider that the fair values of loan and account receivables are not materially different from their carrying amounts.

Based on the loan commencement date set out in the relevant contracts, ageing analysis of the Group's finance lease, loan and account receivables, excluding receivables from guarantee customers and distressed assets classified as receivables, net of impairment loss, as of each reporting date is as follows:

	2017 **RMB'000**	2016 RMB'000
0 to 30 days	**119,691**	324,741
31 to 90 days	**121,565**	47,082
91 to 180 days	**500,632**	48,264
Over 180 days	**521,539**	802,166
	1,263,427	1,222,253

Ageing analysis of the Group's finance lease, loan and account receivables, excluding receivables from guarantee customers and distressed assets classified as receivables, prepared based on due date, that were not impaired is as follows:

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**1,228,634**	1,132,143
0 to 30 days past due	**13,687**	43,462
31 to 90 days past due	**7,561**	14,093
91-180 days	**986**	18,101
Over 180 days	**12,559**	14,454
	1,263,427	1,222,253

18. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

At 31 December 2017, finance lease, loan and account receivables of RMB1,228,634,000 (2016: RMB1,132,143,000) which were neither past due nor impaired related to a wide range of customers of which the directors of the Company are of the view that such receivables can be fully recovered.

Receivables from guarantee customers and distressed assets classified as receivables were excluded from ageing analysis as they were debts settled by the Group on behalf of its guarantee customers and non-performing debts acquired for daily operation which were past due to their original creditors according to relevant loan/guarantee agreements but no exact due date to the Group.

The below table reconciled the impairment loss of Group's finance lease, loan and account receivables for the year:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	**31,352**	6,696
Impairment loss recognised	**21,619**	28,056
Disposal of subsidiaries	**–**	(3,400)
Reversal of bad debts	**(30,073)**	–
Balance at end of the year	**22,898**	31,352

The Group holds collaterals over the loan receivables, certain account receivables, receivables from guarantee customers and distressed assets classified as receivables, and the banks hold collaterals over the entrusted loan receivables and certain account receivables on behalf of the Group. The fair value of the collateral in respect of such loan and account receivables is as follows:

	2017 RMB'000	2016 RMB'000
Real estate	**219,884**	172,643
Movable property	**127,891**	103,115
Property rights	**1,007,358**	651,343
Others	**30,725**	–
	1,385,858	927,101

18. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

As at 31 December 2017 and 2016, the finance lease receivables in respect of certain machineries, fishing vessels, properties, motor vehicles and other assets are secured by the underlying assets, as the rights to the machineries, fishing vessels, properties, motor vehicles and other assets would be reverted to the Group in the event of default payment. The deposits received from finance lease customers amounted to approximately RMB59,200,000 (2016: RMB98,260,000) (note 23).

During the year, the Group had not disposed of any of its finance lease, loan and account receivables (2016: RMB10,079,000) to an independent third party.

19. GOODWILL

During the year ended 31 December 2015, the Group recognised a goodwill arising from business combination of approximately RMB33,400,000, and was allocated to the cash-generating unit of finance leasing for impairment testing.

For the purposes of the goodwill impairment test, its recoverable amount was determined based on a value-in-use calculation, covering a detailed 5-year budget plan plus an extrapolated cash flow projection by applying a long term estimated growth rate of zero subsequent to this 5-year plan, with a pre-tax discount rate of 10.3% (2016: 10.3%).

The Group management's key assumptions, including estimated of future revenue, operating costs, pre-tax discount rate and growth rate beyond five-year period, have been determined based on past performance and its expectations for the market's development. The discount rate used is pre-tax and reflect specific risks relating to the relevant business.

The directors concluded that the cash-generating unit demonstrates sufficient cashflows that justify the carrying value of the goodwill and hence no impairment of goodwill is necessary as at 31 December 2017 and 2016.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **RMB'000**	2016 RMB'000
Unlisted equity securities, at cost *(note a)*	**77,770**	6,130
Distressed assets *(note b)*	**53,600**	50,300
	131,370	56,430

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS – continued

Notes:

(a) Unlisted equity securities

The unlisted available-for-sale equity securities are measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.

(b) Distressed assets

The available-for-sale distressed assets are carried at fair value and are denominated in RMB. There is no public market for investments.

During the year ended 31 December 2017, a surplus arising on change in fair value of approximately RMB3,300,000 (2016: RMB22,833,000) was recognised in other comprehensive income and accumulated in the financial assets revaluation reserve.

The fair value of the available-for-sale financial assets of approximately RMB53,600,000 as at 31 December 2017 (2016: RMB50,300,000) is a level 3 recurring fair value measurement. There were no transfers into or out of level 3 during the year. A reconciliation of the opening and closing level 3 fair value balance is provided below.

	2017 RMB'000	2016 RMB'000
Opening balance (level 3 recurring fair value)	**50,300**	81,500
Additions	**–**	60,000
Disposals	**–**	(114,033)
Fair value gain recognised in other comprehensive income	**3,300**	22,833
	53,600	50,300

The Group's available-for-sale financial assets carried at fair value at 31 December 2017 and 2016 was arrived at the basis of valuations carried out on those dates by an independent qualified professional valuers not connected to the Group. The valuation techniques used in determining the fair value measurement of level 3 financial instruments is arrived with discount cash flow approach with details as follows. There has been no change in the valuation technique used in the prior year.

Financial assets	**Fair value as at 31 December**		**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
	2017 RMB'000	2016 RMB'000				
Distressed assets	**53,600**	50,300	Level 3	Discounted cash flow with future cash flow that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected recoverable amounts • Expected recovery date • Discount rates that correspond to the expected risk level	• The higher the recoverable amounts, the higher the fair value • The earlier the recovery date, the higher the fair value. • The higher the discount rates, the lower the fair value.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Non-current assets		
Amounts paid for properties acquired for assets management business	**83,038**	30,000
Current assets		
Prepaid expenses	**2,040**	1,240
Deposits paid	**6,495**	349
Amounts paid for land and properties acquired for assets management business	**170,515**	112,700
Other receivables	**79,578**	120,329
	258,628	234,618

The directors considered that the carrying amounts of deposits paid and other receivables approximate their fair values.

22. CASH AND BANK BALANCES

Bank balances earn interest at floating rates based on daily bank deposit rates. All bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2017, the Group has cash and bank balances denominated in RMB amounting to approximately RMB24,046,000 (2016: RMB18,778,000) kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

23. ACCRUALS, OTHER PAYABLES, DEPOSITS RECEIVED AND DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
Current liabilities		
Accruals, other payables and deposits received	**32,259**	37,028
Business and other tax payables	**15,326**	12,859
Deposits received from finance lease customers *(note 18)*	**28,175**	37,405
Deferred income	**5,966**	2,216
	81,726	89,508
Non-current liabilities		
Deposits received from finance lease customers *(note 18)*	**31,025**	60,855
Deferred income	**–**	859
	31,025	61,714

The directors considered the carrying amounts of accruals, other payables and deposits received approximate their fair values.

24. BANK AND OTHER BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank borrowings:		
Unsecured	**–**	4,599
Secured	**119,325**	211,810
Other borrowings:		
Secured	**123,426**	–
	242,751	216,409
Carrying amount repayable:		
Within one year	**180,801**	95,074
More than one year, but not exceeding two years	**49,950**	59,385
More than two years, but not exceeding five years	**12,000**	61,950
	242,751	216,409

The Group has variable interest-rate bank and other borrowings which carry interest ranging from 5.13% to 12.0% per annum (2016: 5.13% to 8.30%).

24. BANK AND OTHER BORROWINGS – continued

Note:

As at 31 December 2017, secured bank borrowings with carrying amount of approximately RMB36,000,000 (2016: RMB77,500,000) are secured by finance lease receivables with carrying amount of RMB49,521,000 (2016: RMB88,203,000), which were also secured by personal guarantee from Mr. Hong and Ms. Shi Hongjiao ("Ms. Shi") (2016: bank borrowings with a carrying amount of approximately RMB48,000,000 were also secured by Mr. Hong and Ms. Shi). For the remaining secured bank borrowings amounted to RMB83,325,000 (2016: RMB134,310,000) were secured by charges over leased assets from the Group's finance lease business.

As at 31 December 2017, secured other borrowings with carrying amount of approximately RMB123,426,000 (2016: nil) are secured by charges of 750,000,000 shares of the Company held by Ever Ultimate Limited ("Ever Ultimate") and also secured by personal guarantee from Mr. Hong and Mr. Ng.

Mr. Hong is the chairman of the Company and sole shareholder of Expert Corporate Limited ("Expert Corporate"), the substantial shareholder of the Company. Ms. Shi is the spouse of Mr. Hong. Mr. Ng is the director of the Company and the sole shareholder of Ever Ultimate, the substantial shareholder of the Company.

25. CORPORATE BONDS

	2017	2016
	RMB'000	RMB'000
Corporate bonds	**266,924**	95,216
Carrying amount repayable:		
Within one year	**41,725**	–
More than one year, but not exceeding two years	**17,490**	49,456
More than two years, but not exceeding five years	**89,655**	18,480
More than five years	**118,054**	27,280
	266,924	95,216

During the year ended 31 December 2017, the Company issued HK$ denominated corporate bonds with principal amount of HK$218,400,000 (equivalent to RMB181,891,000) (2016: HK$88,200,000 (equivalent to RMB78,416,000)) and repaid corporate bonds with principal amount of HK$6,100,000 (equivalent to RMB5,080,000) (2016: Nil).

25. CORPORATE BONDS – continued

The corporate bonds bear interests from 5.5% to 9% (2016: 5.5% to 9%) per annum. The interests of the corporate bonds are payable quarterly to annually (2016: quarterly to semi-annually) in arrears every year. The corporate bonds will mature on the second to eighth anniversary (2016: second to eighth anniversary) from the issue dates.

Corporate bonds with a carrying amount of HK$50,100,000 (equivalent to RMB41,725,000) (2016: HK$56,200,000 (equivalent to RMB49,500,000)) are secured by personal guarantee from Mr. Hong, Ms. Shi, Mr. Cai and Mr. Ng (2016: Mr. Hong, Ms. Shi and Mr. Cai).

Corporate bonds with a carrying amount of HK$165,600,000 (equivalent to RMB137,918,000) are secured by personal guarantee from Mr. Hong, of which corporate bonds with a carrying amount of HK$22,000,000 (equivalent to RMB18,323,000) are secured by personal guarantee from Ms. Shi (2016: HK$22,000,000 (equivalent to RMB19,400,000) are secured by Mr. Hong and Ms. Shi).

26. PROMISSORY NOTE

	2017 **RMB'000**	2016 RMB'000
Promissory note	**120,000**	–
Carrying amount repayable:		
More than one year, but not exceeding two years	**120,000**	–
	120,000	–

On 27 October 2017, the Company issued promissory note with a principal amount of RMB120,000,000 as consideration to acquire 37% equity interest in Jiashi Financial Limited ("Jiashi Financial") (note 35).

The promissory note was unsecured and bears interests at 5.0% per annum. The interests of the promissory note are payable on maturity or redemption. The promissory note will be matured in 1.5 years from the date of issue, being 27 April 2019.

27. CONVERTIBLE BONDS

On 18 May 2016, the Company issued the convertible bonds (the "Convertible Bonds") in an aggregate principal amount of United States Dollar ("US$") US$30,000,000 at 6% coupon rate per annum (plus 2% administrative fee per annum) with maturity on 17 November 2017 ("Maturity Date") (subject to an extension of a further eighteen months if agreed by the Company and the relevant convertible bondholders ("Bondholders")). The Convertible Bonds are convertible (at any time on or after 18 November 2016 and up to the close of business on the business day immediately preceding the Maturity Date) by the Bondholders into ordinary share of the Company of HK$0.0025 each at the option of the Bondholders, at a conversion price of HK$0.86 (the "Conversion Price") per share. The Conversion Price is subject to adjustment, including but not limited to the occurrence of events such as the consolidation, sub-division or reclassification of shares, capitalization of profits or reserves, capital distribution, and the issue of new shares at the issue price lower than the Conversion Price or lower than 80% of the current market price ("Conversion Price Reset").

Each Bondholder shall have the right to convert all or any part (which shall be a minimum of US$2,500,000 and integral multiples of US$500,000 in excess thereof save that if at any time, the outstanding principal amount of the Convertible Bonds is less than US$2,500,000, the conversion right in respect of the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be exercised) of the principal amount of Convertible Bonds into shares at any time during the conversion period. The Company shall (i) redeem the outstanding Convertible Bonds on the Maturity Date at such redemption price as would result in an internal rate of return of no less than 4% per annum on all outstanding amounts payable by the Company to the Bondholders; and (ii) upon the occurrence of any event of default as stipulated in the terms and conditions of the Convertible Bonds.

The Group determined that the above Conversion Price Reset will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company's shares. In accordance with the requirement of HKAS 32, the bond contract is separated into two components: a compound derivative component consisting of the conversion option, and a liability component consisting of the straight debt element.

On 14 February 2017, with the written consent of Bondholders, the Company executed the deed of modification, pursuant to which the terms and conditions of the Convertible Bonds are amended and modified. The Company had the right to redeem or repurchase all or part of the outstanding Convertible Bonds before the Maturity Date and the Convertible Bonds secured by share charges by two related companies, personal guarantees by Mr. Hong and Mr. Cai and Mr. Ng and corporate guarantees by Expert Corporate and Ever Ultimate. The Group redeemed the Convertible Bonds at a price equal to the sum of principal amount of US$20,000,000 and US$10,000,000 on 15 February 2017 and 29 June 2017 respectively.

27. CONVERTIBLE BONDS – continued

Interest expenses are calculated using the effective interest method by apply the effective interest rate of 25% (2016: 21%) to the adjusted liability component arising from such modification.

The carrying values and movements of the liability component and derivative component of the Convertible Bonds are as follows:

	Liability component RMB'000	**Derivative component** RMB'000	**Total** RMB'000
At 1 January 2016	–	–	–
Issuance during the year	175,387	22,425	197,812
Interest expenses	22,062	–	22,062
Interest paid	(9,392)	–	(9,392)
Change in fair value of derivative financial instruments	–	(14,028)	(14,028)
Exchange realignment	9,838	512	10,350
At 31 December 2016 and 1 January 2017	197,895	8,909	206,804
Interest expenses	23,057	–	23,057
Interest paid	(10,928)	–	(10,928)
Change in fair value of derivative financial instruments	–	(1,960)	(1,960)
Adjustment to the carrying amount of liability component of convertible bonds arising from modification of terms and conditions	(2,273)	–	(2,273)
Exchange realignment	(300)	(9)	(309)
Redemption of Convertible Bonds	(207,451)	(6,940)	(214,391)
At 31 December 2017	–	–	–

27. CONVERTIBLE BONDS – continued

The fair value of the derivative component of the Convertible Bonds was calculated using the Binominal model with the major inputs used in the model as follows:

	At 15 February 2017 (first redemption)	**At 29 June 2017 (second redemption)**	As at 31 December 2016
Stock price	**HK$0.76**	**HK$0.64**	HK$0.70
Volatility	**30%**	**20%**	30%
Risk free rate	**0.75%**	**0.31%**	0.85%

The change in the fair value of the derivative component during the year ended 31 December 2017 results in a fair value gain of RMB1,960,000 (2016: fair value gain of RMB14,028,000), which has been included in the "Change in fair value of derivative financial instruments" in the consolidated statement of comprehensive income for the year ended 31 December 2017.

The gain on redemption of Convertible Bonds of RMB8,770,000, which represented the difference between the redemption price of US$30,000,000 (equivalent to RMB205,621,000) and the total carrying amount of liability and derivative component amounting to RMB214,391,000, has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2017 (2016: nil).

28. SHARE CAPITAL

	Number of ordinary shares '000	**Nominal value of share capital** HK$'000	**Equivalent nominal value of share capital** RMB'000
Authorised:			
Ordinary share of HK$0.0025 each			
At 31 December 2016, 1 January 2017 and 31 December 2017	20,000,000	50,000	39,000
Issued and fully paid:			
At 31 December 2016, 1 January 2017 and 31 December 2017	4,236,008	10,590	8,292

29. RESERVES

Group

Details of the movements on the Group's reserves are as set out in the consolidated statements of changes in equity of the financial statements.

Share premium

The share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued, net of share issue costs.

Capital reserve

As at 1 January 2016, the capital reserve of the Group represented the registered capital of 福建鼎豐典當有限公司 (Fujian Differ Pawn Company Limited^) ("Differ Pawn") amounting to RMB30,000,000 and the capital contribution from the owners of RMB228,000,000 and RMB19,562,000 during the year ended 31 December 2012 and 2013 respectively. During the year ended 31 December 2016, Differ Pawn was disposed together with its immediate holding companies on 24 June 2016 (note 32), corresponding capital contribution reserves was transferred to another equity component i.e. retained profits.

^ The English names are for identification only.

Merger and other reserve

As at 31 December 2017 and 2016, the merger reserve of the Group arose as a result of (a) the reorganisation ("Reorganisation") carried amount by the Group to rationalise the Group's structure in preparation for the listing of the Company's shares; and (b) gains/losses arising from changes in Group's interests in subsidiaries that do not result in a loss of control.

Statutory reserve

Statutory reserve represents appropriation of profits of the PRC subsidiaries to non-distributable reserve fund account as required by the relevant PRC statue.

Financial assets revaluation reserve

Financial assets revaluation reserve represents the gains/losses arising on the revaluation of available-for-sale financial assets.

Share options reserve

Share options reserve represents the cumulative expenses recognised on the granting of share options to the employees over the vesting period.

29. RESERVES – continued

Company

	Share premium RMB'000	Contributed Surplus *(Note)* RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated profits/ (losses) RMB'000	Total RMB'000
At 1 January 2016	356,029	355,920	12,806	–	(12,109)	712,646
Profit for the year	–	–	–	–	39,514	39,514
Other comprehensive income for the year	–	–	11,260	–	–	11,260
Total comprehensive income for the year	–	–	11,260	–	39,514	50,774
Recognition of equity-settled share-based compensation	–	–	–	12,120	–	12,120
At 31 December 2016 and 1 January 2017	356,029	355,920	24,066	12,120	27,405	775,540
Loss for the year	–	–	–	–	(28,382)	(28,382)
Other comprehensive income for the year	–	–	(18,027)	–	–	(18,027)
Total comprehensive income for the year	–	–	(18,027)	–	(28,382)	(46,409)
Recognition of equity-settled share-based compensation	–	–	–	8,335	–	8,335
At 31 December 2017	356,029	355,920	6,039	20,455	(977)	737,466

Note:

Contributed surplus of the Company represented the difference between the net asset values of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the Reorganisation.

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries		**484,491**	476,492
Current assets			
Prepayments		**–**	846
Amount due from subsidiaries		**809,065**	641,184
Cash and bank balances		**605**	716
		809,670	642,746
Current liabilities			
Accruals and other payables		**8,970**	2,655
Amount due to subsidiaries		**29,083**	30,731
Convertible bonds	27	**–**	197,895
Derivative financial liabilities	27	**–**	8,909
Other borrowings	24	**123,426**	–
Corporate bonds	25	**41,725**	–
		203,204	240,190
Net current assets		**606,466**	402,556
Total assets less current liabilities		**1,090,957**	879,048
Non-current liabilities			
Corporate bonds	25	**225,199**	95,216
Promissory note	26	**120,000**	–
		345,199	95,216
Net assets		**745,758**	783,832
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	**8,292**	8,292
Reserves	29	**737,466**	775,540
Total equity		**745,758**	783,832

On behalf of the Board

Hong Mingxian
Director

Ng Chi Chung
Director

31. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2017 and 2016 are as follows:

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/ registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
Differ International Financial Limited (鼎豐國際金融有限公司)	British Virgin Islands ("BVI")	1,100 ordinary shares of US$1 each	100%	–	Investment holding
Differ Financial Holdings Limited (鼎豐金融控股有限公司)	Hong Kong ("HK")	1 ordinary share of HK$1	–	100%	Investment holding and provision of express loan services
鼎豐集團(中國)有限公司 (Differ Group (China) Company Limited^)	PRC	Registered capital of RMB288,000,000	–	100%	Investment holding and provision of express loan and financial consultancy services
廈門市鼎豐創業投資有限公司 (Xiamen Differ Venture Capital Company Limited^)	PRC	Registered capital of RMB30,000,000	–	100%	Investment holding and provision of express loan services
鼎豐擔保股份有限公司 (Differ Guarantee Company Limited^)	PRC	Registered capital of RMB150,000,000	–	100%	Provision of guarantee services
Differ Financial Services Company Limited (鼎豐金融服務有限公司)	BVI	100 ordinary shares of US$1 each	–	100%	Investment holding
Differ Asia-Pacific Financial Company Limited (鼎豐亞太金融有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100%	Provision of financing services
Differ Financial Securities Limited (鼎豐金融證券有限公司)#	HK	1,000 ordinary shares of HK$1 each	–	100%	Provision of financial services

31. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/ registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
Loyal Herald Limited	BVI	1 ordinary share of US$1 each	–	100%	Investment holding
Differ Asset Management Company Limited (鼎豐資產管理有限公司)#	HK	1,000 ordinary shares of HK$1 each	–	100%	Provision of financial services
贛州市問鼎商務諮詢有限公司 (Ganzhou Wen Ding Business Consulting Company Limited^) ("Wen Ding")	PRC	Registered capital of RMB80,000,000	–	100%	Provision of assets management services
Differ Asset Development Limited (鼎豐資產發展有限公司)	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Differ Asset Group Limited (鼎豐資產集團有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100%	Investment holding
廈門市鼎豐股權投資有限公司 (Xiamen Differ Capital Investment Company Limited^)	PRC	Registered capital of HKD500,000,000	–	100%	Investment holding
廈門文軼貿易有限公司 (Xiamen Wen Yi Trading Company Limited^)	PRC	Registered capital of RMB10,000,000	–	100%	Provision of financial services
贛州市問鼎資產管理有限公司 (Ganzhou Wen Ding Asset Management Company Limited^)	PRC	Registered capital of RMB500,000,000	–	100%	Provision of assets management services

31. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/ registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
廈門市鼎豐資產管理有限公司 (Xiamen Differ Asset Management Company Limited^)	PRC	Registered capital of RMB500,000,000	–	100%	Provision of assets management services
南安鼎豐置業有限公司 (Nanan Differ Property Company Limited^)[#]	PRC	Registered capital of RMB1,000,000		100%	Provision of assets management services
Differ Network Development Limited (鼎豐網絡發展有限公司)	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Differ Wealth Management Limited (鼎豐財富管理有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100%	Provision of wealth management services
廈門市鼎豐貸投資咨詢有限公司 (Xiamen Differ Dai Investment Consulting Company Limited^)	PRC	Registered capital of RMB500,000,000	–	100%	Provision of express loan services
Differ Wealth Consultant Limited (鼎豐財富顧問有限公司)	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Differ Capital Financial HK Limited (鼎豐融資理財有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100%	Provision of financing services
廈門鼎豐財富投資管理有限公司 (Xiamen Differ Wealth Investment Management Company Limited^)[#]	PRC	Registered capital of RMB100,000,000	–	100%	Provision of financing services
Differ Company Limited	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding

31. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/ registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
Jiashi Financial Limited (嘉實金融有限公司)	BVI	100 ordinary shares of US$1 each	–	100% (2016: 63%)	Investment holding
Differ Development Limited (鼎豐發展有限公司)	BVI	100 ordinary shares of US$1 each	–	100% (2016: 63%)	Investment holding
Differ Financial Leasing Company Limited (鼎豐金融租賃有限公司)	HK	10,000 ordinary shares of HK$1 each	–	100% (2016: 63%)	Investment holding
廈門市鼎豐融資租賃有限公司 (Xiamen Differ Financial Leasing Company Limited^)	PRC	Registered capital of HK$128,000,000	–	100% (2016: 63%)	Provision of finance lease services
廈門市鼎豐財務諮詢有限公司 (Xiamen Differ Financial Consultancy Company Limited^)	PRC	Registered capital of RMB500,000	–	100% (2016: 63%)	Provision of financial consultancy services
Jiashi International Financial Limited 嘉實國際金融中心有限公司	BVI	101 ordinary shares of US$1 each	–	100% (2016: 63%)	Investment holding
Jiashi Leasing Group Company Limited (嘉實租賃集團有限公司)	HK	HK$156,000,000	–	100% (2016: 63%)	Investment holding
嘉實(廈門)融資租賃有限公司 (Jiashi (Xiamen) Finance Lease Limited^)	PRC	Registered capital of US$35,000,000 (2016: US$20,000,000)	–	100% (2016: 63%)	Provision of finance lease services
嘉實(廈門)資產管理有限公司 (Jiashi (Xiamen) Asset Management Limited^)	PRC	Registered capital of RMB30,000,000	–	100% (2016: 63%)	Provision of assets management services

31. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/ registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
廈門嘉實智通信息諮詢有限公司 (Xiamen Jiashi Zhitong Information Consultancy Limited^)	PRC	Registered capital of RMB100,000	–	100% (2016: 63%)	Provision of financial consultancy services
贛州市嘉恒商務諮詢有限公司 (Ganzhou Jia Heng Business Consulting Company Limited^)	PRC	Registered capital of RMB4,990,000	–	100% (2016: 63%)	Provision of financial consultancy services
Differ Supply Chain Development Group Limited ("BVI Supply Chain") (鼎豐供應鏈發展集團有限公司)	BVI	100 ordinary shares of US$1 each	100% (2016:75%)	–	Investment holding
Differ Supply Chain HK Limited ("HK Supply Chain") (鼎豐供應鏈有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100% (2016:75%)	Provision of agency services of sale and exportation of enforced inventories
廈門鼎豐供應鏈發展有限公司 (Xiamen Differ Supply Chain Development Company Limited^) (Xiamen Supply Chain")	PRC	Registered capital of RMB100,000,000 (2016: RMB30,000,000)	–	100% (2016:75%)	Provision of agency services of sale and exportation of enforced inventories

^ The English names are for identification only

\# These companies are newly incorporated by the Group this year

32. DISPOSALS OF SUBSIDIARIES

On 24 June 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose 100% equity share of DiPro Company Limited (鼎保有限公司) and its subsidiaries, namely Differ Financial Development HK Limited (鼎豐金融發展有限公司), 廈門市問鼎投資咨詢有限公司(Xiamen City Wending Investment Consulting Company Limited^) and Differ Pawn (controlled through structured agreements) (collectively the "Disposal Group") at the consideration of RMB65,000,000. The Disposal Group is principally engaged in pawn loan business in PRC. The disposal was completed on 24 June 2016 and the Group recognised a gain on disposal of subsidiaries of approximately RMB6,942,000.

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

	2016 RMB'000
Net assets disposed of:	
Property, plant and equipment	2,360
Loan and account receivables	53,529
Cash and bank balances	2,744
Prepayments and other receivables	88
Accruals and other payables	(522)
Provision for taxation	(141)
	58,058
Gain on disposals of subsidiaries	6,942
Satisfied by cash	65,000
Net cash inflow from disposal:	
Cash consideration	65,000
Cash and bank balances disposed of	(2,744)
	62,256

^ The English names are for identification only

33. NON-CONTROLLING INTERESTS

After the acquisitions of additional interests in subsidiaries form the non-controlling interests ("NCI") as detailed in note 35 below, the Company had no non-controlling interests as at 31 December 2017.

As at 31 December 2016, Jiashi Financial, a 63% owned subsidiaries of the Company, has material NCI. The NCI of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to the non-controlling interests of Jiashi Financial, before intra-group eliminations, is presented below:

Summarised statement of financial position

	2016 RMB'000
Current	
Assets	405,412
Liabilities	(297,864)
	107,548
Non-current	
Assets	353,307
Liabilities	(183,050)
	170,257
Net assets	277,805
Accumulated non-controlling interests	102,787

33. NON-CONTROLLING INTERESTS – continued

Summarised statement of comprehensive income

	2016 RMB'000
Revenue	57,447
Profit before income tax	26,503
Income tax expense	(8,278)
Profit after tax	18,225
Other comprehensive income	–
Total comprehensive income for the period	18,225
Profit allocated to non-controlling interests	6,743

Summarised statement of cash flows

	2016 RMB'000
Cash generated from operations	113,196
Income tax paid	(4,232)
Net cash generated from operating activities	108,964
Net cash generated from investing activities	221
Net cash used in financing activities	(144,933)
Net decrease in cash and cash equivalents	(35,748)

34. PARTIAL DISPOSAL OF SUBSIDIARIES

On 1 July 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose of 25% equity share of BVI Supply Chain and its subsidiaries, namely HK Supply Chain and Xiamen Supply Chain (collectively the "Supply Chain Group") at a consideration of RMB7,500,000. The Group's effective interest in the Supply Chain Group was changed from 100% to 75% and a gain on disposal of RMB33,000 was credited to merger and other reserve.

35. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

(a) During the year ended 31 December 2017, the Group entered into a sale and purchase agreement with a non-controlling interest equity holder to acquire 25% equity share of BVI Supply Chain at cash consideration of RMB8,000,000 ("25% Acquisition"). Supply Chain Group is principally engaged in provision of agency service of sale and exportation of enforced inventories business in the PRC. Upon completion of the 25% Acquisition of BVI Supply Chain on 27 September 2017, the Group's effective interest in the Supply Chain Group was changed from 75% to 100%.

(b) During the year ended 31 December 2017, the Group entered into a sale and purchase agreement with a non-controlling interest equity holder to further acquire of 37% equity interest in Jiashi Financial at the consideration of RMB120,000,000 (the "37% Acquisition"). The consideration is settled by promissory note issued by the Company (note 26). Jiashi Financial and its subsidiaries (the "Jiashi Financial Group") is principally engaged in finance lease business in the PRC. Upon the completion of the 37% Acquisition on 27 October 2017, Jiashi Financial became an indirect wholly-owned subsidiary of the Company.

The difference between the considerations and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the non-controlling equity holders has been dealt with in merger and other reserve.

36. COMMITMENTS

(i) Operating lease commitments

Group as Lessee

Future minimum rental payable under non-cancellable operating lease of the Group in respect of buildings at the reporting date are as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**5,342**	791
After one year but within two years	**5,866**	–
After two years but within five years	**15,972**	–
	27,180	791

The Group leases certain properties under operating leases. The leases run for an initial period of 1 to 5 years (2016: 3 to 4 years), with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of these leases include any contingent rentals.

(ii) As at 31 December 2017, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to its subsidiaries of RMB1,114,028,000 (2016: RMB1,664,028,000).

(iii) As at 31 December 2017, the Group had commitment, contracted but not provided for, to make direct injections for the investment of unlisted equity securities classified as available-for-sale financial assets, which is operating in PRC of approximately RMB20,000,000 (2016: RMB5,100,000).

(iv) On 21 August 2017, the Group through one of its wholly-owned subsidiaries, entered into an investment agreement with three independent third parties for establishing a company operated in the PRC and principally engaged in fund management. As at 31 December 2017, the Group had commitment, contracted but not provided for, to make capital injection amounted to US$5,000,000 (equivalent RMB32,479,000) to the Company, representing 5% of the total registered capital.

36. COMMITMENTS – continued

(v) At the reporting date, the Group had the following other capital commitments:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for		
– Asset acquired for finance lease (as lessor) (US$3,900,000 equivalent to RMB26,770,000)	**–**	26,770
– Acquisition of property, plant and equipment	**3,874**	–

(vi) As at 31 December 2016, the Group committed to invest in an equity investment fund partnership limited amounted to RMB70,000,000. On 28 October 2016, Wen Ding, an indirectly wholly-owned subsidiary of the Company entered into the equity transfer agreement with 福建省鼎豐創業投資有限公司 ("Fujian Differ Venture Capital Company Limited") (the "Vendor"), pursuant to which the Vendor conditionally agreed to dispose of and Wen Ding conditionally agreed to acquire the 6.25% equity interest in 中南成長(天津市) 股權投資基金合伙企業(有限合伙) (Zhongnan Chengzhang (Tianjin Shi) Equity Investment Fund Partnership Limited (Limited Partnership)^) at a consideration of RMB70,000,000.

^ The English name is for identification only.

37. RELATED PARTY DISCLOSURES

(i) Compensation of key management personnel

Key management includes members of the board of directors and other members of key management of the Group. The compensation paid or payable to key management personnel is shown below:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**4,580**	4,194
Pension scheme contributions	**120**	110
Equity-settled share based payment	**3,862**	4,299
	8,562	8,603

37. RELATED PARTY DISCLOSURES

(ii) Except as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material transactions with related parties during the years:

Relationship	Type of transaction	Transaction amount	
		2017	2016
		RMB'000	RMB'000
Directors	Purchase of property, plant and equipment from a director	**–**	468
Related companies *(note)*	Consultancy service income	**–**	1,321

Note: Related companies are controlled by Mr. Hong.

38. FINANCIAL INSTRUMENTS BY CATEGORY

Categories of financial instruments as at the reporting date are as follows:

	2017	2016
	RMB'000	RMB'000
Financial assets		
Available-for-sale financial assets	**131,370**	56,430
Loans and receivables		
Finance lease, loan and account receivables	**1,376,605**	1,305,556
Deposits and other receivables	**86,073**	120,678
Restricted bank deposits	**27,729**	122,831
Cash and bank balances	**32,475**	20,977
	1,522,882	1,570,042
	1,654,252	1,626,472

	2017	2016
	RMB'000	RMB'000
Financial liabilities		
At amortised costs		
Accruals, other payables and deposits received	**88,836**	124,956
Bank and other borrowings	**242,751**	216,409
Corporate bonds	**266,924**	95,216
Promissory note	**120,000**	–
Convertible bonds – liability component	**–**	197,895
	718,511	634,476
At fair value through profit or loss		
Convertible bonds – derivative component	**–**	8,909
	718,511	643,385

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise available-for-sale financial assets, finance lease, loan and account receivables, deposits paid, other receivables, restricted bank deposits, cash and bank balances, accruals, other payables, deposits received, bank and other borrowings, corporate bonds, promissory note and convertible bonds. These financial instruments mainly arise from its operations and financing activities. The Group has not used any derivatives and other instruments for hedging purposes.

In the opinion of directors, the carrying amounts of the Group's financial instruments approximated their fair values as at the end of each reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group's distressed assets also have valuation risk and legal title risk. The directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Group's restricted bank deposits, bank balances and bank and other borrowings were bearing floating interest rate. Exposure to floating interest rate exists when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no undue exposures to significant interest rate movements and rates are approximately fixed when necessary.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

The interest rates of the above interest-bearing financial assets and financial liabilities of the Group are disclosed in notes 17, 22 and 24 respectively. The following table illustrates the sensitivity of profit after income tax for the year to a reasonably possible change in interest rates of 0.5%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's floating rate financial instruments held at the reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

	2017		2016	
	RMB'000	**RMB'000**	RMB'000	RMB'000
	+0.5%	**–0.5%**	+0.5%	–0.5%
(Decrease)/increase in profit after income tax for the year	**(685)**	**685**	(273)	273

Credit risk

It is the Group's policy that all customers who would like to obtain loans from the Group are subject to management review. Receivable balances are monitored on an ongoing basis. The Group holds collateral directly or indirectly to cover its risks associated with loan and account receivables.

All collateral of loan receivables and finance lease receivables were held directly by the Group except for distressed assets classified as loan and receivables, collateral is held by the non-performing debts' original creditor in most of the cases. For entrusted loan receivables, the Group holds collateral of the customers indirectly through banks. In case of default, the banks would assist the Group to recover the loan. Based on the arrangement of the Group and the banks, the banks may apply to the court for enforcement of the loan agreement and sale of the collateral.

At the reporting date, the Group's exposure under outstanding loan and account receivables were secured by the collateral and deposits received from finance lease customers as disclosed in notes 18 and 23 respectively.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

All customers who wish to obtain financial guarantee from the Group are also subject to management review. The Group has entered into financial guarantee contracts in which it has guaranteed the bank the repayment of loan by customers of the Group. The Group has the obligation to compensate the bank for the loss it would suffer because the customers fail to repay. The Group's maximum exposure under the financial guarantee contracts is disclosed in "liquidity risk" below. To mitigate such risk, the Group requests the customers to provide collateral as appropriate. In the event of default or failure to repay any outstanding guarantee amounts by the customers, the Group will proceed with sale of collateral. In order to maintain the credit risk at desirable levels, the Group's average loan-to-value ratio was kept at a level that could ensure the recoverability of the outstanding guarantee amount. At the reporting date, the Group's exposures under unexpired financial guarantee contracts were secured by the collateral of the customers as follows:

	2017 **RMB'000**	2016 RMB'000
Real estate	**20,293**	52,611
Inventories	**47,800**	160,813
Machinery	**1,140**	1,100
Motor vehicles	**570**	1,425
Property rights	**936,161**	13,500
Others	**9,500**	32,500
	1,015,464	261,949

The Group also has investments in distressed assets classified as available-for-sales financial assets and loan receivables which contain certain elements of credit risk. Depending on the status of the obligor of distressed asset, the Group may decide to pursue repayment from the obligor instead of disposing it to third party, credit risk arises in such situation. To minimize the credit risk of distressed assets, the Group selects counterparties with appropriate creditworthiness and repayment capacity. At the reporting date, the Group's maximum exposure in distressed assets equal to the carrying amount of these assets as disclosed in notes 18 and 20.

The credit risk of the Group's other financial assets, which mainly comprise restricted bank deposits and cash and bank balances, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in restricted bank deposits and cash and bank balances is mitigated as cash is deposited in banks with high credit rating.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk

Management of the Group monitors current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities at the reporting date, based on the contractual undiscounted payments, is as follows:

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017						
Accruals, other payables and deposits received	88,836	88,836	57,811	7,863	23,162	–
Bank and other borrowings	242,751	261,819	196,990	52,443	12,386	–
Corporate bonds	266,924	335,830	56,218	30,897	120,217	128,498
Promissory note	120,000	126,403	5,895	120,508	–	–
	718,511	812,888	316,914	211,711	155,765	128,498
Financial guarantees issued						
Maximum amount guaranteed	–	430,969	430,969	–	–	–
At 31 December 2016						
Accruals, other payables and deposits received	124,956	124,956	64,100	13,046	47,810	–
Bank borrowings	216,409	234,088	104,463	64,796	64,829	–
Corporate bonds	95,216	114,298	7,083	53,215	24,028	29,972
Convertible bonds – liability component	197,895	233,337	233,337	–	–	–
	634,476	706,679	408,983	131,057	136,667	29,972
Financial guarantees issued						
Maximum amount guaranteed	–	218,700	218,700	–	–	–

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Valuation risk

The Group's distressed assets classified as available-for-sale financial assets are subject to valuation risk, which is the risk of negative impact arising from the difference between actual results and value estimations that the Group would use in its management of distressed assets. Differences arise from variance in factors such as future cash flows, collection period, discount rate, and disposal cost, and the Group adopted conservative approach to estimate these factors so as to minimize the difference between actual results and value estimations.

Legal title risk

The Group's distressed assets are subject to legal title risk, which is the risk of loss, arising from the decrease of recoverable amount when the legal rights to claim was partially or entirely lost due to inappropriate daily management of distressed assets such as expiry of claim period without taking proper legal actions on time. To minimize the legal title risk, the Group closely monitors the related legal processes and regularly communicates with the debtors, lawyers and other contract parties.

Capital management

The Group's capital management objectives include:

(i) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;

(ii) to support the Group's stability and growth; and

(iii) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder's returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The capital structure of the Group consists of net debts, which include the bank borrowings, corporate bonds, convertible bonds and net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and various reserves.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Capital management – continued

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated the share capital. The Group will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

The net debts-to-equity ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
	RMB'000	RMB'000
Bank and other borrowings	**242,751**	216,409
Corporate bonds	**266,924**	95,216
Promissory note	**120,000**	–
Convertible bonds	**–**	206,804
	629,675	518,429
Less: Cash and bank balances	**(32,475)**	(20,977)
Restricted bank deposits	**(27,729)**	(122,831)
Net debts	**569,471**	374,621
Equity	**1,203,029**	1,028,798
Net debts to equity ratio	**47.3%**	36.4%

40. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Major non-cash transaction

During the year end 31 December 2017, the Group had exercised its right enforced by the civil judgement from the People's Court of Fujian Province to obtain the legal title of collaterals pledged by a finance lease customer who was in financial difficulties and was default of payments of finance lease receivables of approximately RMB53,727,000.

The Group accounted for the collaterals as prepayment for land and properties acquired for assets management business in the consolidated statement of financial position and offset the finance lease receivables of approximately RMB53,727,000 during the year ended 31 December 2017.

40. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS – continued

(b) Other cash flow information

Reconciliation of liabilities arising from financing activities:

	Bank and other borrowings RMB'000 *(note 24)*	**Corporate bonds** RMB'000 *(note 25)*	**Convertible bonds** RMB'000 *(note 27)*	**Total** RMB'000
At 1 January 2017	**216,409**	**95,216**	**206,804**	**518,429**
Changes from financing cash flow:				
Proceeds from bank and other borrowings	196,219	–	–	196,219
Proceed from issue of corporate bonds	–	181,891	–	181,891
Repayment of bank and other borrowings	(164,746)	–	–	(164,746)
Repayment of corporate bonds	–	(5,080)	–	(5,080)
Repayment of convertible bonds	–	–	(205,621)	(205,621)
Interest paid	(18,581)	(13,596)	(10,928)	(43,105)
Total changes from financing cash flows	12,892	163,215	(216,549)	(40,442)
Exchange adjustments	(5,131)	(5,103)	(309)	(10,543)
Other changes:				
Interest expenses	18,581	13,596	23,057	55,234
Gain on redemption of convertible bonds	–	–	(8,770)	(8,770)
Change in fair value of derivative financial instruments	–	–	(1,960)	(1,960)
Adjustment to the carrying amount of liability component of convertible bonds arising from modification of terms and conditions	–	–	(2,273)	(2,273)
At 31 December 2017	**242,751**	**266,924**	**–**	**509,675**

41. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 26 November 2013 for the purpose of providing incentives or rewards to any employees of the Company and any other eligible persons for their contribution to the Group. On 25 April 2016, the Company granted an aggregate of 84,108,000 share options to the eligible persons. The following table discloses movements in the Company's Share Options during the years:

Year ended 31 December 2017

		Number of share options						
Name or category of participants	**Date of grant**	**At 1 January 2017**	**Granted**	**Exercised**	**Forfeited**	**At 31 December 2017**	**Exercise period** *(Note)*	**Exercise price** *HK$*
Directors								
Mr. Hong	25 April 2016	6,400,000	–	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Mr. Ng	25 April 2016	6,400,000	–	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Employees (in aggregate)	25 April 2016	69,586,000	–	–	(24,836,000)	44,750,000	30 April 2017 to 30 April 2021	0.734
Total		**82,386,000**	**–**	**–**	**(24,836,000)**	**57,550,000**		

41. SHARE OPTION SCHEME – CONTINUED

Year ended 31 December 2016

		Number of share options						
Name or category of participants	Date of grant	At 1 January 2016	Granted	Exercised	Forfeited	At 31 December 2016	Exercise period *(Note)*	Exercise price *HK$*
Directors								
Mr. Hong	25 April 2016	–	6,400,000	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Mr. Ng	25 April 2016	–	6,400,000	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Employees (in aggregate)	25 April 2016	–	71,308,000	–	(1,722,000)	69,586,000	30 April 2017 to 30 April 2021	0.734
Total		–	84,108,000	–	(1,722,000)	82,386,000		

Note: Share options were vested in equal portions on 30 April 2017, 2018, 2019 and 2020 respectively, and became exercisable for a period from the respective dates and ending on 30 April 2021. In addition, the vesting of share options shall be subject to the achievement of performance targets during the assessment periods up to the above four vesting dates.

The fair values of the share options granted under the Share Options Scheme on 26 November 2013 were determined using the binomial option pricing model. The fair values of the share options and the significant inputs into the model and assumptions were as follows:

Number of share options	84,108,000
Share price on grant date	HK$0.710
Exercise price	HK$0.734
Expected volatility	99.0%
Weighted average contractual life	5.01 years
Risk-free interest rate	1.0%

41. SHARE OPTION SCHEME – continued

Fair value per share option

– vesting date: 30 April 2017	HK$0.44
– vesting date: 30 April 2018	HK$0.47
– vesting date: 30 April 2019	HK$0.50
– vesting date: 30 April 2020	HK$0.51

Share options and weighted average exercise price are summarised as follows for the reporting periods presented:

	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January 2016	–	
Granted	84,108,000	0.734
Forfeited	(1,722,000)	0.734
Outstanding at 31 December 2016 and 1 January 2017	**82,386,000**	**0.734**
Forfeited	**(24,836,000)**	**0.734**
Outstanding at 31 December 2017	**57,550,000**	**0.734**

The share options outstanding at 31 December 2017 had exercise price of HK$0.734 (2016: HK$0.734) and a weighted average remaining contractual life of 1.71 years (2016: 2.4 years).

42. EVENT AFTER THE REPORTING DATE

On 21 November 2017, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement with Ms. Shi to acquire the entire issued share capital of Differ Cultural Tourism Development Company Limited ("Differ Cultural") at a consideration of RMB375,000,000 (the "Acquisition"). The Group and Differ Cultural were under common control and managed by Mr. Hong, the substantial shareholder of the Company, via Ms. Shi through a trust arrangement, the Acquisition is considered as a combination of businesses under common control. The consideration is settled by 84,000,000 shares of the Company at issue price of HK$0.582 per share and the remaining by cash after considering the outstanding debts owned by Ms. Shi, Mr. Hong and their respective associate companies to Differ Cultural and its subsidiaries at the completion date as defined in the circular of the Company dated 23 December 2017. The principal activities of Differ Cultural and its subsidiaries are property development and management. The Acquisition was completed on 23 January 2018. Upon the completion of the Acquisition, Differ Cultural become the wholly owned subsidiary of the Company. It is not practicable to disclose further details in relation to the Acquisition at the date of the approval of these financial statements.