国美金融科技
GOME FINTECH

国美金融科技有限公司
Gome Finance Technology Co., Ltd.

(Incorporated in Bermuda with limited liability)
(Stock Code: 628)

Annual Report 2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Ms. Chen Wei
Mr. Ding Donghua
Mr. Chung Tat Fun

Non-executive Director
Ms. Wei Qiuli

Independent Non-executive Directors
Mr. Zhang Liqing
Mr. Li Liangwen
Mr. Hung Ka Hai Clement
Mr. Wan Jianhua

COMPANY SECRETARY
Ms. Suen Yu May Sammi (appointed on 29 March 2019)

AUDIT COMMITTEE
Mr. Hung Ka Hai Clement *(Chairman)*
Mr. Zhang Liqing
Mr. Li Liangwen

REMUNERATION COMMITTEE
Mr. Li Liangwen *(Chairman)*
Mr. Zhang Liqing
Ms. Chen Wei

NOMINATION COMMITTEE
Mr. Zhang Liqing *(Chairman)*
Mr. Ding Donghua
Mr. Li Liangwen

STRATEGY COMMITTEE
Mr. Wan Jianhua *(Chairman)*
Mr. Li Liangwen
Ms. Chen Wei

AUDITOR
Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central

BANKERS
CMB Wing Lung Bank Limited
Bank of Communications Co., Ltd.
Industrial Bank Co., Ltd.
China Merchants Bank Co., Ltd.
Bank of Jiangsu Co., Ltd.
China Construction Bank (Asia) Corporation Limited

LEGAL ADVISERS

As to Hong Kong Law
Sidley Austin

As to Bermuda Law
Conyers Dill & Pearman

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Suite 2912, 29th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office
MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office
Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

STOCK CODE
628

INVESTOR RELATIONS
Website: www.gomejr.com
Email: ir@gomejr.com

EXECUTIVE DIRECTOR'S STATEMENT

Dear Shareholders,

On behalf of GOME Finance Technology Co. Ltd. (the "Company") and its subsidiaries (collectively the "Group"), I would like to present the results of the Group for the year ended 31 December 2018.

In the past year, the global economy experienced a slowing trend of its growth momentum, which was gradually reflected in the downward pressure on China's economy. The internet finance industry was still subject to the cyclical effect of strong regulatory oversight with uncertainties in terms of policies and monitoring. Meanwhile, the fierce competition in the market and the increased regulatory oversight have also facilitated the reshuffling of the industry, leading the overall business operation of the industry to develop towards a more professional and healthier direction. For large corporations with on-scene resources, technical capabilities and data stream advantage, the increasingly regulated fintech industry is becoming an important sector characterized by vitality, compliance and sustainable development. Under this context, we continue to be optimistic about the future growth potential of the market, have great confidence in the Group's business operation in the future, and continue to focus on businesses including commercial factoring, financial leasing and other financial technology services, providing professional and quality services to more customers in the market of Hong Kong and Mainland China.

Under the increasingly grim situation of the external macro environment, the Group will respond to the guiding principles of the regulatory policies, increase its investment in technology and technical aspects, and increase its exploration of the on-scene resources of the GOME system, building a technological platform with technology and customers as its core competitiveness for the enterprise.

Looking ahead into 2019, we will accelerate the expansion of our business scope and our market share in the area of fintech services. We will strengthen product and technology innovation on the foundation of existing business and explore new point of profit growth, so as to create greater revenue for the shareholders of the Group.

Lastly, I would like to take this opportunity to express my sincere gratitude to all the staff and the senior management, for their incessant efforts, contributions and professional services, as well as their unfailing conviction in assisting the Group to overcome difficulties and achieve success. My sincere thanks also go to the customers and shareholders of the Group, for their exceptional trusts and unfailing supports all along.

Chen Wei
Executive Director
Beijing, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the year ended 31 December 2018, the Group, in light of the trend of economic development and the features of the development of the industry, remained committed to the vision of 'using innovation to promote the development of technology and using technology to drive financial reform', and to the objective of establishing a market-leading comprehensive financial technology services group. The Group strived to continually improve the industry and service system, so as to provide more comprehensive, convenient and high-quality financial services for its customers.

The Group remains positive with the growth potential of the market in Mainland China. Using the commercial factoring and financial leasing businesses as a foothold and on the basis of balancing risk control and product income, the Group has placed ever greater effort in expanding its high-quality businesses. During the year, the Group proactively adapted to changes in the economic environment in Mainland China, and maintained a stable business income of RMB69,004,000, representing a slight decrease of 6.5% year-on-year. During the year, profit attributable to the owners of the Company was approximately RMB1,439,000, representing a decrease of approximately RMB20,285,000 over last year.

The management of the Group strongly believes that by accelerating the pace of business layout, and by optimizing and upgrading its products and services, the Group will be able to maintain its healthy development and achieve better operating results in future.

INDUSTRY ENVIRONMENT

In 2018, the uncertainties in the social and political environment around the world increased and the global economy had been influenced by various factors, thus growth was hampered. In terms of geographical region, the interest rate hike by the US Federal Reserve was implemented as scheduled and the US stock market declined after reaching the peak; there were still uncertainties regarding the recovery continuity of Europe, and the inflation declined as well at the same time; meanwhile, the downward pressure faced by Japan's economy had not been eliminated.

With intensifying challenges in the external macro-environment, China's economy remained stable overall, yet with a declining growth rate. The annual gross domestic product (GDP) growth rate was 6.6%, representing a year-on-year decrease of 0.2 percentage points. The year-on-year producer price index (PPI) rose 3.5%, lower than that of 2017. Meanwhile, dragged down by auto-mobile and housing consumption, the total consumption demonstrated a decrease. In addition, social financing growth recorded a new low and the real economy showed a slightly softer growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Under dual pressures of the severe and complicated external environment and economic downturn, there were increased policy and regulatory uncertainties. In 2018, the government constantly promulgated traditional financial regulatory policies, tightening internet finance policies and releasing strong regulatory signals. Under this backdrop, small and medium-sized internet financial institutions faced a soaring pressure in operation, with frequent incidents of bankruptcy, absconding and mergers and constant business reshuffles.

In 2018, the financial regulatory authorities had continued to foster compliance as well as robust and healthy development of the financial technology sector, and encourage institutions to improve their capabilities in serving the real economy. With sound risk control, abundant resources in business scene integration and products catering to the needs of the real economy, internet financial institutions will build up their competitive advantages gradually.

BUSINESS REVIEW

During the year, the Group benefitted from GOME's resources and industry chain advantages, explored deeper into the needs of upstream and downstream customers in the industry chain, and continued its work in optimising its capabilities in front-end business support and back-office service support. Gome Xinda Commercial Factoring Limited ("Xinda Factoring"), a wholly-owned subsidiary of the Company, further optimised its risk control system on the foundation of the integration between the logistics at GOME's retail end and warehousing databases, significantly improving the processing efficiency of its existing businesses and continuously enhancing customer experience. In the meantime, against the backdrop of weakening momentum of overall economic growth and greater operational difficulties in the real economy, the Group prudently strengthened risk control according to the macro environment, including tightening the approval criteria for new customers. During the year, the total lending volume exceeded RMB1,600,000,000. While the total lending volume decreased as compared to 2017, the factoring business recorded an operating earnings of RMB11,942,000 despite the harsh environment, representing an increase of 11.6% as compared to 2017.

Spreading from the GOME industry chain to other customer bases, Tianjin Gome Financial Leasing Company Limited, a wholly-owned subsidiary of the Company, promoted the refined development of its equipment financing and consumer-side retail leasing businesses, achieving a healthy development of its financial leasing business on the basis of guaranteeing the quality of its businesses. During the year, the Group's financial leasing business recorded a lending volume of approximately RMB130,000,000, almost doubling that of the preceding year, and the related interest income had also increased significantly to RMB14,906,000. Although the financial leasing business still recorded an operating loss, it was mainly due to the fact that the business was still in the early stages of development and had a relatively high cost. The management remains optimistic about the future development of the relevant business.

MANAGEMENT DISCUSSION AND ANALYSIS

Other than the factoring business and financing leasing business, the Group, through Gome Wangjin (Beijing) Techonology Co., Ltd ("Gome Wangjin"), a wholly-owned subsidiary of the Company, has been dedicating to the research and development of comprehensive financial technology solutions (such as customer management solutions, risk management solutions and settlement system solutions), and has continued to explore different opportunities in the other financing services business by utilising its rich technical experience in the relevant areas. During the year, Gome Wangjin provided solution consultation services to a related party and recorded an income of RMB7,925,000. Although the other financing services business still recorded an operating loss during the year, the loss was mainly due to the fact that certain new businesses were still being laid out and built and did not generate revenue. The management will continue to promote the development of the relevant business.

Due to adjustment in business development plan, certain money lending businesses, such as real estate-backed loans, personal property pawn loans and other loans receivables, have been scaled down since 2017, and no significant related operations were carried out by the Group in 2018.

FINANCIAL REVIEW

Results highlights

During the year, the Group recorded an operating revenue of approximately RMB69,004,000, representing a decrease of RMB4,803,000 (6.5%) over RMB73,807,000 for 2017. The decrease in revenue was mainly attributable to the heightened caution towards new investments to mitigate risks in response to a slowdown in the domestic economy, which affected the demands for funding and reduced the number of loan applications. Meanwhile, the Group tightened its approval criteria for new commercial factoring customers, resulting in a decline in revenue from commercial factoring.

During the year, profit attributable to the owners of the Company was approximately RMB1,439,000 (2017: RMB21,724,000), representing a significant decrease as compared to the last year. The decrease in profit attributable to the owners of the Company was mainly attributable to a provision for impairment loss of loans on the Group's trade and loans receivables of RMB14,202,000 (2017: a reversal of impairment loss on loans receivables of approximately RMB12,414,000). During the year, the Group recorded a loss before tax of RMB2,148,000. If the impact of the impairment provision or reversal of impairment is excluded, the profit before tax would be similar to that of 2017 at RMB12,054,000 (2017: RMB12,500,000). The reversal of impairment in 2017 was mainly due to a large amount from the other financing services business being recovered, while the significant increase of impairment provision in 2018 was mainly due to the increase in scale of the financial leasing services.

Basic earnings per share for the year were RMB0.05 cents (2017: RMB0.80 cents). The board of directors of the Company did not recommend the payment of a final dividend for the year (2017: Nil).

Commercial factoring business

The following table sets forth the operating results for the Group's commercial factoring business:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Revenue	**46,173**	67,770
Effect of applying the new standard in relation to financial instruments	**5,959**	–
Operating expenses	**(40,190)**	(57,069)
Operating earnings	**11,942**	10,701
(Provision for)/reversal of impairment on loans receivables	**(4,789)**	2,563
Segment results	**7,153**	13,264

The revenue from the commercial factoring business during the year (adding back the effect of the application of the new standard in relation to financial instruments in revenue reclassification) decreased by approximately RMB15,638,000 as compared with 2017, mainly due to the aforementioned reasons relating to the overall economic environment. The results were also affected by the Group's application of new standard on financial instruments since 1 January 2018, under which some loan receivables were classified as measured at fair value based on their contractual cash flow characteristics, and interest income from financial assets measured at fair value should be correspondingly recognised as gains or changes in financial assets at fair value through profit or loss. The above reclassification resulted in a decrease of approximately RMB5,959,000 in the operating revenue from the commercial factoring business segment. While the decline in income was partly offset by the improved profit margin for the factoring business for the year as compared with 2017, the total income was still being impacted.

During the year, the operating expenses of the commercial factoring business decreased by RMB16,879,000 as compared with the preceding year, mainly attributable to: (1) a significant decrease in interest expense on borrowings due to a reduction in money lending and a reduction of the use of external funds during the year; and (2) a reduction in related operating expenses by the management in response to the business environment.

During the year, impairment provision on loans receivables for commercial factoring business was RMB4,789,000. The balance of asset loans at year-end decreased as at 31 December 2017 when the Group started refactoring without recourse business with other companies in the industry to improve asset liquidity for 2017, resulting in a reversal of impairment on trade receivables in 2017. During the year, impairment provision increased with the increase in the balance of substandard and doubtful loans receivables.

Due to the combined effect of the above factors, the operating profit and segment results both dropped as compared with last year.

The Group has applied the new standard in relation to financial instruments since 1 January 2018. The new standard requires the impairment of financial assets to be measured in an "expected credit loss model" as opposed to an "incurred credit loss model". The Group takes a consistent and objective approach in analysing loan qualities so as to assess whether there will be impairment losses on loans receivables, taking into account events such as subsequent settlement, default or delinquency in interest or principal payments, and the financial and credit analysis of each individual debtor or a group of debtors. After such analysis, the Group classifies the loans into five different categories as well as three stages based on expected credit losses as required by the new standard in relation to financial instrument, and applies a consistent policy to each loan category in providing for the impairment of loans receivables with reference to the balances of loans receivable of various categories of loans, net of any settlement amounts subsequent to the reporting period. At the end of 2017, as loans receivables have not been classified into three stages based on the expected credit losses according to the new standard in relation to financial instrument, they are presented only in five loan categories.

The following table sets forth the distribution of trade and loans receivables of the Group's factoring business by five categories of classification.

	31 December 2018		31 December 2017	
	Gross balance RMB'000	**Impairment provision RMB'000**	Gross balance RMB'000	Impairment provision RMB'000
Normal	**239,698**	**93**	347,146	1,696
Special mention	**234,794**	**2,677**	–	–
Substandard	**20,464**	**2,526**	–	–
Doubtful	**–**	**–**	–	–
Loss	**5,105**	**5,105**	5,274	5,274
	500,061	**10,401**	352,420	6,970

The management and risk management department of the Group closely monitor the substandard and doubtful loans, including regular communication with borrowers and setting up of repayment schedules, in addition to provision for the relevant amounts according to the regulations.

Financial leasing business

The following table sets forth the operating results for the Group's financial leasing business:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Revenue	**14,906**	2,510
Operating expenses	**(17,845)**	(8,552)
Operating loss	**(2,939)**	(6,042)
Provision for impairment on loans receivables	**(9,749)**	(786)
Segment results	**(12,688)**	(6,828)

The increase in operating loss of the financial leasing business for the year as compared with that of the preceding year was mainly attributable to the significant increase in revenue and expenses for the new vehicle leaseback business 美易車 and the mobile phone leaseback business 國美租租 launched by the Group in the second half of 2017 from annualisation; and due to significantly higher staff and channel promotional fees incurred in the preliminary period of the businesses in addition to the increase in the related interest expenses due to expansion in business, while revenue was realised by instalments during the lease terms, resulting in operating loss.

Due to the expansion of asset scale and default of certain customers, the impairment provision on loans receivable for the financial leasing business for the year increased as compared with 2017. If the impairment provision for loans receivables is excluded, the financial leasing business had improved over 2017 due to its scale increase and maturity, and its operation loss had also reduced.

The following table sets forth the distribution of trade and loans receivables of the Group's financial leasing business by five categories of classification.

	31 December 2018		31 December 2017	
	Gross balance RMB'000	**Impairment provision RMB'000**	Gross balance RMB'000	Impairment provision RMB'000
Normal	**112,063**	**2,637**	65,484	652
Special mention	**1,930**	**739**	80	16
Substandard	**3,647**	**1,700**	34	20
Doubtful	**5,158**	**2,973**	–	–
Loss	**8,395**	**6,968**	3,635	3,635
	131,193	**15,017**	69,233	4,323

As the business was relatively new and the loans receivables were more spread open, the Group made more prudent provisions for substandard and doubtful loans receivables, resulting in a loss of RMB12,688,000 during the year.

Other financing services business

The following table sets forth the operating results for the Group's other financing services business:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Revenue	**7,925**	3,527
Operating expenses	**(17,471)**	(6,818)
Operating loss	**(9,546)**	(3,291)
Reversal of impairment on loans receivables	**336**	10,637
Segment results	**(9,210)**	7,346

The revenue of the other financial services business for the year represents consultation service fee collected by Gome Wangjin. The substantial increase in operating expenses and operating loss of the other financial services business as compared with 2017 was mainly because, as mentioned above, the Group commenced its planning for the development of the other financing services business which incurred higher staff expenses in the early stage. As aforementioned, the Group scaled back on real estate-backed loans, personal property pawn loans and other loans receivables since 2017, and the related loans receivables decreased, which incurred a large reversal of impairments in 2017.

Income of other financing services business

The following table shows the composition of income of the Group's other financing services business:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Technical advisory services	**7,925**	–
Interest of real estate-backed loans	**–**	847
Interest of personal property pawn loans	**–**	302
Interest of other loans receivables	**–**	2,378
Total	**7,925**	3,527

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the distribution of trade and loans receivables of the Group's other financing services business by five categories of classification:

	31 December 2018		31 December 2017	
	Gross balance RMB'000	**Impairment provision RMB'000**	Gross balance RMB'000	Impairment provision RMB'000
Normal	**8,400**	**–**	–	–
Special mention	**–**	**–**	–	–
Substandard	**–**	**–**	–	–
Doubtful	**–**	**–**	–	–
Loss	**4,216**	**4,216**	4,551	4,551
	12,616	**4,216**	4,551	4,551

Key operating data of the Group

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Net trade and loan receivables	**614,236**	410,360
– Net loan balance	**605,836**	410,360
Gross trade and loans receivable balance	**643,870**	426,204
– Gross loan balance	**635,470**	426,204
– Hong Kong	**–**	–
– Mainland China	**635,470**	426,204
Total return on loans (revenue/average gross loan balance)		
– Hong Kong	**–**	10.89%
– Mainland China	**12.05%**	9.49%
Allowance to loans ratio (impairment allowance as % of gross loan balance)	**4.66%**	3.72%
Non-performing loan ratio (gross non-performing loan balance as % of gross loan balance)	**7.39%**	3.17%
Allowance coverage ratio (impairment allowance as % of gross non-performing loan balance)	**63.07%**	117.43%

As at 31 December 2018, the Group's net loan balance and gross loan balance increased by approximately RMB195,476,000 (47.6%) and approximately RMB209,266,000 (49.1%) respectively as compared with those as at 31 December 2017. Such decrease was primarily due to: (1) an increase in doubtful loans receivables as affected by the overall economic environment; and (2) the growth in the financial leasing business, resulting in a corresponding increase in net loan receivables and gross loan receivables at the end of the year.

Compared with 2017, the allowance to loans ratio and non-performing loan ratio increased for the year, which was mainly attributable to the increase in default rates in upstream and downstream of the supply chain and overdue of certain customers of commercial factoring business arising from tightening domestic funds. The allowance coverage ratio decreased when compared with 2017, which was mainly due to the addition of more substandard and doubtful loans in 2018 while that of 2017 were mostly in the loss category, thus the ratio of provision had decreased.

Loan quality analysis and impairment allowances

During the year, net amount for the provision for impairment loss on trade and loans receivables was RMB14,202,000 (2017: reversal of impairment loss on trade and loans receivables of approximately RMB12,414,000). This included charges for impairment allowance on trade and loans receivable of approximately RMB16,088,000 (2017: RMB2,661,000) and the reversal of impairment loss of approximately RMB1,886,000 (2017: RMB15,075,000). In addition, under the impact of the application of HKFRS 9, the reversal of impairment loss on trade and loans receivables at the beginning of the period amounted to RMB397,000.

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
At beginning of period	**15,844**	28,728
Impact of HKFRS 9	**(397)**	–
Impairment allowances recognised	**16,088**	2,661
Impairment loss reversed	**(1,886)**	(15,075)
Impairment loss write-off	**(15)**	(245)
Exchange difference	**–**	(225)
At end of the period	**29,634**	15,844

Other gains

The following table shows the composition of the Group's other gains:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000
Exchange gain	**3,816**	11,747
Investment income	**–**	1,578
	3,816	13,325

The Group had significant United States dollars ("USD") bank deposit during 2018 and 2017 and recorded significant exchange gain in 2017 as USD appreciated significantly in 2017. The exchange gain in 2018 decreased mainly because the USD exchange rate remained relatively stable in 2018.

PROSPECTS

In 2018, the economic environment at home and abroad had undergone great changes, with increasing uncertainty of the overall economic operation and weakening development momentum. In terms of real economy, both large corporations with greater capabilities and a history of stable operation and small and medium-sized enterprises (SMEs) which normally have more limitations in development faced various levels of development, and even survival, issues in 2018. Overall, corporate financing needs in production and investment reduced. As for the financial sector, although the tightening effect of financial regulatory policies still prevailed, the license-based and compliance-based businesses of internet financial institutions had greater room for growth leveraging its compliance advantages and market reshuffle opportunities. In 2018, SMEs still faced acute financing difficulties, the main reason of which was the lack of risk control measures. In view of this, in 2019, in addition to continuing to deepen the development of the credit and risk control model based on the data analysis of the retail industry chain, the Group will actively explore the opportunities for financing services in other industries and boost the momentum of sustainable development leveraging its own technology and knowledge accumulated over the years.

Facing the current fierce competitive environment, the Group will continue to adhere to its strategic main-line of focusing on technology finance, closely integrate the advantages of GOME's abundant scene resources, and upgrade the risk control service system based on big data and artificial intelligence. The Group will also strive to improve its operational stability, enrich its system of products, build up a comprehensive financial technology service platform driven by science and technology, expand cooperation with external licensed financial institutions and focus on delivering financial technology capabilities. Meanwhile, the Group will also strengthen its business monitoring and risk management, adjust the pace of business development according to the external environment, strengthen the incubation, mergers and acquisitions of new businesses and improve its corporate governance structure, so as to promote the sustained and healthy development of the Group, and to create greater value for all shareholders.

The Group plans to enter the prepaid card business and the third party internet payment services in China through acquisition, details of which are set out in the circular of the Company dated 29 June 2017. The acquisition was still pending completion as at the date of this Annual Report.

In addition to the continued dedication in its existing businesses, the Group plans to further expand its coverage in the financial technology business in the "retail + finance" field, in order to achieve continuous income growth. The initial scheme is to enter the "extended warranty intermediary service" business of the "after-sale services" sector through utilising resources such as existing technology systems, information resources, risk management techniques and talent reserves. Currently, extended warranty service is mainly applied for home appliances and automobiles in mainland China as a maturing after-sales service product.

The Group plans to perform scientific risk-based pricing on the "extended warranty service", and through a model of reinsuring the risks with insurance companies, build up complete industry chain of sales, pricing, reinsurance and after-sales service platform referral so as to provide convenient, prompt and competitive platform intermediary service to end customers. The extended warranty service business will aim to realize income sources from areas such as risk spread, platform commission income and sharing of financial business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position is sound with strong equity and working capital bases. As at 31 December 2018, the Group's total equity amounted to approximately RMB1,757,647,000, representing a slight increase of 2.2% as compared with that as at 31 December 2017. As at 31 December 2018, the Group's cash and cash equivalents totaled approximately RMB318,521,000 representing a decrease as compared to 2017 (2017: RMB708,401,000), such decrease was mainly the result of the operating cash outflow in 2018. During the year, the Group incurred cash outflow from its operating activities of approximately RMB243,490,000 (2017: RMB168,494,000).

Compared with 2017, trade and loans receivables increased by RMB203,876,000 as a result of an increase in substandard and doubtful trade and loans receivables, which resulted in an operating cash outflow.

The Group's current ratio as at 31 December 2018 was 3.10 (2017: 3.01). The Group's gearing ratio, expressed as percentage of total liabilities except tax payable over the Group's total equity was 46.5% (as at 31 December 2017: 49.6%).

The Group has issued an 8-year corporate bond with total principal amount of HK$35 million, which is due in 2022 and 2023 and carries interest at fixed rate of 7.0% per annum with interest payable in arrears. The corporate bond is unsecured and will be repaid at par upon maturity.

The Group had no particular seasonal pattern of borrowing. As at 31 December 2018, the Group's borrowings (including current borrowings (which are due within one year) and non-current borrowings (which are due after one year)) amounted to approximately RMB802,364,000 (2017: RMB802,635,000). The Group's current borrowings of approximately RMB774,000,000 were made at floating interest rates. The weighted average effective interest rates on secured current borrowings for the year were 4.785% to 5.22% per annum.

As at 31 December 2018, the Group's borrowings were denominated in RMB and HKD, amounting to approximately RMB774,000,000 and approximately HKD32,372,000 (equivalent to approximately RMB28,364,000), respectively.

Taking the above figures into account, together with the available bank balances and cash, the management is confident that the Group will have adequate resources to settle its loans and finance its daily operational and capital expenditures.

CAPITAL STRUCTURE

During the year, there was no change in the issued capital of the Company and the Company's number of issued ordinary shares remained at 2,701,123,120 as at 31 December 2018 and 2017.

GROUP STRUCTURE

The Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2018.

On 7 June 2017, Xinda Factoring, an indirect wholly-owned subsidiary of the Company, entered into a loan agreement with Beijing Bosheng Huifeng Business Consulting Co., Limited ("Bosheng Huifeng"), a company incorporated in the PRC with limited liability and is owned as to 90% by Ms. Du Juan (controlling shareholder of the Company) and 10% by Mr. Ding Donghua ("Mr. Ding") (an executive director of the Company), pursuant to which Xinda Factoring agreed to provide a non-interest bearing loan for an amount of RMB720 million to Bosheng Huifeng solely for the purpose of acquiring the entire equity interest in Tianjin Guanchuang Mei Tong Electronic Commerce Limited (the "Acquisition"). On the same day, Bosheng Huifeng and certain independent third parties (the "Sellers") entered into a framework agreement, pursuant to which Bosheng Huifeng and the Sellers agreed, among others, to enter into a conditional sale and purchase agreement for the Acquisition and upon its completion, a series of contractual arrangement will be entered into such that Xinda Factoring will have effective control over Baosheng Huifeng so as to obtain the economic interests and benefits from its business activities. Tianjin Guanchuang Mei Tong Electronic Commerce Limited and its subsidiaries principally engage in the prepaid card business, third party internet payment services and related technology development and technical advisory services in the PRC. Further details are set out in the circular of the Company dated 29 June 2017.

The Acquisition was not yet completed up to 29 March 2019 and the Group's management has been communicating with the relevant authorities to speed up the Acquisition.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group's bank deposits in the amount of approximately RMB889,470,000 (2017: RMB831,464,000) were pledged to secure banking facilities of the Group. The Group did not have any material contingent liabilities as at 31 December 2018 and 2017.

COMMITMENTS

As at 31 December 2018, the Group had loans commitment in the amount of RMB144,000,000 (2017: RMB144,000,000), which are contracted but not provided for. As at 31 December 2018, the Group had rental payment under non-cancellable leases amounted to approximately RMB8,191,000 (2017: RMB8,487,000).

TREASURY POLICIES

The Group continued to adopt a conservative treasury policy, with all bank deposits in HKD, RMB, and USD. The board and management had been closely monitoring the Group's liquidity position, performing ongoing credit evaluations, and monitoring the financial conditions of its customers, in order to ensure the Group's healthy cash position. The Group has not adopted any hedging policy or entered into any derivative products. However, the board and the management will continue to monitor the foreign currency exchange exposure and will consider adopting certain hedging measures against the currency risk when necessary.

EMPLOYEES AND EMOLUMENT POLICY

The Group had 107 employees in total as at 31 December 2018 (2017: 76). The Group pays for social insurance for its PRC employees in accordance with the applicable laws in the PRC. The Group also maintains insurance coverage and contributes to mandatory provident fund schemes for its employees in Hong Kong in accordance with the applicable laws in Hong Kong. The overall aim of the Group's employee and remuneration policy is to retain and motivate staff members to contribute to the continuing success of the Group.

Additionally, the Group adopted a share option scheme as a long term incentive to directors and eligible employees. The emolument policy for the Group's directors and senior management was established and reviewed by the Company's Remuneration Committee, and gives consideration to the Group's performance, individual performance and comparable market conditions.

USE OF NET PROCEEDS FROM THE SUBSCRIPTION OF NEW SHARES

The below table sets out the proposed application of net proceeds from the subscription of new shares on 5 September 2016, and usage up to 31 December 2018:

	Proposed application of net proceeds	**Actual usage up to 31 December 2018**
	HKD million	HKD million
Provision of commercial factoring services	700.0	700.0
Provision of financial leasing services	350.0	350.0
Development and promotion of third party payment service business	380.0	380.0
General working capital	144.5	38.3
	1,574.5	1,468.3

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Chen Wei

Ms. Chen Wei ("Ms. Chen"), aged 59, was appointed as an executive director of the Company on 27 December 2017. Ms. Chen is a member of the Remuneration Committee and Strategy Committee of the Company. Ms. Chen formerly served as president of treasury management office of Shenzhen branch, People's Bank of China (中國人民銀行深圳經濟特區分行), executive director, vice president and chief financial officer of China Merchants Bank Co., Ltd. (招商銀行股份有限公司), and Shenzhen Development Bank Co., Ltd. (深圳發展銀行股份有限公司), executive director and general vice president of Ping An Bank Co., Ltd. (平安銀行股份有限公司), consultant and general vice president of Shanghai Lujiazui International Financial Asset Exchange Co., Ltd. (上海陸家嘴國際金融資產交易市場股份有限公司) and president of Gome Finance. Ms. Chen possesses more than 34 years of working experience in banking institutions and has extensive working and management experience in various operations of financial institutions. Ms. Chen received a doctoral degree in management from Harbin University of Technology and is a qualified senior economist in China.

Mr. Ding Donghua

Mr. Ding Donghua ("Mr. Ding"), aged 40, was appointed as an executive director of the Company on 5 September 2016. Mr. Ding is a member of the Nomination Committee of the Company. Mr. Ding is also a director of certain subsidiaries of the Company and the general manager of Gome Xinda Commerical Factoring Co., Ltd. and Tianjin Gome Financial Leasing Company Limited, both of which are subsidiaries of the Company. Mr. Ding has extensive experience in handling the financial and business affairs of Gome Retail Holdings Limited and its subsidiaries (collectively "Gome Group"), including Shenyang GOME Electrical Appliance Co., Ltd. (瀋陽國美電器有限公司) and Kuba Technology (Beijing) Co., Ltd. (庫巴科技(北京)有限公司). Immediately before his appointment as an executive director of the Company, Mr. Ding acted as the deputy vice president and senior vice president of Gome Finance Holding Investment Co., Ltd. (國美金控投資有限公司) ("Gome Finance") responsible for overseeing the overall business operation and financial affairs. Mr. Ding obtained a Master of Business Administration degree from the Guanghua School of Management of Peking University in 2010.

Mr. Chung Tat Fun

Mr. Chung Tat Fun ("Mr. Chung"), aged 58, was appointed as an executive director in February 2014. Mr. Chung is also a director of certain subsidiaries of the Company. Mr. Chung has extensive operation and management experience in businesses of various industries, including financing services, assets management, equity investment and property investment for over 20 years. Mr. Chung is a vice president of China Federation of Overseas Chinese Entrepreneurs (中國僑商聯合會), a member of the standing committee of Guangdong Province Returned Overseas Chinese Association (廣東省歸國華僑聯合會), a standing executive vice president of Guangdong International Overseas Chinese Chamber of Commerce (廣東省國際華商會), a standing committee member of the Guangzhou Yuexiu District Committee of Chinese People's Political Consultative Conference of Yuexiu (廣州市越秀區政協委員會) and a member of the Guangzhou Committee of Chinese People's Political Consultative Conference (廣州市政協委員會).

NON-EXECUTIVE DIRECTOR

Ms. Wei Qiuli

Ms. Wei Qiuli ("Ms. Wei"), aged 51, was appointed as a non-executive director of the Company on 5 September 2016. Ms. Wei has been acting as vice president and senior vice president of GOME Retail Holdings Limited (國美零售控股有限公司) (stock code: 0493) responsible for administrative and brand management matters since November 2006 and 2012, respectively, and as a director of GOME Home Appliance Co., Ltd. (國美電器有限公司) ("Gome Home Appliance"), a wholly-owned subsidiary of GOME Retail Holdings Limited. Ms. Wei previously acted as the head of both the administration centre and the management centre of the headquarter of Gome Home Appliance and a vice president of Gome Home Appliance for administrative system work. During the period from 2000 to 2006, Ms. Wei worked at Beijing Eagle Investment Co., Ltd. (北京鵬潤投資有限公司), initially as manager at the human resources department and then as the head of the administration centre. Ms. Wei obtained a Bachelor of Philosophy degree from Capital Normal University in 1990 and a Master of Business Administration degree from the China Europe International Business School in 2013. Ms. Wei is a director of Sanlian Trading Company Holding Limited (三聯商社股份有限公司) which is listed on the Shanghai Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Liqing

Mr. Zhang Liqing ("Mr. Zhang"), aged 55, was appointed as an independent non-executive director of the Company on 5 September 2016. He is the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Company. Mr. Zhang joined Central University of Finance and Economics in 1987 and is a professor of Central University of Finance and Economics. Mr. Zhang is the author and editor of numerous publications on international economics and finance issues. Mr. Zhang is a member of the fifth executive council of the China International Finance Society (中國國際金融學會), China Urban Financial Society (中國城市金融學會) and the current vice president of China Society of World Economics (中國世界經濟學會). Mr. Zhang served as the member of the 12th Main Board Market Issuance Examination Committee of the China Securities Regulation Commission in 2010. Mr. Zhang was an independent director of Poly Real Estate Group Co., Ltd (保利房地產（集團）股份有限公司) (Shanghai A share stock code: 600048) from May 2015 to September 2018. Mr. Zhang obtained a doctoral degree in Global Economics at Renmin University of China in 2003 and a Master of Economics degree from the Finance Graduate School of People's Bank of China in 1987.

Mr. Li Liangwen

Mr. Li Liangwen ("Mr. Li"), aged 67, was appointed as an independent non-executive director of the Company on 5 September 2016. He is the chairman of the Remuneration committee and a member of the Audit Committee, Nomination Committee and Strategy Committee of the Company. Mr. Li has over 40 years of experience in the insurance industry. In 1975, Mr. Li joined the People's Insurance Company (Group) of China Limited (中國人民保險集團股份有限公司) ("PICC Group"). From August 2007 to March 2012, Mr. Li was appointed as the deputy general manager of PICC Group and from September 2009 to December 2013, Mr. Li acted as executive director of PICC Group. In April 2007, Mr. Li was appointed as the vice chairman of the board of directors and president of PICC Life Insurance Company Limited of the PICC Group (中國人民人壽保險股份有限公司). From December 2006 to April 2007, Mr. Li was a director and president of China Life Property and Casualty Insurance Company Limited (中國人壽財產保險股份有限公司). Mr. Li graduated from Hebei Normal University in July 1975 with a university level qualification majoring in English. Mr. Li is an independent director of Shanghai New Huangpu Real Estate Co., Ltd. (上海新黃浦置業股份有限公司) (Shanghai A share stock code: 600638). From December 2013 to April 2016, Mr. Li acted as the non-executive director of Industrial Bank Co., Ltd. (興業銀行股份有限公司) (Shanghai A share stock code: 601166).

Mr. Hung Ka Hai Clement

Mr. Hung Ka Hai Clement ("Mr. Hung"), aged 63, was appointed as an independent non-executive director of the Company on 31 October 2016. He is the chairman of the Audit committee of the Company. Mr. Hung had served Deloitte China for 31 years where he had assumed various leadership roles before he took up the chairman role of Deloitte China from 2014 to 2016. He retired from the chairman role of Deloitte China with effect from June 2016. When Mr. Hung was working with Deloitte China, he had assumed various leadership roles, including, the office managing partner of Deloitte Shenzhen Office and Guangzhou Office. He was also a member of the China Management Team of Deloitte China. Later on, Mr. Hung assumed the role of the southern audit leader and the deputy managing partner of the southern region (including the regions of Hong Kong, Macau, Shenzhen, Guangzhou and Xiamen).

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

Mr. Hung has been appointed as 1) as an independent non-executive director of Sheng Ye Capital Limited (stock code: 8469) since 5 July 2017; 2)as a non-executive director of High Fashion International Limited (stock code: 0608) since 1 December 2017: 3) as an independent non-executive director of Zhongchang International Holdings Group Limited (previously known as Henry Group Holdings Limited) (stock code: 0859) since 12 January 2018; 4) as an independent non-executive director of Aoyuan Healthy Life Group Company Limited (stock code: 3662) since 22 February 2019; 5) as an independent non-executive director of SMI Holdings Group Limited (stock code: 0198) on 16 January 2017, re-designated as non-executive director thereof with effect from 15 March 2017 and subsequently resigned on 28 February 2019; and 6) as an independent non-executive director of LT Commercial Real Estate Limited (stock code: 0112) on 24 February 2017, re-designated as non-executive director with effect from 3 March 2017, re-designated as an independent non-executive director thereof with effect from 30 June 2017 and subsequently resigned on 30 September 2018.

Mr. Wan Jianhua

Mr. Wan Jianhua ("Mr. Wan"), aged 63, was appointed as an independent non-executive director of the Company on 26 August 2017. He is the chairman of the Strategy Committee of the Company. Mr. Wan is currently a director of All In Pay Network Services Co., Ltd. (通聯支付網絡服務股份有限公司), the chairman of the Association of Shanghai Finance Industry (上海市互聯網金融行業協會), a director of China Resources Bank of Zhuhai Co., Ltd. (珠海華潤銀行股份有限公司) and Great Wall Fund Management Company Limited (長城基金管理有限公司). Mr. Wan formerly served as senior management of various well-known enterprises and organizations including director of treasury management and office of macro-economic analysis of The People's Bank of China (中國人民銀行), vice president of China Merchants Bank Co., Ltd. (招商銀行股份有限公司), president and the trust chairman of China UnionPay Co., Ltd. (中國銀聯股份有限公司), president of Shanghai International Group (上海國際集團) and chairman of Guotai Junan Securities Co. Ltd. (國泰君安證券股份有限公司). Mr. Wan has extensive working and management experience in banking, securities, payment and corporate management. Mr. Wan obtained a bachelor degree in the Department of Economics of The Xiamen University, a master degree in Economics from The People's Bank of China Institute of Finance (now known as Tsinghua University PBC School of Finance) and the qualification of doctoral degree candidate in Economics from The Australian National University.

Mr. Wan has been appointed an independent non-executive director of Bank of Shanghai Co., Ltd. (上海银行股份有限公司)(Shanghai A share stock code: 601229) and Shanghai Xinnanyang Only Education & Technology Co., Ltd. (上海新南洋昂立教育科技股份有限公司)(Shanghai A share stock code: 600661) since September 2015 and September 2017 respectively.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of Gome Finance Technology Co., Ltd. (the "Company") is pleased to present its report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. The principal activities of the subsidiaries comprise commercial factoring, financial leasing, pawn business and consultation services in the People's Republic of China (the "PRC") and money lending services in Hong Kong, details of which are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

A review of the business of the Group during the year, discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the Management Discussion and Analysis section from pages 4 to 18 of this Annual Report.

Details of the risks associated with the operation of the Group are set out in the Risk Factors section on pages 41 to 42 of this Annual Report and the financial risk management objectives and policies of the Group are shown in note 33 to the consolidated financial statements. An analysis of the Group's performance during the year using key financial performance indicators is provided in the Management Discussion and Analysis section from pages 6 to 14 of this Annual Report.

Discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided in the Environmental, Social, and Governance Report from pages 56 to 69 of this Annual Report.

Other than financial performance, the Group believes that a high standard of corporate social responsibility is essential for building up a good corporate and social relationship and motivating staff and creating a sustainable return to the Group. We are committed to contributing to the sustainability of the environment and community in which we conduct business and where our stakeholders live.

ENVIRONMENTAL PROTECTION

As a responsible business participant, the Group strictly endeavoured to comply with laws and regulations regarding environmental protection.

RELATIONSHIP WITH EMPLOYEES

The employees of the Group are one of the most important assets and stakeholders of the Group and their contribution and support are valued at all times. As at 31 December 2018, Group employed a total of 107 employees. The Group regularly reviews compensation and benefits policies according to industry benchmark as well as the individual performance of employees. Other fringe benefits are provided to employees. The Group pays for social insurance for its PRC employees in accordance with the applicable laws in the PRC. The Group also maintains insurance coverage and contributes to mandatory provident fund schemes for its employees in Hong Kong in accordance with the applicable laws in Hong Kong. The overall aim of the Group's employee and remuneration policy is to retain and motivate the management and staff members to contribute to the continuing success of the Group.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 76 to 77 of this Annual Report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2018 and 2017.

DIVIDEND POLICY

Any declaration of dividends will be determined at the Board's full discretion depending upon a number of factors including, without limitation, the distributable profit of the Company, the working capital requirement of the Group, business environment, and availability of investment opportunities and will be subject to the approval of our shareholders of the Company. Pursuant to the Bye-laws of the Company, the Board may also pay interim dividends from time to time if justified by the profits of the Company. There can be no assurance that dividends of any amount will be declared or distributed in any given year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 164 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 23 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2018, there were no equity-linked agreements entered into during the year or subsisting at the end of the Reporting Period that would or may result in the Company issuing Shares or that requires the Company to enter into any agreements that would or may result in the Company issuing Shares.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 28 September 2012 as an incentive to the Group's employees and business associates (the "Scheme"). The Scheme shall be valid for a period of ten years from that date.

The maximum number of shares in respect of which option may be granted under the Scheme of the Company may not exceed 10% of the issued share capital of the Company at the date of adoption of the Scheme. The maximum entitlement of each eligible participant in the total number of shares issued and to be issued upon exercise of options granted under the Scheme of the Company in any 12 month period shall not exceed 1% of the total number of shares in issue.

On 5 September 2014, the 10% limit on the Scheme was refreshed by the shareholders of the Company at a special general meeting. Following the refreshment, the Company may grant options to eligible participants under the Scheme to subscribe for up to 60,157,078 shares, being 10% of the shares of the Company in issue as at such date.

During the year ended 31 December 2018, the number of shares in respect of which option had been granted and remained outstanding under the Scheme was nil. As at the date of this report, share options carrying the right to subscribe for 60,157,078 shares, representing 2.23% of the issued share capital of the Company, may be granted under the Scheme.

PRE-EMPTIVE RIGHTS

As at 31 December 2018, there are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to shareholders, calculated in accordance with the provision of the Companies Act 1981 of Bermuda (as amended), amounted to nil (as at 31 December 2017: nil).

DONATION

No charitable donation was made by the Group for the year ended 31 December 2018 (for the year ended 31 December 2017: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, revenue generated from the Group's top five customers accounted for 36.2% of the total revenue of the Group with the top customer contributing 11.5% of the Group's revenue. The Group is principally engaged in financial business and there was no major supplier to the Group during the year.

The top customer for the year ended 31 December 2018, namely Beijing Gome Rongtong Technology Limited, is indirectly wholly-owned by Mr. Wong Kwong Yu, being the spouse of Ms. Du Juan, controlling shareholder of the Group.

Save as disclosed above, none of the Directors or any of their close associates or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital has any beneficial interest in the Group's five largest customers.

RELATED PARTY TRANSACTIONS

Except certain transactions disclosed in this Annual Report, the other related party transactions set out in note 29 to the consolidated financial statements did not either fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or fall within the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules but are exempted from the connected transaction requirements under Rules 14A.73 or 14A.90 of the Listing Rules.

CONNECTED TRANSACTION AND DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The information required for disclosure under Rule 14A.71 of the Listing Rules in relation to the Group's connected transaction conducted during the year and under Rule 13.20 of the Listing Rules in relation to the Group's advance to an entity as at 31 December 2018 is as follows:

On 7 June 2017, Gome Xinda Commercial Factoring Limited ("Xinda Factoring"), an indirect wholly-owned subsidiary of the Company, entered into a loan agreement with Beijing Baosheng Huifeng Business Consulting Co., Limited ("Baosheng Huifeng"), a company incorporated in the PRC with limited liability and owned as to 90% by Ms. Du Juan (controlling shareholder of the Company) and 10% by Mr. Ding Donghua (executive Director of the Company), pursuant to which Xinda Factoring agreed to provide an unsecured non-interest loan for an amount of RMB720 million (the "Consideration") to Baosheng Huifeng solely for the purpose to acquire the entire equity interest in Tianjin Guanchuang Mei Tong Electronic Commerce Limited (the "Acquisition"). As at 31 December 2018, an aggregate amount of RMB576 million, representing 80% of the Consideration, was advanced to Baosheng Huifeng to pay for the Consideration. Baosheng Huifeng will use 90% of the dividends arising from its interest in Tianjin Guanchuang Mei Tong Electronic Commerce Limited to repay the loan and Baosheng Huifeng undertakes that if the completion of the Acquisition does not take place, Baosheng Huifeng shall refund the loan (with accrued interest) to Xinda Factoring in full.

Other details of this transaction have been disclosed in the circular of the Company dated 29 June 2017.

The Acquisition was not yet completed up to 29 March 2019 and the Group's management has been communicating with the relevant authorities to speed up the Acquisition.

CONTINUING CONNECTED TRANSACTIONS

On 5 August 2016, the Company and Swiree Capital Limited ("Swiree") entered into the following two framework agreements. Swiree is a connected person of the Company by virtue of it being a substantial shareholder of the Company:

(1) Factoring Service Framework Agreement

The principal terms of the Factoring Service Framework Agreement are as follows:

Date:	5 August 2016
Parties:	(i) The Company (ii) Swiree
Term:	The Factoring Service Framework Agreement takes effect on 5 September 2016 and will expire on 31 March 2019 (inclusive of both dates)

Subject:	Commercial factoring loans to be granted by the Group to GOME Suppliers (the "Connected Factoring Loans").
Guiding principles for providing Connected Factoring Loans:	(i) The Group enters into separate factoring agreements with the GOME Suppliers ("Individual Factoring Agreements"), which shall comply with the terms and conditions as set out in the Factoring Service Framework Agreement. Terms of an Individual Factoring Agreement shall be negotiated at arm's length and determined by the Group and the relevant GOME Supplier based on normal commercial terms and with reference to the terms and conditions of comparable services offered by the Group to independent third parties or with reference to the prevailing terms and conditions of other comparable factoring loans in the market within the knowledge of the Company, and shall be determined in accordance with the internal procedures of the Company.
	(ii) Details of the terms of the Individual Factoring Agreements shall be determined in accordance with the conditions and principles set out in the Factoring Service Framework Agreement.
	(iii) The aggregate principal amount of any outstanding Connected Factoring Loans which may be granted by the Group under the Individual Factoring Agreements entered/to be entered into pursuant to the Factoring Service Framework Agreement are subject to the following proposed annual caps:

	For the financial year ended/ending 31 March		
	2017	**2018**	**2019**
Connected Factoring Loans	RMB600 million	RMB600 million	RMB600 million

The largest outstanding principal amount for the Connected Factoring Loans during the year ended 31 December 2018 amounted to approximately RMB51,542,000. Other details of the Factoring Service Framework Agreement have been disclosed in the circular of the Company dated 5 August 2016.

(2) Financial Leasing Service Framework Agreement

The principal terms of the Financial Leasing Service Framework Agreement are as follows:

Date:	5 August 2016
Parties:	(i) The Company (ii) Swiree
Term:	The Financial Leasing Service Framework Agreement takes effect on 5 September 2016 and will expire on 31 March 2019 (inclusive of both dates)
Subject:	Financial leasing loans to be granted by the Group to GOME Customers (the "Connected Factoring Leasing") where the proceeds from the relevant loans are used by GOME Customers to purchase goods by wholesale from the GOME Group or purchase goods from GOME Group's designated outlets through which such retail customers can get access to the Group's financial leasing service and products.
Guiding principles for providing Connected Financial Leasing:	(i) The Group enters into separate financial leasing agreements with the GOME Customers ("Individual Financial Leasing Agreements") which shall comply with the terms and conditions as set out in the Financial Leasing Service Framework Agreement. Terms of an Individual Financial Leasing Agreement shall be negotiated at arm's length and determined by the Group and the relevant GOME Customer based on normal commercial terms and with reference to the market price and terms of comparable financial leasing services offered by the Group to independent third parties or with reference to the prevailing terms and conditions of other comparable financial leasing loans in the market within the knowledge of the Company, and shall be determined in accordance with the internal procedures of the Company. (ii) Details of the terms of the Individual Financial Leasing Agreements shall be determined in accordance with the conditions and principles set out in the Financial Leasing Service Framework Agreement.

(iii) The aggregate principal amount of any outstanding Connected Financial Leasing which may be granted by the Group under the Individual Financial Leasing Agreements to be entered into pursuant to the Financial Leasing Service Framework Agreement are subject to the following proposed annual caps:

	For the financial year ended/ending 31 March		
	2017	**2018**	**2019**
Connected Financial Leasing	RMB100 million	RMB120 million	RMB120 million

The Company will also limit (i) the aggregate principal amount of any outstanding Connected Factoring Loans and Connected Financial Leasing to not more than 40% of the Group's latest published total assets from time to time; and (ii) the aggregate revenue generated from the Connected Factoring Loans and the Connected Financial Leasing to not more than 50% of the Group's total revenue in each financial year.

The largest outstanding principal amount for the Connected Financing Leasing during the year ended 31 December 2018 amounted to approximately RMB14,586,000. Other details of the Financing Leasing Service Framework Agreement have been disclosed in the circular of the Company dated 5 August 2016.

Reasons for the Framework Agreements

As the Group plans to expand its money lending business and targets to tap into the opportunity of granting the Connected Factoring Loans and the Connected Financial Leasing to the GOME Suppliers or the GOME Customers, it is beneficial to the Company as the Framework Agreements allow the Group to increase revenue with additional source of income.

Annual review of the continuing connected transactions

The independent non-executive Directors have reviewed the transactions carried out pursuant to the Framework Agreements and confirmed that the transactions were entered into:

i. in the ordinary course of business of the Group;

ii. either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and

iii. in accordance with the terms of the agreements that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The auditor of the Company has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

CONTRACTUAL ARRANGEMENTS

The Group has been using contract-based arrangements to indirectly own and control its provision of pawn loans services in the PRC. Based on the opinions provided by the PRC legal adviser of the Company, the Administrative Measures for Pawning (典當管理辦法) jointly issued by Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外經濟貿易部) ("MOFCOM") and the Ministry of Public Security (公安部) which came into effect on 1 April 2005 (the "Pawning Measures"), which regulate the pawn loans financing business in the PRC, do not explicitly permit foreign invested companies to operate a pawn loans financing business in the PRC.

According to Article 71 of the Pawning Measures, rules and regulations governing the investment by foreign invested companies in the pawn loans financing business in the PRC will be separately announced by MOFCOM and other relevant authorities. According to the Foreign Investment Catalogue jointly promulgated by the National Development and Reform Commission and the MOFCOM on 24 December 2011, foreign investments in the pawn loan financing business are neither expressly prohibited nor restricted.

As at 31 December 2018, no relevant rules and regulations had been announced by MOFCOM or The Economic & Information Commission of Guangdong Province (廣東省經濟和信息化委員會). According to the Administrative Licensing Law of the PRC (中華人民共和國行政許可法), administrative licensing regimes may only be set up and implemented where there are established laws setting out relevant procedures, parameters, conditions and scope of administrative power. As the approval of investment in pawn loans financing business by foreign invested companies in the PRC falls under an administrative act, no approval can be granted and no licence can be issued to a foreign invested company if there are no established laws governing the investments by foreign invested companies in pawn loans financing business.

To operate the Group's pawn loans financing business in the PRC, various agreements (the "Structural Agreements") have been entered into, among others, among Guangzhou City Yuenqian Investment Consultancy Limited Liability Company (廣州市源謙投資諮詢有限責任公司) ("Yuenqian Investment", a wholly-owned subsidiary of the Company), Guangdong Lido Pawnshop Co. Ltd. (廣東利都典當有限公司) ("Lido Pawnshop") and the registered owners of Lido Pawnshop (the "Registered Owners"). The Structural Agreements are designed to provide the Company with an effective control over and the right to enjoy the economic benefits and risks in and/or assets of Lido Pawnshop. Through the Structural Agreements, the control and economic benefits and risks from the business of Lido Pawnshop will flow to Yuenqian Investment. For accounting purposes, Lido Pawnshop is regarded as an indirect wholly owned subsidiary of the Company.

The Registered Owners are Guangdong Baozima Automobile Sale Services Co. Ltd. (廣東寶之馬汽車銷售服務有限公司), Guangzhou Heng Xin Group Company Limited (廣州恒信集團有限公司), Guangdong Xinzixing Automobile Development Co. Ltd. (廣東新之星汽車發展有限公司) and Mr. Liu Bingpei, which are interested in approximately 2.5%, approximately 50%, approximately 5% and approximately 42.5% of the entire registered capital of Lido Pawnshop, respectively.

Major terms of the Structural Agreements

Under the Structural Agreements, Yuenqian Investment has an irrecoverable and exclusive priority right to acquire directly and/or through one or more nominees, the equity interests held by the new members in Lido Pawnshop, as permitted by applicable PRC laws and regulations. Further, each agreement under the Structural Agreements includes a provision that each such agreement is binding on the legal assignees or heirs of the parties to each such agreement. In the event of death, bankruptcy or divorce of any of the new members, Yuenqian Investment may exercise its option to replace the relevant shareholders and the newly appointed nominee shareholders will still be subject to the Structural Agreements.

Apart from Mr. Liu Bingpei who is an executive director and manager of Lido Pawnshop, each of the Registered Owners and their respective ultimate beneficial owners is not an officer or a director of the Company and its subsidiaries. The Directors consider that the possibility of material potential conflicts of interest between the Company and the Registered Owners is remote. In case of any material potential conflicts of interest between the Company and the Registered Owners, the Board will ensure that any material potential conflict of interests will be reported to the independent non-executive Directors as soon as practicable when the Company becomes aware of such potential conflict. The Board will review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions where necessary.

There was no material change in the Contractual Agreements and/or the circumstances in which they were adopted during the year ended 31 December 2018.

Services agreement

Yuenqian Investment has entered into the services agreement with Lido Pawnshop, pursuant to which Yuenqian Investment shall provide to Lido Pawnshop consultancy services, including but not limited to, (i) conducting market research, formulating budget plan, business objective, development plan and expansion strategy; (ii) formulating and implementing operation flow, pawn services approval policy, risk management policy, administrative policy; nominating appropriate candidates as directors, management and staff members, provision of training services to staff members; and (iii) formulating accounting, financial and internal control system. At the discretion of Yuenqian Investment, Yuenqian Investment can assign the rights and novate the obligations under the services agreement to any company nominated by Yuenqian Investment without the consent of Lido Pawnshop and the Registered Owners.

The initial term of the services agreement is a fixed term of 10 years from the date of the execution of the services agreement. Upon expiry of the services agreement, Yuenqian Investment has the sole discretion to renew the services agreement for further extensions of the terms once every 10 years. Lido Pawnshop is not allowed to refuse the renewal of the services agreement. Yuenqian Investment shall charge Lido Pawnshop a service fee equals an amount being the total income less the operating expenses and taxation of Lido Pawnshop which is payable yearly.

Equity charge

The Registered Owners have created the equity charge over their respective equity interests in Lido Pawnshop to secure and guarantee the obligations of Lido Pawnshop under the services agreement until the fulfillment of all the obligations of Lido Pawnshop under the services agreement. At the discretion of Yuenqian Investment, Yuenqian Investment can assign the rights and novate the obligations under the equity charge to any company nominated by Yuenqian Investment without the consent of the Registered Owners.

The charging period commenced from the effective date of the equity charge until fulfillment of all the obligations of the Registered Owners and Lido Pawnshop under the services agreement.

Equity transfer agreement

Yuenqian Investment, the Registered Owners and Lido Pawnshop have entered into the equity transfer agreement pursuant to which the Registered Owners shall grant an irrevocable and exclusive priority right to Yuenqian Investment to acquire the entire equity interests in Lido Pawnshop at nil consideration or such minimum consideration as permitted under the laws of the PRC. In the event if any consideration shall be payable, the shareholders of Lido Pawnshop, to the extent permissible by law, shall refund such consideration to Yuenqian Investment. At the discretion of Yuenqian Investment, Yuenqian Investment can assign the rights and novate the obligations under the equity transfer agreement to any company nominated by Yuenqian Investment without the consent of the Registered Owners and Lido Pawnshop. There is no fixed term to the exercise of rights by Yuenqian Investment to acquire entire equity interests in Lido Pawnshop. Such rights shall remain valid until (i) it is not permitted under the law; or (ii) Yuenqian Investment exercises the right to acquire the entire equity interests in Lido Pawnshop. Yuenqian Investment will acquire the entire equity interests in Lido Pawnshop once, to the best knowledge of the Company, the relevant authorities in the PRC has published guidelines/practices in respect of allowing the pawn loans financing business to be operated without the Structural Agreements and foreign ownership application in PRC pawn shops.

Directors' undertaking

As the directors of Lido Pawnshop (being nominated by the shareholders of Lido Pawnshop) may change, the Registered Owners, as confirmers, have entered into an undertaking with all existing directors of Lido Pawnshop to Yuenqian Investment, among other matters, (i) to confirm and approve the director(s) of Lido Pawnshop to undertake that he or she will act according to the instructions of Ability Wealth and/or Yuenqian Investment upon the exercise of the powers of the director(s) of Lido Pawnshop, including but not limited to, the convening of shareholders' meeting, execution of shareholders' resolutions, approval of business plans and investment plans, formulation of annual budget, distribution of profits and making up of losses; (ii) to guarantee that upon the change of director(s) of Lido Pawnshop, they will procure the replacement director(s) to give a similar undertaking as aforesaid; and (iii) each of the directors of Lido Pawnshop has also undertaken not to compete with the business operating by Lido Pawnshop.

Registered Owners' undertaking

Each of the Registered Owners has undertaken, among other matters, that he/it will vote on any resolutions proposed at the shareholders' meetings of Lido Pawnshop in accordance with the instructions of Yuenqian Investment until the transfer of the entire equity interests in Lido Pawnshop to Yuenqian Investment and the fulfillment of all obligations under the services agreement, the equity charge and the equity transfer agreement. Each of the Registered Owners will also undertake not to compete with the business operating by Lido Pawnshop.

Upon the assignment of the rights and novation of obligations under the services agreement, the equity charge and the equity transfer agreement, Ability Wealth can also assign the rights under the shareholders undertaking to its subsidiary.

Powers of Attorney of directors

Each of the existing directors of Lido Pawnshop has executed a power of attorney in favour of Yuenqian Investment to irrevocably appoint Yuenqian Investment as his/her exclusive agent to exercise, inter alia, all his/her powers as director for the operation of Lido Pawnshop and to execute any documents necessary for giving effect to the Structural Agreements.

The power of attorney of directors of Lido Pawnshop shall remain valid until the termination or cancellation of the Structural Agreements (excluding the directors' undertakings, the Registered Owners' undertakings, and the powers of attorney of the Registered Owners).

Powers of Attorney of the Registered Owners

Each of the Registered Owners has executed a power of attorney in favour of Yuenqian Investment to irrevocably appoint Yuenqian Investment as his/its exclusive agent to exercise, inter alia, all his/its rights as shareholder of Lido Pawnshop and to execute any documents necessary for giving effect to the Structural Agreements.

The power of attorney of directors of Lido Pawnshop shall remain valid until the termination or cancellation of the Structural Agreements (excluding the directors' undertakings, the Registered Owners' undertakings, and the powers of attorney of directors).

Risk relating to the Structural Agreements

The following risks are associated with the Structural Agreements:

- the PRC Government may determine that the Structural Agreements do not comply with applicable PRC laws and regulations;
- the Structural Agreements may not provide control as effective as direct ownership;
- failure by Lido Pawnshop or the Registered Owners to perform their obligations under the Structural Agreements;
- the Company may lose the ability to use and enjoy assets held by Lido Pawnshop if Lido Pawnshop declares bankruptcy or becomes subject to a dissolution or liquidation proceeding;
- the shareholders of Lido Pawnshop may have potential conflicts of interest with the Company;
- the Company's ability to acquire the entire equity interests and/or assets of Lido Pawnshop through Yuenqian Investment may be subject to various limitations; and
- the Structural Agreements may be challenged by the PRC tax authorities.

Further details of the risks are set out in the circular of the Company dated 3 January 2014.

Mitigation actions taken by the Company

In light of the risks set out above, the Company would work closely with its external legal advisers and consultants as well as the Registered Owners to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Agreements. In addition, it is the intention of the Company to unwind or partially unwind the Contractual Agreements when the foreign ownership restriction in respect of the businesses of Lido Pawnshop is lifted or relaxed, to the extent reasonably practicable or advisable for the Company to do so under the then applicable laws and the Group's prevailing circumstances. However, as at 31 December 2018, such foreign ownership restriction remained subsisting in the PRC and therefore the Contractual Agreements were still subsisting as at 31 December 2018.

Lido Pawnshop's business activities

Lido Pawnshop is a company established in the PRC with limited liability which is principally engaged in the provision of pawn loans relating to movable and immovable properties (other than immovable properties located in autonomous regions, municipalities directly under the central government, or those under construction without permission for sale) (which may involve realization of overdue pawned items); valuation and consultancy services and other approved pawn-related business; and other pawn loans related businesses permitted under the relevant PRC rules. Lido Pawnshop holds the Pawn Operations Business Licence (典當經營許可證) and the Special Industry Licence (特種行業許可證).

Under the Pawn Operations Business Licence (典當經營許可證) dated 31 December 2012 issued to Lido Pawnshop by The Economic and Information Commission of Guangdong Province (廣東省經濟和信息化委員會), Lido Pawnshop is allowed to engage in the provision of pawn loans relating to movable and immovable properties (other than immovable properties located in autonomous regions, municipalities directly under the central government, or those under construction without permission for sale) (which may involve realization of overdue pawned items); valuation and consultancy services and other approved pawn-related business; and other pawn loans related businesses permitted under the relevant PRC rules for a period of six years. Under the Special Industry Licence (特種行業許可證) dated 17 May 2013 issued to Lido Pawnshop by Guangzhou Public Security Bureau (廣州市公安局), Lido Pawnshop is allowed to engage in pawning industry for a period from 17 May 2013 to 17 May 2015 and the expiry date of such licence has been extended to 5 May 2019.

For the year ended 31 December 2018, the revenue subject to the Structured Agreements are nil (2017:approximately RMB302,000, representing approximately 0.41% of the Group's revenue). As at 31 December 2018, the total assets and the loans receivable (net off provision of impairment loss) subject to the Structured Agreements are approximately RMB101,239,000 and Nil (2017:approximately RMB103,268,000 and Nil).

DIRECTORS

The Directors for the year ended 31 December 2018 and up to the date of this report of the directors were:

Executive Directors:

Ms. Chen Wei
Mr. Ding Donghua
Mr. Chung Tat Fun
Mr. Liu Xiaopeng (resigned on 30 August 2018)

Non-executive Director:

Ms. Wei Qiuli

Independent Non-executive Directors:

Mr. Zhang Liqing
Mr. Li Liangwen
Mr. Hung Ka Hai Clement
Mr. Wan Jianhua

Pursuant to Bye-law 87(1) of the Bye-laws of the Company, Mr. Ding Donghua, Mr. Zhang Liqing and Mr. Li Liangwen shall retire from office by rotation and Mr. Zhang Liqing being eligible, will offer himself for re-election at the forthcoming annual general meeting, while Mr. Ding Donghua and Mr. Li Liangwen will not seek for re-election as directors. Please refer to the announcement of the Company dated 29 March 2019 for details.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 19 to 22 of this Annual Report. The Board considered the executive Directors of the Company to be the senior management of the Company.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than normal statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, Ms. Chan Wei, Mr. Ding Donghua and Mr. Liu Xiaopeng has each entered into an employment contract with Xinda Factoring. Each of Ms. Chan, Mr. Ding and Mr. Liu is entitled to (i) an annual emolument of RMB1,440,000, RMB580,000 and RMB360,000, respectively (comprising basic pay and employment benefits) which will be subject to review by the Board from time to time with reference to their duties, experience and responsibilities; and (ii) a discretionary bonus the computation of which is based on their respective performance and the profitability of Xinda Factoring.

Save as disclosed above and under the section headed "Connected Transaction and Disclosure Pursuant to Rule 13.20 of the Listing Rules" and "Directors' Remuneration" disclosed in note 8 to the consolidated financial statements, no contract of significance, to which the Company, its fellow subsidiaries, its subsidiaries or its holding company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2018 or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and the administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year.

COMPETING INTERESTS

As at 31 December 2018, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in Shares and Underlying Shares in the Company

Ordinary shares of HK$0.1 each of the Company ("Shares")

	Number of shares/underlying shares held in the Company			
Name of Director	**Personal interest**	**Corporate interest**	**Total interests**	**% of the issued share capital of the Company**
Mr. Chung Tat Fun	6,320,000	–	6,320,000	0.23%

Notes:

1. Mr. Chung Tat Fun, an executive Director of the Company held 6,320,000 Shares directly in the Company.

2. As at 31 December 2018, the total number of issued Shares was 2,701,123,120.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, so far as is known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in Shares and Underlying Shares in the Company

Ordinary shares of HK$0.1 each of the Company ("Shares")

Name of Shareholder	Nature of interests	Number of shares held in the Company	% of the issued share capital of the Company *(Note 5)*	Notes
Swiree	Beneficial owner	1,653,073,872	61.20	1
Ms. Du Juan	Corporate interest	1,653,073,872	61.20	1
Mr. Wong Kwong Yu	Spouse interest	1,653,073,872	61.20	2
Richlane Ventures Limited ("Richlane")	Beneficial owner	295,512,312	10.94	3
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	Beneficial owner	5,000,000	0.19	3
	Corporate interest	297,776,312	11.02	3
Best Global Ventures Limited ("Best Global")	Beneficial owner	137,756,156	5.10	4
Gate Success Investments Limited ("Gate Success")	Corporate interest	137,756,156	5.10	4
Ms. Yu Nan	Corporate interest	137,756,156	5.10	4

Notes:

1. As Ms. Du Juan wholly and beneficially owned Swiree, she was deemed to be interested in 1,653,073,872 Shares held by Swiree by virtue of the SFO.

2. Mr. Wong Kwong Yu, being the spouse of Ms. Du Juan, was also deemed to be interested in 1,653,073,872 Shares by virtue of the SFO.

3. Mr. Ko held 5,000,000 Shares directly. He also held 297,776,312 Shares indirectly, among which he held 2,264,000 shares through Peninsula Resources Limited and 295,512,312 shares through Richlane, both of which were wholly-owned by him.

4. Best Global was wholly and beneficially owned by Gate Success, which was wholly and beneficially owned by Ms. Yu Nan. Both Gate Success and Ms. Yu Nan were deemed to be interested in 137,756,156 Shares by virtue of the SFO.

5. As at 31 December 2018, the total number of issued Shares was 2,701,123,120.

Save as disclosed above, as at 31 December 2018, the Company has not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 total issued share capital was held by the public as at the latest practicable date prior to the issue of this Annual Report.

PERMITTED INDEMNITY PROVISION

Pursuant to Bye-law number 168 of the Company's Bye-laws, every Director, other officer and auditor of the Company shall be entitled to be indemnified and secured harmless out of assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or sustained by him as a Director, auditor or other officer of the Company about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

REMUNERATION OF THE DIRECTORS

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Company's operating results, individual performance and/or comparable market statistics. As an incentive for the employees, bonuses and cash awards may also be given to employees based on individual performance evaluation. The Group has also implemented a share option scheme to reward eligible employees (including executive Directors) according to their individual performance.

Details of the remuneration of the Directors are set out in note 8 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Details of the corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 43 to 55 of this Annual Report.

REPORT OF THE DIRECTORS

CHANGE OF DIRECTOR'S INFORMATION

Upon specific enquiry by the Company and following confirmations from the Directors, save as otherwise set out in this Annual Report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CHANGE OF AUDITORS

Following the resignation of Hodgson Impey Cheng Limited as auditor of the Company on 19 December 2016, Ernst & Young ("EY") was appointed as the auditor of the Company by the Board on 23 December 2016. The appointment of EY was then approved by the shareholders at the special general meeting of the Company held on 6 February 2017 to fill in the vacancy.

Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

The consolidated financial statements of the Company for the year ended 31 December 2018 were audited by EY whose terms of office will expire at the conclusion of the forthcoming annual general meeting. EY, being eligible, have offered themselves for re-appointment as auditors of the Company for the year ending 31 December 2019. A resolution for the re-appointment of EY as the auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Wei
Executive Director

Beijing, 29 March 2019

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses. The factors set out below are those that the Group believes could affect the Group's businesses, financial condition, results of operations or growth prospects. These factors are by no means exhaustive or comprehensive, and there may be other factors in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future. In addition, this Annual Report does not constitute a recommendation or advice for you to invest in the shares of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the shares of the Company.

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Credit risk and risks of money laundering

The Group is selective about its customers and will only deal with creditworthy parties. In order to minimize the credit risk and risks of money laundering, the Group has formulated policies on credit and anti-money laundering, and delegated a team to determine credit limits, approve credit, monitor progress in recovering overdue debts and implement anti-money laundering measures. For further details please refer to note 15 and note 33 to the consolidated financial statements.

Management of key customers

The Group relies on certain major customers from the factoring and finance lease businesses. During 2018, the aggregate amount of revenue attributable to the Group's five largest customer, represented approximately 36% (2017: 30%) of the Group's revenue for the year. The major customers of the factoring business are PRC based distributors. The Group strived to diversify its businesses and broaden its customer base through the launching of new business area and the continuing development of its existing business. On the other hand, given our well-established business relationships, the present customers of the factoring business may continue to account for a relatively large percentage of the Group's sales in the coming year.

RISKS ASSOCIATED WITH THE PRC

Changing economic and relevant policies in the PRC

While the PRC economy has experienced significant growth in the past 20 years or more, such growth has been uneven and the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. In addition, the PRC government also exercises significant control over PRC economic growth through contain monetary policies controlling the overall interest rate, foreign currency outflow and monetary reserve of banks. These measures may benefit or have negative effect on the Group's operations. There is no assurance that future changes in the PRC's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on the Group's current or future business, results of operations or financial condition.

RISK FACTORS

Changing license requirement in the PRC

There is no specific banking or insurance license required for carrying on factoring loan and finance lease businesses in the PRC which are the major operations of the Group. However, companies operating these businesses should hold business license with the relevant business scope. The relevant members of the Group have fulfilled certain requirements included paid-up capital requirement, management personnel with relevant experience and complete and well-established internal control system in order to obtain the business licenses with the relevant business scope. There is no assurance that future changes in the PRC's law or policies will not require banking and insurance license for the existing business of the Group.

The board (the "Board") of directors (the "Directors") of Gome Finance Technology Co., Ltd. (the "Company") is committed to maintain high standard of corporate governance practices. The primary corporate governance rules applicable to the Company is the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Throughout the year ended 31 December 2018, the Company had complied with all code provisions set out in the CG Code, except for deviation disclosed below.

Code provision A.2.1 and Code provision A.2.7

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and according to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the non-executive Directors without the other directors present.

Mr. Liu Xiaopeng ("Mr. Liu") was appointed as chief executive officer (the "CEO") and as executive Director on 7 April and 26 August 2017, respectively. After his appointment as executive Director, Mr. Liu had assumed the duties of the chairman of the Company. Mr. Liu resigned as CEO and executive Director on 30 August 2018 and Ms. Chen Wei, an executive Director, had performed the duties of the chairman and the chief executive of the Company after resignation of Mr. Liu as an interim arrangement without formal appointment of a new chairman and CEO. The Board considered that while vesting the roles of the chairman and CEO in the same person can facilitate the execution of the Company's business strategies and maximize effectiveness of its operation, the Board would nevertheless review the structure of the Board from time to time and is considering suitable candidate to be appointed as the chairman and CEO of the Company such that the Company can comply with code provision A.2.1 of the CG Code. Although the Company did not have a chairman since Mr. Chung Tat Fun stepped down as chairman of the Board in April 2017 and therefore could not strictly comply with code provision A.2.7 of the CG Code during the year, the independent non-executive Directors had effective access to Ms. Chen Wei and other senior management of the Company at all material times to discuss any potential concerns or questions and follow-up meeting(s) could be arranged, if necessary.

DIRECTORS' SECURITIES TRANSACTIONS

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 (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

Duing the year ended 31 December 2018 and up to the date of this report, except for Mr. Liu Xiaopeng's resignation from his office as the Company's executive Director and Chief Executive Officer with effect from 30 August 2018, there was no change in the structure of the Board, which currently comprises eight Directors and its composition is set out as follows:

Executive Directors

Ms. Chen Wei
Mr. Ding Donghua
Mr. Chung Tat Fun
Mr. Liu Xiaopeng (resigned on 30 August 2018)

Non-executive Director

Ms. Wei Qiuli

Independent Non-executive Directors

Mr. Zhang Liqing
Mr. Li Liangwen
Mr. Hung Ka Hai, Clement
Mr. Wan Jianhua

The Board possesses a balanced mix of skills and expertise which supports the continuing development of the Company. The executive Directors have accumulated sufficient and valuable experience to hold their positions in order to ensure that their fiduciary duties have been carried out in an efficient and effective manner. The Board is responsible for setting the Company and its subsidiaries (collectively, the "Group") strategic direction and overseeing the business performance of the Group while business operations are delegated to qualified management under the supervision of the executive Directors. The Board also monitors the financial performance and the internal controls of the Group's business operations. The senior management is responsible for the day-to-day operations of the Group.

Biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 19 to 22 of this Annual Report. None of the members of the Board is related to one another.

The Company has four independent non-executive Directors representing more than one-third of the Board. At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his/her independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Chairman and CEO

The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

Mr. Liu Xiaopeng had assumed the responsibilities of the Chairman and the CEO of the Company until his resignation on 30 August 2018. Ms. Chen Wei had performed the duties of the chairman and the chief executive of the Company after resignation of Mr. Liu as an interim arrangement without formal appointment of a new chairman and CEO. The roles and responsibilities of the Chairman and the CEO are set out as follows:

Chairman is mainly responsible for:

- ensuring that good corporate governance practices and procedures are established;
- ensuring that all Directors are properly briefed on issues arising at Board meetings and that all Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;
- encouraging all Directors to make a full and active contribution to the Board's affair and to voice their concerns even with different views, allowing sufficient time for discussion of issues, ensuring that Board decisions fairly reflect Board consensus, and taking the lead to ensure that it acts in the best interests of the Group;
- ensuring that appropriate steps are taken to provide effective communication with shareholders and their views are communicated to the Board as a whole; and
- promoting a culture of openness and debate by facilitating the effective contribution of independent non-executive Directors in particular and ensuring constructive relations between executive and independent non-executive Directors.

CEO is responsible for, among other things:

- organizing and manage the Group's business;
- leading the corporate team to implement the strategies and plans established by the Board; and
- coordinating overall daily business operations of the Group.

Board Diversity

The Board has adopted a policy on board diversity (the "Board Diversity Policy") on 26 March 2013. The Company considers that Board appointment should be based on merits that complement and expand the skills, experience and expertise of the Board as a whole, taking into account gender, age, professional experience and qualifications, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diverse Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nomination Committee of the Company would make recommendations to the Board with respect to the appointment or re-appointment of the Directors and other related matters for determination by the Board. New Director(s) is expected to have expertise in relevant area to make contribution to the Company, complement the diversity profile of the Board and to have sufficient time to participate in the decision making process of the Company. The non-executive Director and the independent non-executive Directors signed letters of appointment with specific terms of office with the Company. Each of Mr. Wan Jianhua, Ms. Wei Qiuli, Mr. Li Liangwen, Mr. Zhang Liqing and Mr. Hung Ka Hai, Clement has entered into an appointment letter with the Company and is subject to retirement by rotation once every three years in accordance with the Company's Bye-laws.

Bye-law number 86(2) of the Bye-laws provides that: (1) any director appointed by the Board to fill a casual vacancy shall hold office only until the next general meeting of the Company after his/her appointment, or (2) any director appointed by the Board as an addition to the existing Board shall hold office only until the next annual general meeting of the Company. Any Directors appointed shall then be eligible for re-election. Pursuant to Bye-law number 87(1) of the Bye-laws, one-third of the Directors for the time being shall retire by rotation at each annual general meeting of the Company at least once every three years. All retiring Director shall be eligible for re-election. Accordingly, all Directors shall be subject to retirement by rotation and re-election at the annual general meeting of the Company under the Bye-laws.

ROLES AND FUNCTIONS OF THE BOARD AND THE MANAGEMENT

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, including dividend policy and risk management strategies. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group.

BOARD MEETINGS

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results, as well as corporate governance, financial, capital, remuneration and mergers and acquisition matters. During the year under review, two (2) Board meetings were held and the Company's annual general meeting ("AGM") was held on 7 June 2018. In addition, after discussion, two (2) written resolutions were also passed by the Directors. The attendance of each Director at the Board meetings and the AGM is set out as follows:

Name of Directors	Attendance of the AGM	Number of Board meetings attended/held
Executive Directors		
Ms. Chen Wei	✓	2/2
Mr. Ding Donghua	✓	2/2
Mr. Chung Tat Fun		0/2
Mr. Liu Xiaopeng (resigned on 30 August 2018)	✓	2/2
Non-Executive Director		
Ms. Wei Qiuli		1/2
Independent Non-Executive Directors		
Mr. Zhang Liqing	✓	2/2
Mr. Li Liangwen	✓	2/2
Mr. Hung Ka Hai Clement	✓	2/2
Mr. Wan Jianhua	✓	2/2

During the year ended 31 December 2018, the Board had dealt with matters covering mainly the Group's overall strategy, annual and interim results, internal control, corporate governance, capital, financial, and acquisition matters.

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of regular Board meetings (or reasonable notice for all other meetings) is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a Board meeting. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

ACCESS TO INFORMATION

All Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and are able to make further enquiries when necessary. Sufficient explanation and information have been provided to the Board to enable the Board to make an informed assessment of financial and other information put before it for approval. They also have unrestricted access to the advices and services of the Company Secretary. A monthly update which gives a balanced and concise assessment of the Company's performance, position and prospects in sufficient details is provided to all Directors to enable the Board as a whole and each Director to discharge their duties. The Board has also agreed that the Directors may seek independent professional advice in performing their Directors' duties at the Company's expenses.

DIRECTORS INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company provides regular updates on the business performance of the Group to the Directors. The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to Directors will be arranged whenever necessary. For newly appointed Directors, an induction will be provided so as to ensure that they have appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

According to the records maintained by the Company, the Directors received the following training on continuous professional development during the year and up to the date of this report.

Name of Directors	Courses/Seminars provided/accredited by professional body	Reading materials
Executive Directors		
Ms. Chen Wei	–	✓
Mr. Ding Donghua	–	✓
Mr. Chung Tat Fun	–	✓
Mr. Liu Xiaopeng (resigned on 30 August 2018)	–	✓
Non-Executive Director		
Ms. Wei Qiuli	–	✓
Independent Non-Executive Directors		
Mr. Zhang Liqing	–	✓
Mr. Li Liangwen	–	✓
Mr. Hung Ka Hai Clement	✓	✓
Mr. Wan Jianhua	–	✓

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to directors and employees; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the executive of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

BOARD COMMITTEES

The Board has established four committees with specific responsibilities as described below. The terms of reference of the remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and audit committee (the "Audit Committee") of the Company are posted on the websites of the Company and the Stock Exchange.

REMUNERATION COMMITTEE

As at 31 December 2018, the Remuneration Committee comprised three members including two independent non-executive Directors, namely Mr. Li Liangwen (the Chairman), Ms. Chen Wei and Mr. Zhang Liqing.

It is responsible for reviewing and making recommendations on all elements of the executive Director's and senior management's remuneration. The fees of non-executive Directors are determined by the Board. No individual Director is involved in decisions relating to his/her own remuneration. The Remuneration Committee has adopted the model under code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Directors and senior management. Meetings of the Remuneration Committee shall be held at least once a year.

For the year ended 31 December 2018, there was one meeting held by the Remuneration Committee to review the remuneration packages of the Directors for the year ended 31 December 2017 and make recommendation on their remuneration packages for the year ended 31 December 2018.

Details of the remuneration paid to Directors and members of senior management by band for the year 31 December 2018 are disclosed in notes 8 and 9 to the consolidated financial statements.

Attendance of the Remuneration Committee during the relevant year is set out below:

Members	**No. of Meetings attended/ No. of meeting held**
Li Liangwen *(Chairman)*	1/1
Zhang Liqing	1/1
Chen Wei	1/1

NOMINATION COMMITTEE

As at 31 December 2018, the Nomination Committee comprised three members including two independent non-executive Directors, namely Mr. Zhang Liqing (the Chairman), and Mr. Li Liangwen, and one executive Director, namely Mr. Ding Donghua.

Meetings of the Nomination Committee shall be held at least once a year.

It is responsible for, amongst others, reviewing the Board composition and identifying and nominating candidates for appointment to the Board such that it has the required blend of skills, knowledge and experience, reviewing the Board Diversity Policy and its measurable objectives, as well as reviewing the nomination policy (the "Nomination Policy") for the Nomination, appointment and re-appointment of Directors.

For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. A circular setting out information as required pursuant to the applicable laws, rules and regulations of the proposed candidates will be sent to the shareholders. When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

(a) reputation for integrity;

(b) accomplishment, experience and reputation in the financial services, banking and other related industries;

(c) commitment in respect of sufficient time and attention to the Company's business;

(d) diversity in all aspects, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge;

(e) the ability to assist and support management and make significant contributions to the Company's success;

(f) compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive Director; and

(g) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's articles of association and other applicable rules and regulations.The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

As mentioned under "Board of Directors – Board Diversity" above, he Board has adopted the Board Diversity Policy. The Company seeks to achieve Board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and length of service. All appointments of directors will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During the year ended 31 December 2018, there were one meeting held by the Nomination Committee to (i) review the structure, size and composition of the Board; (ii) nominate three Directors for re-election at the 2018 annual general meeting; (iii) assess the independence of independent non-executive Directors with reference to the requirements under the Listing Rules; and (iv) discussed and agreed on the measurable objectives for achieving diversity of the Board.

Based on the Nomination Committee's review for the year ended 31 December 2018, the Nomination Committee considers that the measurable objectives for achieving diversity of the Board with reference to the Board Diversity Policy have been satisfactorily implemented and that there is sufficient diversity in the Board for the Company's corporate governance and business development needs.

Attendance of the Nomination Committee during the year is set out below:

Members	**No. of Meetings attended/ No. of meeting held**
Zhang Liqing *(Chairman)*	1/1
Ding Donghua	1/1
Li Liangwen	1/1

AUDIT COMMITTEE

As at 31 December 2018, the Audit Committee comprised three independent non-executive Directors, namely Mr. Hung Ka Hai Clement, Mr. Zhang Liqing and Mr. Li Liangwen.

The Audit Committee is responsible for reviewing the Group's financial statements, overseeing the Group's financial reporting, risk management and internal control systems, handling the relationship with the Company's external auditor and making recommendations to the Board. None of the members of the Audit Committee is a partner of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code. Meetings of the Audit Committee shall be held at least twice a year.

The Audit Committee has access to and maintains an independent communication with the external auditors and the management to ensure effective information exchange on all relevant financial accounting matters. During the year ended 31 December 2018, there were two meetings held by the Audit Committee to (i) review the work done by external auditor, the relevant fees and terms of engagement, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance; (ii) review and discuss with the auditor the audited financial statements and the unaudited interim financial statements, with recommendations to the Board for approval; (iii) review the internal control system covering financial, operational, procedural compliance and risk management functions; and (iv) consider the independence of the auditor, review the auditor's remuneration and recommend to the Board the auditor's re-appointment.

The Chairman of the Audit Committee, Mr. Hung Ka Hai Clement, possesses appropriate professional qualification in finance and accounting and meets the requirements of Rule 3.21 of the Listing Rules.

Attendance of the Audit Committee during the relevant year is set out below:

Members	**No. of Meetings attended/ No. of meeting held**
Hung Ka Hai Clement *(Chairman)*	2/2
Zhang Liqing	2/2
Li Liangwen	2/2

STRATEGY COMMITTEE

As at 31 December 2018, the Strategy Committee comprised one executive Director, Ms. Chen Wei, and two independent non-executive Directors, Mr. Wan Jianhua and Mr. Li Liangwen. The Strategy Committee is chaired by Mr. Wan Jianhua.

The principal duties of the Strategy Committee include drawing up long-term development strategies and significant investments on financing plans of the Company, proposing capital investment for operation projects, and conducting studies and making recommendations on important matters that would affect the development of the Company.

COMPANY SECRETARY

Mr. Ng Kwok Chi was the company secretary of the Company (the "Company Secretary") until his resignation with effective from 17 September 2018, Mr. Szeto King Pui, Albert was then appointed as the Company Secretary on 1 October 2018 and he resigned on 29 March 2019. Mr. Szeto King Pui, Albert was not an employee of the Company and was a partner of an external law firm. The primary corporate contact person at the Company for the Company Secretary during the year was Ms. Chen Wei, an executive Director of the Company. The Company Secretary had complied with Rule 3.29 of the Listing Rules in respect of professional training during the year under review.

EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the total remuneration for the services provided by Ernst & Young, the Company's external auditor, amounted to approximately RMB1,044,000.

For the year ended 31 December 2018, the total remuneration for the audit services provided by Ernst & Young amounted to approximately RMB613,000. The total remuneration for the permissible non-audit services provided by Ernst & Young amounted to approximately RMB431,000 for the review of the interim financial report of the Group.

The re-appointment of Ernst & Young as auditor of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval of the shareholders of the Company at the forthcoming annual general meeting.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2018, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The Directors acknowledge their responsibility to prepare the financial statements as set out on pages 76 to 163 of this Annual Report. The statement of the external auditors about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 70 to 75 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to maintain effective risk management and internal control systems of the Company in order to manage rather than eliminate risks of failure to achieve business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss.

During the year ended 31 December 2018, the Company implemented various policies and procedures for internal audit and risk management at each aspect of its operation. The internal audit function monitors compliance with policies and procedures and the effectiveness of risk management and internal control structures across the Group and its principal divisions.

The Board had conducted an annual review on the systems of internal control and risk management of the Company. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. Based on the assessment made by the management of the Group, it is considered that the Group's internal control and risk management systems are effective and adequate for its present requirements, but areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthening the Company's control environment and processes.

During the year ended 31 December 2018, the Company had in place policy and procedural guidelines for the disclosure of inside information. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information (as defined under the SFO). Also, the Company endeavours to keep Directors, senior management and employees appraised of the latest regulatory updates.

SHAREHOLDERS' RIGHTS

Procedures for convening a special general meeting

Shareholders shall have the right to request the Board to convene a special general meeting of the Company. Shareholders holding in aggregate of not less than one-tenth of the paid up capital of the Company may send a written request to the Board of the Company to request for special general meeting.

The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the Company's head office and principal place of business in Hong Kong at Suite 2912, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or at the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Section 74 of the Companies Act 1981 of Bermuda (the "Companies Act") once a valid requisition is received.

Procedures for shareholders to put forward proposals at general meetings

The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

(a) any number of members representing not less than one-twentieth of the total voting rights of the Company on the date of the requisition; or

(b) not less than 100 members holding shares in the Company.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the Company's head office and principal place of business in Hong Kong at Suite 2912, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or at the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act once valid documents are received.

If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should follow the "Procedures for shareholders to propose a person for election as a Director", which can be found on the website of the Company.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send in their enquiries and concerns to the Board in writing via the following channel:

The Board of Directors/Company Secretary
Gome Finance Technology Co., Ltd.
Suite 2912, 29th Floor
Two International Finance Centre
8 Finance Street
Central, Hong Kong

Shareholders may also make enquiries with the Board at general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has established a shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness. The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to the circulars, notices and financial reports sent to shareholders, additional information of the Group is also available to shareholders on the website of the Company.

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The chairman of the Board and Directors are available to answer questions on the Group's business at the meeting. Subject to the Bye-laws, all shareholders shall have statutory rights to call for special general meetings and put forward agenda items for consideration in the general meetings. All resolutions at the general meeting will be decided by way of poll save for purely procedural or administrative matters which may be voted on by a show of hands, where applicable.

The Group values feedback from shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year ended 31 December 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With a corporate vision of "technology development driven by innovations and financial reform driven by technology", Gome Finance Technology Co., Ltd. (the "Company") expands its service scope in the field of financial technology. At the same time, it also pays a lot of attention to environmental, social and governance ("ESG") issues. In 2018, the Group attached great importance to issues including compliance in operation, product responsibilities, green office, employees' interests as well as community welfare, and constantly improved its performance in sustainable development.

This environmental, social and governance report was prepared in accordance with Appendix 27 of the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") after a complete process of exhaustive communication with stakeholders during which material ESG issues were identified. The contents of the report corresponds to the four principles required by the ESG Reporting Guide, i.e. Materiality, Quantitative, Balance and Consistency.

COMMUNICATION WITH STAKEHOLDERS

The Company values the communication and exchanges with stakeholders and actively builds effective communication channels with both internal and external stakeholders including partners, investors, social representatives, social media and employees, with an aim to maintain good relationships with the stakeholders by taking initiative to understand their expectations of the Group and their needs.

Stakeholders	Suggestions and Expectations	Methods of Communications and Feedback
Customers	Quality service Address customers' concerns timely Open communication channels	Regular communication Complaint mechanism Customer feedback
Government	Proper tax payment Promoting economic development Inclusive finance Promoting employment Financial risk management Performance of social responsibility	Files submission Advices and suggestions Reports on special projects Conferences Government visit receptions
Regulatory Authorities	Compliance in operation Comprehensive risk management Performance of social responsibility Information disclosure	Regular reports Regular reports Company announcements
Shareholders and Investors	Sustainable and stable investment return Information disclosure Compliance in operation	General meetings Regular reports Company announcements Reports on special projects Investor relations enquiry hotline and mailbox Official Company website Dissemination of information on roadshows

Stakeholders	Suggestions and Expectations	Methods of Communications and Feedback
Employees	Legal rights Remuneration and welfare Occupational health Career development Care for employees	Internal website Internal training Performance communication mechanism
Suppliers/Business associates	Openness and fairness Integrity and honesty Contract execution	Open tender Arm's length negotiation Regular evaluation
Industry	Industry interactions Compliance with standards	Participation in industry forums and conferences Visits and inspections with industry peers
Community	Boosting regional development Supporting community welfare	Public welfare organization visit receptions Official Company website

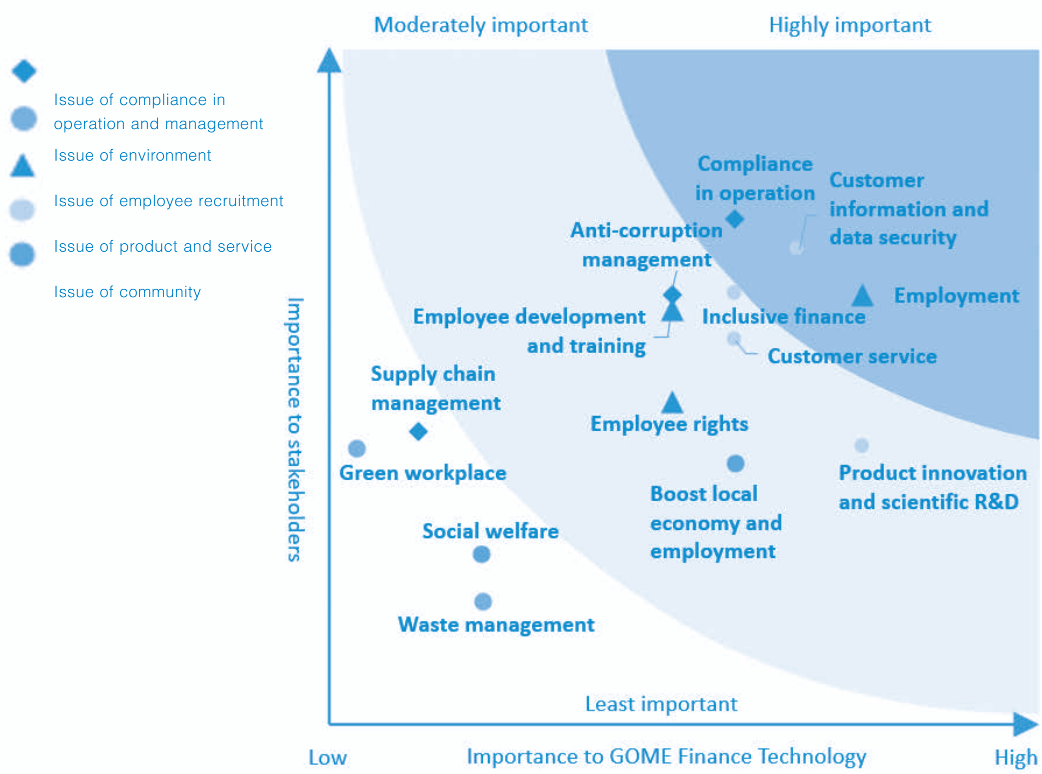
MATERIAL ISSUES AND MATRIX

Through methods such as peer benchmark analyses and media monitoring, the Group identifies the ESG issues arising from its own operation that exert impacts on its stakeholders. ESG material issues relevant to the development of the Group in 2018 have been identified in accordance with the following selection criteria.

Identification Process for ESG Material Issues	
	Source of issues
	– Suggestions made by the management team – Analysis and suggestions made by internal and external experts – Analysis of information from the media – ESG Reporting Guide of the Hong Kong Stock Exchange – Study on standards conducted by peers in domestic and overseas environment – Conferences of the industry leaders
	Standards of identification
	– Contribution to sustainable development – General issues of concern to stakeholders – Key contents form related guides on sustainable development – Alignment with the Group's strategic development needs

During the year under review, the Group gained an understanding on the stakeholders' topics of interest through a stakeholder survey. We invited stakeholders including partners, community representatives, media, employees and senior managerial personnel to participate in the identification of material ESG issues. This stakeholder survey covered 14 issues falling into five categories including ESG management, environmental performance, employment, products and services and community contribution. 41 questionnaires were collected. With the weights of various issues from the standpoints of the stakeholders being understood, and the data could be tabulated into a matrix of ESG material issues. The results of materiality analysis for ESG issues was the basis of the Group's governance work in the area of 2018 environmental, social and governance as well as an important basis for this ESG report.

2018 Material ESG Issues Matrix of the Company



COMPLIANCE IN OPERATION

The Group highly values ESG management, complies strictly with national laws and regulation and formulates relevant internal policies. The compliance management system is constantly optimized through continuous strengthening of corporate compliance in operation. Strict controls are put in place to ensure integrity in operation and suppliers management, thus creating a corporate culture which is open, transparent and of integrity. We strictly regulate integrity in operation and suppliers management to build a corporate culture of integrity, openness and transparency.

Currently, the Group has started to make plans in establishing an ESG work group which reports to the Board. It will be responsible for the implementation of various specific tasks under the area of environmental, social and governance.

Please refer to the section headed "Corporate Governance Report" for information relating to corporate governance.

INTEGRITY IN OPERATION

Strict standards of integrity in operation and anti-corruption management are basic principles for corporate operation. The Group abides by the Anti-unfair Competition Law of the People's Republic of China and related rules and regulations. The Gome Finance and Technology Consumer Finance Non-compliance and Punishment Regulations (hereinafter referred to as "Punishment Regulations") was formulated to encourage ethical and compliant behavior of corporate staff through the use of an established system. With the Punishment Ordinance, the Group is able to regulate behaviors such as black box operations and non-compliance with standard processes in consumption and finance business, and to constantly improve the prevention and management mechanism of anti-corruption.

While implementing policy guidance and leadership, the Group has also established an internal monitoring mechanism to provide double-guarantee for the company's compliance in operation through the establishment of supervision and anonymous reporting channels. the Company has set up a reporting mail box for employees to report on non-compliance or illegal situations anonymously. Upon receipt of such reports, the audit and supervision department will conduct investigations on the reported cases of non-compliance, corruption or briberies and take appropriate actions against the violating personnel.

By way of compliance with the state's laws and regulations, formulation of internal management policies and the establishment of a supervision feedback mechanism, the Group has set up a multi-layer, multi-directional anti-corruption management system covering three aspects: prevention, management and supervision.

During the reporting period, there was no legal proceedings brought against the Company in respect of corruption, briberies and money laundering.

Supplier Management

Supplier management optimisation is an important part of the fulfillment of corporate social responsibilities. The Group regards supplier management as an effective way to combine the whole industry chain. We abide by The Bidding Law of The People's Republic of China and the Implementation Regulations for Bidding Law of the People's Republic of China. We have also formulated the Regulations on Procurement Management internally to regulate the procurement processes. With regards to training service procurement, the Company has specifically drawn up the Regulations on Training Service Procurement (Draft). The Group conducted classified management of its suppliers and made fine stipulations on the admission requirements. We assess training service providers from various aspects to satisfy training objectives.

The Group also strictly evaluates their social and environmental performances. For example, the Group regulates the anti-corruption management and performance of the suppliers, requiring that all suppliers entering into service contracts with the Group to sign the Integrity Cooperation Agreement. The agreement states finer provisions such as "no acceptance of private banquets is allowed" and "no acceptance of gifts in kind, cash or coupons or shopping cards is allowed", such that corruption, bribery and behaviors which violate operation with integrity can be rooted out.

Performance of Product Responsibilities and Improvement of Customer Services

The Company takes various measures to encourage innovation, protect intellectual property rights, and promote exploration, research and development of new products, with a primary goal of satisfying the needs of the customers and an objective to provide customers with quality service by striving to deliver comprehensive financial services which are efficient, convenient and of high quality.

Development of Innovation-driven Business

The Group is committed to the development of competitive, customer-friendly and convenient financial products to facilitate business development.

Scientific and technological innovation is the core capability for developing financial business. Taking advantage of its core technologies such as big data and cloud platform, the Company provides personalised services to SMEs and consumers and has developed two application systems of NCM and TMH. NCM and TMH provide personalised services to customers based on technologies of machine learning and information mining with easy operation steps and highly efficient process. They have greatly improved use efficiency and delivered smooth user experience.

To encourage product and technology innovation and protect patents and intellectual property rights, the Group has formulated the Regulations on Intellectual Property Rights in accordance with Patent Law of the People's Republic of China, Copyright Law of the People's Republic of China, Trademark Law of the People's Republic of China and Law of the People's Republic of China against Unfair Competition. It stipulates relevant management and requirements for patents, trademarks, copyrights, trade secrets, etc. of the company, so as to protect the rights and interests of the innovative parties and maintain intellectual property rights.

Facilitating Inclusive Finance

Supporting inclusive finance with its business practice, the Company facilitates the development of micro, small and medium enterprises. The Group develops the supply chain finance business, and provides highly efficient capital solutions to customers, of which the procedures can all be completed online, thus providing liquidity financing to enterprises in a timely manner and vitalizing their assets.

Account Cloud Loan facilitates inclusive finance and serves enterprises to solve short-term capital difficulties

Account Cloud Loan is a factoring product within Gome's internal ecosystem which provides flexible and agile financing products to serve customers' personalised demands. It has immediately developed a free settlement and payment pattern within three-month to help enterprises vitalize their assets, solve their short-term capital demands, concretely facilitate the development of micro, small and medium enterprises.

The Group also actively engages in communication and cooperation within the industry to facilitate the development of supply chain finance and further promote inclusive financing. In March 2018, as a member enterprise of the new session, the Group was invited to attend "The 5th China Supply Chain Finance Innovation Summit Forum". In April 2018, the Group attended "The 9th China Logistics and Supply Chain Finance Summit of 2018" to discuss with industry peers about the future development and trends of supply chain finance.

Customer Services and Information Security

The Group gives priority to customer services and customer information securities. While constantly improving customer experiences and services, the Group also strives to protect customers' privacy and information security.

Improving Customer Services

The Company has established a complete customer communication and feedback mechanism. On one hand, the customer service personnel of the Group actively and timely obtain the requirements of customers and provide feedbacks through instant communication methods such phone calls, messages, Wechat and video. On the other hand, the Group has set up a customer service hotline to ensure that customers can get assistance in each step including fund application, drawdown and repayment through the hotline.

Moreover, the Group has set up a customer complaint mechanism. Customers can make one-to-one complaints and provide feedback through channels such as customer managers. The Group follows and deals with customer complaints in a timely manner, listens to the customers' feedback and provides detailed instructions and explanations. During this year, the Group received no relevant complaint.

Protecting Customer Privacy

The Company strictly regulates its systems, technologies and processes to protect customer privacy and data security.

In terms of systems, the Group manages database access through dividing the access right among different functions and distributes access to personnel of different functions such as development and maintenance accordingly. Accessing information beyond the designated level is strictly forbidden to protect customer information security;

With regard to technology, the Group applies encryption technology for backstage data storage and desensitizes key information. Technology and applications that protect data security are also adopted to enhance the customer data security. In addition, the Group conducts fuzzy processing of customer sensitive data according to different application settings of testing, developing environment and BI analysis environment to protect customer privacy;

With respect to processes, we have formulated different data access approval processes according to the privacy levels of different data such as trading data and risk data so as to improve the safety of data access and distribution.

PRACTICING GREEN OPERATION AND STRENGTHENING ENVIRONMENTAL MANAGEMENT

As a financial and technological enterprise, the Group does not involve the discharge of hazardous waste or waste water and gas, nor does its operation have a significant impact on the environment and natural resources. However, the Group still strictly abides by the Environmental Protection Law of the People's Republic of China and the relevant laws and regulations, actively promotes green office, strengthens environment management and minimizes the impact of its operation on the environment. During the reporting period, the Group did not have any incompliance with the environmental protection laws and regulations.

Practicing Low-Carbon Environmental Protection and Saving Resources

The Company always advocates green operation and practices low-carbon environmental protection. In 2018, the Group continued to promote green office and formulated the Regulations on the Management of Green Office which stipulated the requirements of environment protection in daily office and company operation as well as corresponding requirements of supervision and management of the use of energy.

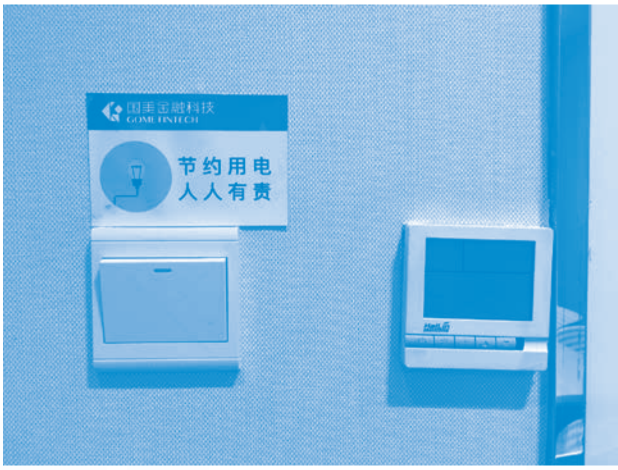
In 2018, the Group took the following measures for green office:

Implemented the requirements for a paperless office and issued the *Notice of the Requirements of Document Approvals*, stipulating that all document approvals should be submitted through the online office system to reduce office costs and improve office efficiency;

Advocated the "Recycling of Paper" and "Repeated Use of Office Supplies" and issued the Notice of Regulations of Office Supplies Management, proposing that the terms of office supplies could be extended with the replacement of the internal items and the staff should strictly control the use of paper for printing by replacing printing and photocopying with emails, spreading e-document reading, saving documents as e-documents without being printed and using recycled paper for printing of unimportant documents;

Advocated water saving and appropriate use of water by the employees through posting signs reminding them to turn off taps after using water, high-pressure atomized water should be used for cleaning public vehicles to reduce water consumption. The responsibilities of property management were clearly defined and the examination of the tap water grid and water supply equipment in the office area were strengthened to ensure that there were no water running, emitting, dripping and leaking:

Promoted the implementation of energy-saving measures. Energy-saving lights were used in office areas, all power-consuming equipment were required to be turned off, signs and posters reminding lights off were put up, the temperature difference between indoor and outdoor were controlled at within 5 ℃ as much as possible, use of high-power electric appliances were prohibited and safety use of electricity should be ensured while saving energy.



Picture: Signs reminding energy saving in office areas

The carbon emission of the Group mainly arose from indirect emission generated by the purchased electricity and purchased heat of the office. In 2018, the Group generated 86.67 tonnes of carbon dioxide equivalent.

Tables: The Consumption and Intensity of Resources of the Company in 2017 and 2018

Types of Resources	2017		2018	
	Total resource consumption	Resource consumption intensity	Total resource consumption	Resource consumption intensity
Paper	0.137 tonnes	0.023 tonnes/ person	0.371 tonnes	0.003 tonnes/ person
Municipal water use	1,300 tonnes	17.11 tonnes/ person	1,074 tonnes	10.04 tonnes/ person
Purchased electricity	19,726 kilowatt hours	259.55 kilowatt hours/person	39,917 kilowatt hours	373.06 kilowatt hours/person
Purchased heat	311 gigajoules	4.09 gigajoules/ person	436 gigajoules	4.07 gigajoules/ person

* *In 2018, the total resource consumption of the Group has increased due to an increase in the total number of employees. During the year, the Group's paper, municipal water and purchased heat consumption per person has decreased, while that of purchased electricity increased slightly. The overall resource consumption remained stable with a decreasing trend.*

Strengthening Waste Management

In 2018, the Group strengthened waste management in office areas and managed daily life wastes, hazardous wastes and electronic waste by classification. For life wastes, the Group set up three kinds of dustbins and arranged the cleaning staff to respectively deal with kitchen wastes, recyclable wastes and other life wastes regularly every day. For hazardous wastes, the Company designated specific collection area and set up specific recycling processes for hazardous wastes such as printer ink cartridges and waste light tubes pursuant to the Law of The People's Republic of China on Prevention of Environmental Pollution by Solid Wastes. For electronic wastes, the Group provided specialized treatment pursuant to the Law of The People's Republic of China on Prevention of Environmental Pollution by Solid Wastes, disposing electronic wastes such as discarded magnetic disks, computer accessories and used batteries collectively according to their categories in such a way to minimize their environmental impacts. Through various waste management measures, the Group strives to create a comfortable and environment-friendly work place for sustainable operation.

Due to the characteristics of the Group's business, the Company does not involve the use of packaging materials.

Table: The generated amount of wastes in 2018

Printer ink cartridges	33 pieces
Light tubes	3 pieces
Batteries	32 pieces

* *Since the total amount of wastes of the Group is low, the generated amount of waste is disclosed in the unit of pieces.*

PROTECTING EMPLOYEES' INTERESTS AND SUPPORTING COMMUNITY WELFARE

People are the most precious wealth of the Company. The Group always sticks to the principle of Equal Opportunity employment, highly values and properly protects the legal rights and interests of employees. We pay attention to the development and training of employees. Meanwhile, we attend to their demands, care for their physical and mental health and endeavor to create a cohesive corporate culture that fosters the common development of employees and the company.

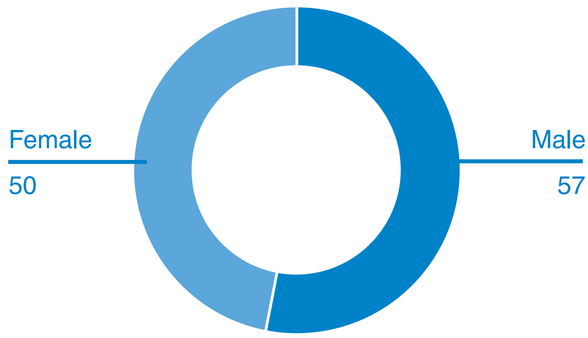
Equal Opportunity Employment

The Group is in strict accordance with the *Labor Law of the People's Republic of China, the Labour Contract Law*, the *Regulation on the Prohibition of Child Labor* and the relevant laws and regulations and sticks to the bottom line of legitimate employment. There has been no incident of forced labor and child labor since our commencement of business. The Group employs people through fair and open channels, adhering to equal opportunity employment and the principle of matching positions with the right people and making the best use of their talents. Discrimination in gender, ethnicity, marital status, and religion is strictly prohibited in every aspect of employment, training and promotion to ensure that employees have equal opportunities for career development and provide an inclusive and open development platform for diversified talents.

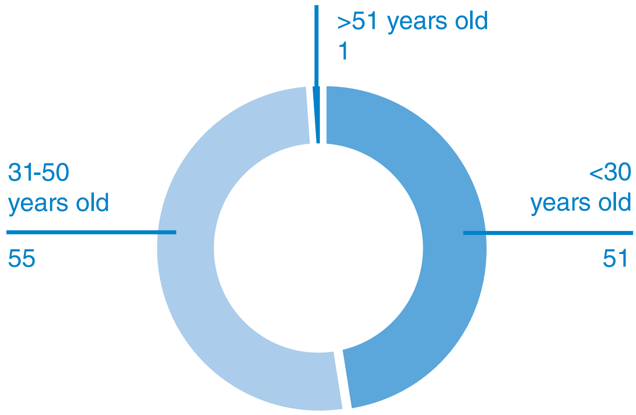
Based on the above, the Company continuously improves the internal employment policy. We properly protect the employees' rights and interests entitled to them by laws, provide them with competitive salaries and benefits, ensure that they enjoy statutory holidays and pay contributions for the employees' pension insurance, medical insurance, unemployment insurance, occupational injury insurance, maternity insurance, housing provident fund and supplementary health insurance. In 2018, the Group's social security coverage for its employees was 100%.

As at December 31, 2018, the Company had 107 employees in total with 50 female employees, representing 46.7% of the whole staff.

2018 GOME Finance Technology the number of employees by gender



2018 GOME Finance Technology the number of employees by age



Training and Development

The Company regards employee training as the primary driving force for its development and has formulated an employee system around business development, the development objectives of the company and the personal development needs of the employee and set up the corresponding training and advancement plan, with an aim to improve the employees' professional skills, provide clear career paths and encourage them to realize their own values.

The Group employs a talent development system of both professional hierarchy and managerial hierarchy. According to employees' working experience, knowledge, skills and other dimensions, the Group identifies the hierarchy and rank which the employees is positioned in, as well as the corresponding salary standard. Every half a year, the Group initiates its remuneration adjustment and employee promotion procedures based on the Company's internal promotion procedures and with reference to the employees' appraisal results, so as to ensure that all employees have enjoyed fair and smooth promotion opportunities.

In addition, the Group has formulated training and development plans for employees at different levels based on their virtual requirements so as to develop their skills as needed. In 2018, based on the Training Management Measures and Training Fee Management Measure, the Group coordinated its resources and progressively conducted internal training for newly recruited employees as well as for different levels of the management. The trainings covered corporate operation management, professional skills, leadership, etc. to improve the employees' overall knowledge. The development of outstanding key talents has laid a foundation for the development of the company and provided good resources for the growth of the employees.

In addition, we also paid attention to the trend of the industry and regularly invited experts of various areas to share on specific topics. These sharing sessions facilitated the communication within the industry and broaden the employees' horizon through the "Best Practices in the Industry" and cutting-edge technologies. In 2018, the Company organized 81 internal, external and online training sessions.

Chart: percentage of employees trained by rank and Average hours of training in 2018

	Percentage of employees trained	**Average hours of training**
Senior Staff	4.2%	12
Intermediate Staff	54.5%	20
Junior Staff	41.3	7

Table: Training of the Company in 2018

New Recruit Training	According to the Regulation on New Employee Training Management, training was provided to new employees of 1 to 2 months, covering introductions to the Company, its systems and compliance training, etc.  **Picture: new employee training in 2018**
Leadership training	Specifically designed for the leadership development of mid-level managerial personnel, two terms of comprehensive leadership training, each with six courses covering topics from managing skills, coaching, employee inspiration, etc. to enhance the leadership capability of the managers  **Picture: leadership training in 2018**
Experts' sharing meeting	Influential experts from relevant areas were invited both internally and externally to share on specific topics to improve the employees' knowledge base in finance, technological languages, cutting-edge science and technology, etc.  **Picture: experts' sharing meeting in 2018**

Employee Cares

The Company adheres to the idea of a people-oriented organization. It cares about every employee, listens to their different needs and implements people-oriented management. While fostering individual development of the employees, it endeavors to create a cohesive corporate culture.

The Group cares for the employees' physical and mental health and organised medical examination for the employees every year. In 2018, the medical examination rate of the employees was 100%. Meanwhile, we provided the employee an activity room as a place for rest, where shoulder and neck massages were provided to employees from time to time for the relieve of their fatigue. Moreover, we care about the work-life balance of the employees. In 2018, we organized a variety of cultural and sports activities. We organised Birthday parties, noon-time interest groups (such as flower arranging, micro bonsais, pottery crafts and hand-painted oil paintings) and festival welfare (such as Mid-autumn moon cakes, rice-dumplings at the Dragon Boat Festival and red envelops at the Spring Festival) as vehicles to help the Group facilitate communication and interactions among the employees, develop their interests and improve their welfare and happiness.

Display of noon-time interest group - micro bonsais in 2018

Parent-child activity in 2018

Christmas activity in 2018

Community Charity

While developing its business, the Company is enthusiastic about social welfare and has actively participated in the construction of communities and shouldered corporate social responsibilities. Actively responding to Gome Group's advocacy of promoting public welfare, the Group called on its employees to take part in "99 Public Welfare Days" in the activities of "Beautiful China". We also engage in community welfare activities themselves through activities such as community assistance, caring visits and donation of books activities.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gome Finance Technology Co., Ltd.
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Gome Finance Technology Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 76 to 163, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other 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 2018, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade and loans receivables	
HKFRS 9 *Financial Instruments* has been adopted by the Group on 1 January 2018 which requires the impairment assessment of trade and loans receivables to be changed from an "Incurred Credit Loss Model" to an "Expected Credit Loss Model". The Group uses complex models and assumptions in the measurement of credit losses. These models and assumptions relate to future macroeconomic conditions and the creditworthiness of borrowers. The Group uses judgements, assumptions and estimates in the measurement of expected credit losses in accordance with the requirements of HKFRS 9, for example: • The selection of criteria for identifying significant increases in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses of loans with longer remaining maturities; • Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Individual impairment assessments are dependent upon estimates of future cash flows.	We assessed the design implementation and operating effectiveness of key controls relating to trade and loans receivables, including relevant data quality. We selected a sample of trade and loans receivables based on credit risk characteristics and performed loan review procedures. We assessed the debtors' repayment ability and evaluated the Group's trade and loan receivable grading. We examined the forecasts of future cash flows prepared by management and assessed related assumptions on the individually significant trade and loan receivable portfolios. We evaluated and tested the key parameters of the expected credit loss models, management's major judgements and related assumptions. We checked relevant disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade and loans receivables	
Since trade and loan receivable impairment assessment involved judgements and assumptions, and the amounts of gross trade and loans receivables of approximately RMB643,870,000, and impairment of trade and loans receivables of approximately RMB29,634,000 were significant, we consider it as a key audit matter. Relevant disclosures are included in note 3 and note 15.	
Related party transactions and disclosures	
A significant amount of revenue in the Group's financial statements was resulted from the transactions with related parties, including the provision of consultation service to Beijing Gome Rongtong Technology Limited which is indirectly wholly owned by a close member of the beneficial controlling person of the Group. Related party relationships, particularly those not on arm's length terms, may affect the financial performance of the Group. During the year ended 31 December 2018, the Group's revenue included a consultation service fee of approximately RMB7,925,000, representing 11% of the total revenue, from Beijing Gome Rongtong Technology Limited. Relevant disclosures are included in note 29.	We discussed with the Group's management and evaluated the management's process for identifying and recording related party transactions. We read contracts and agreements with related parties to obtain an understanding of the nature of the transactions, compared the terms of related party transactions to terms of arm's length transactions and performed revenue cut-off testing at year-end. We kept professional scepticism on revenue from related party transactions. We checked related party disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Derecognition of financial assets	
The Group entered into transfer agreements of creditor's rights (the "Agreement") and transferred certain trade and loans receivables to a factoring company, which involved the management's assessment upon whether the derecognition should be applied to part of a financial asset or the financial asset in its entirety, as well as the evaluation of whether, and to what extent, derecognition is appropriate. Considering the significant impact and the usage of judgement and subjective estimation by the management in relation to the accounting treatment, we treated the derecognition of financial assets as a key audit matter. During the year ended 31 December 2018, the trade and loans receivables amounting approximately RMB892,030,000 had been derecognised by the Group (for the year ended 31 December 2017: RMB719,960,000). Relevant disclosures are included in note 30.	Our audit procedures included obtaining and reviewing related contracts and agreements, mainly including the nature and purpose of the financial assets transferred, the Group's exposure, before and after the transfer, to the variability in the amounts and timing of the net cash flows of the transferred assets, and reviewing whether the Group had retained the control of the transferred assets. We checked relevant disclosures in the consolidated financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 scepticism 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.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Shing Kit.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**69,004**	73,807
Other income and gains	5	**33,952**	30,054
Administrative expenses		**(61,504)**	(55,579)
(Provision for)/reversal of impairment loss on trade and loans receivables	15	**(14,202)**	12,414
Finance costs	7	**(37,339)**	(35,782)
Gains on financial assets at fair value through profit or loss	6	**7,941**	–
(Loss)/profit before tax	6	**(2,148)**	24,914
Income tax credit/(expense)	10	**3,587**	(3,190)
Profit for the year		**1,439**	21,724
Attributable to:			
Owners of the Company		**1,439**	21,724
Earnings per share attributable to ordinary equity holders of the Company	12		
Basic and diluted			
For profit for the year		**RMB0.05 cents**	RMB0.80 cents

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Profit for the year		**1,439**	21,724
Other comprehensive income:			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**36,865**	(92,748)
Other comprehensive income for the year, net of tax		**36,865**	(92,748)
Total comprehensive income for the year		**38,304**	(71,024)
Attributable to:			
Owners of the Company		**38,304**	(71,024)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Trade and loans receivables	15	**106,752**	56,720
Property, plant and equipment	13	**1,257**	1,893
Other intangible assets	14	**12,600**	17,702
Deferred tax assets	22	**4,219**	595
Total non-current assets		**124,828**	76,910
Current assets			
Trade and loans receivables	15	**507,484**	353,640
Prepayments, other receivables and other assets	16	**606,804**	605,071
Financial assets at fair value through profit or loss	31	**131,719**	–
Pledged deposits for bank loans	17	**889,470**	831,464
Cash and cash equivalents	17	**318,521**	708,401
Total current assets		**2,453,998**	2,498,576

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Current liabilities			
Trade payables	18	**2,690**	11,730
Other payables and accruals	19	**12,930**	37,822
Tax payables		**3,195**	4,274
Interest-bearing bank and other borrowings	20	**774,000**	776,000
Total current liabilities		**792,815**	829,826
Net current assets		**1,661,183**	1,668,750
Total assets less current liabilities		**1,786,011**	1,745,660
Non-current liabilities			
Bonds issued	21	**28,364**	26,635
Total non-current liabilities		**28,364**	26,635
Net assets		**1,757,647**	1,719,025
Equity			
Equity attributable to owners of the Company			
Share capital	23	**230,159**	230,159
Reserves	25	**1,527,488**	1,488,866
Total equity		**1,757,647**	1,719,025

Approved and authorised for issue by the board of directors on 29 March 2019.

Chen Wei
Director

Ding Donghua
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to owners of the Company								
			Reserves							
	Notes	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserves RMB'000	Revaluation reserves RMB'000	Exchange reserves RMB'000	Accumulated losses RMB'000	Total reserves RMB'000	Total equity RMB'000
At 31 December 2017		230,159	1,944,601	520,838	87,072	603	(77,570)	(986,678)	1,488,866	1,719,025
Effect of adoption HKFRS 9	2.2.1	–	–	–	–	–	–	318	318	318
At 1 January 2018		230,159	1,944,601	520,838	87,072	603	(77,570)	(986,360)	1,489,184	1,719,343
Profit for the year		–	–	–	–	–	–	1,439	1,439	1,439
Exchange differences on translation of overseas operations		–	–	–	–	–	36,865	–	36,865	36,865
Total comprehensive income for the year		–	–	–	–	–	36,865	1,439	38,304	38,304
At 31 December 2018		230,159	1,944,601	520,838	87,072	603	(40,705)	(984,921)	1,527,488	1,757,647

		Attributable to owners of the Company									
			Reserves								
	Notes	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserves RMB'000	Revaluation reserves RMB'000	Share option reserves RMB'000	Exchange reserves RMB'000	Accumulated losses RMB'000	Total reserves RMB'000	Total equity RMB'000
At 1 January 2017		230,159	1,944,601	520,838	87,072	603	9,263	15,178	(1,017,665)	1,559,890	1,790,049
Profit for the year		–	–	–	–	–	–	–	21,724	21,724	21,724
Exchange differences on translation of overseas operations		–	–	–	–	–	–	(92,748)	–	(92,748)	(92,748)
Total comprehensive income for the year		–	–	–	–	–	–	(92,748)	21,724	(71,024)	(71,024)
Equity-settled share option arrangements	24	–	–	–	–	–	(9,263)	–	9,263	–	–
At 31 December 2017		230,159	1,944,601	520,838	87,072	603	–	(77,570)	(986,678)	1,488,866	1,719,025

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
(Loss)/profit before tax:		**(2,148)**	24,914
Adjustments for:			
Bank interest income	5	**(29,856)**	(16,538)
Finance costs	7	**37,339**	35,782
Gains on financial assets at fair value through profit or loss	6	**(7,941)**	–
Provision for/(reversal of) impairment loss on trade and loans receivables	15	**14,202**	(12,414)
Depreciation	13	**1,631**	1,639
Amortisation of intangible assets	14	**5,102**	5,112
Software maintenance	6	**2,900**	2,900
Exchange gain	5	**(3,816)**	(11,747)
Investment income	5	**–**	(1,578)
Disposal of property, plant and equipment		**–**	5
		17,413	28,075
(Increase)/decrease in trade and loans receivable		**(430,302)**	565,796
Decrease/(increase) in prepayments, other receivables and other assets		**960**	(579,901)
Decrease in notes receivable		**–**	26,835
Decrease in financial assets at fair value through profit or loss		**215,998**	–
Increase in pledged deposits for bank loans	17	**(17,321)**	(216,375)
Increase in trade payables		**28,141**	28,181
(Decrease)/increase in other payables and accruals		**(22,309)**	21,558
Cash used in operations		**(207,420)**	(125,831)
Income tax paid		**(1,344)**	(3,980)
Interest paid		**(34,726)**	(38,683)
Net cash used in operating activities		**(243,490)**	(168,494)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from investing activities			
Interest received	5	**24,096**	16,538
Investment income	5	**–**	1,578
Purchases of property, plant and equipment	13	**(990)**	(780)
Gains on financial assets at fair value through profit or loss		**1,290**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**786,000**	–
Purchases of financial assets at fair value through profit or loss		**(917,000)**	–
Net cash (used in)/generated from investing activities		**(106,604)**	17,336
Cash flows from financing activities			
New borrowings		**774,000**	1,189,075
Repayment of borrowings		**(776,000)**	(1,049,648)
Interest and other finance charges paid		**(39,412)**	(37,661)
Net cash (used in)/generated from financing activities		**(41,412)**	101,766
Effect of foreign exchange rate changes		**1,626**	(31,890)
Net decrease in cash and cash equivalents		**(389,880)**	(81,282)
Cash and cash equivalents at beginning of year		**708,401**	789,683
Cash and cash equivalents at end of year	17	**318,521**	708,401
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**318,521**	708,401

The accompanying notes form an integral part of these consolidated financial statements.

1 CORPORATE AND GROUP INFORMATION

Gome Finance Technology Co., Ltd. (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "HKEx"). The principal place of business in Hong Kong is located at Suite 2912, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. The Company's holding company and ultimate holding company is Swiree Capital Limited, a company incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries comprise commercial factoring, financial leasing, pawn business and consultation services in the Mainland China and money lending services in Hong Kong.

1 CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct (%)	Indirect (%)	Principal activities
Ability Wealth Holdings Limited*	British Virgin Islands	HKD390,000 Ordinary	100	–	Investment holding
Best Review Investments Limited*	British Virgin Islands	USD1 Ordinary	100	–	Investment holding
Pure Profit Holdings Limited*	Hong Kong	HKD1 Ordinary	–	100	Money lending
Greater China Leasing Limited*	Hong Kong	HKD39,300,001 Ordinary	–	100	Investment holding
Guangdong Juqian Leasing Limited*@	Mainland China	HKD156,000,000 Registered capital	–	100	Financial leasing
Guangdong Lido Pawnshop Co., Ltd.(Note)*@	Mainland China	RMB100,000,000 Registered capital	–	100	Pawn business
Guangzhou City Yuenqian Investment Consultancy Limited Liability Company*@	Mainland China	HKD750,000 Registered capital	–	100	Consultation service
Shenzhen City Qianhai Commercial Factoring Limited*@	Mainland China	RMB50,000,000 Registered capital	–	100	Commercial factoring
Shenzhen Qianhai Huayin Leasing Limited*@	Mainland China	RMB170,000,000 Registered capital	–	100	Financial leasing
Guangdong Hengshin Commercial Factoring Limited*@	Mainland China	RMB50,000,000 Registered capital	–	100	Commercial factoring
Gome Xinda Commercial Factoring Limited*@	Mainland China	RMB1,000,000,000 Registered capital	–	100	Commercial factoring
Tianjin Gome Financial Leasing Company Limited*@	Mainland China	RMB500,000,000 Registered capital	–	100	Financial leasing
Gome Wangjin (Beijing) Technology Co., Ltd.*@	Mainland China	RMB50,000,000 Registered capital	–	100	Technical advisory service

* The statutory/separate financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

@ These subsidiaries are registered as wholly-foreign-owned enterprises under the law of People's Republic of China ("PRC").

1 CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Note: Guangdong Lido Pawnshop Co., Ltd. is a domestic subsidiary of the Group with limited liability established in the PRC. The subsidiary is indirectly held by the Company through contractual arrangements by the registered owners of the subsidiary.

For the year ended 31 December 2018, the revenue subject to contractual arrangements was approximately nil (for the year ended 31 December 2017: approximately RMB302,000). As at 31 December 2018, the total assets and the trade and loans receivables (net of provision of impairment loss) subject to the contractual arrangements amounted to approximately RMB101,239,000 and nil (as at 31 December 2017: approximately RMB103,268,000 and nil).

For details of the contractual arrangements, please refer to the section of "Report of Directors" in the annual report.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended 31 December 2018 or formed a substantial portion of the net assets of the Group as at 31 December 2018. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current period's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 *Financial Instruments*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.2.1 HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Considering the impact of these standards, and interpretations on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 retained earnings at the adoption date, but didn't restate comparative periods.

Classification and Measurement

In HKFRS 9, investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income, in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.1 HKFRS 9 *Financial Instruments* (continued)

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of "other" business model. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Impairment

HKFRS 9 requires that the measurement of impairment of a financial asset to be changed from "incurred loss model" to "expected credit loss model" (ECL model) and this way of measurement applies to financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts. Refer to note 2.4 for further details.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.1 HKFRS 9 *Financial Instruments* (continued)

(a) A reconciliation between the carrying amounts under HKAS 39 to the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement	Reclassification	Remeasurement	HKFRS 9 measurement
Assets				
Financial assets at fair value				
through profit or loss	–	211,572	(1,506)	210,066
From :				
Trade and loans receivables	–	211,572	(1,506)	210,066
Trade and loans receivables	410,360	(211,572)	(652)	198,136
To:				
Financial assets at fair value				
through profit or loss	–	(211,572)	(652)	(212,224)
Deferred tax assets	595	–	(106)	489
Other payables and accruals	37,822	–	(2,582)	35,240

(b) A reconciliation between the impairment allowance for financial instruments under HKAS 39 to amount reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement	Reclassification	Remeasurement	HKFRS 9 measurement
Trade and loans receivables	15,844	(1,049)	652	15,447

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 16	*Leases*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015 – 2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]
Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int *15 Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019. The Group has assessed the impact of this standard and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK (IFRIC)-Int 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12 and does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group will apply this interpretation from its effective date. The interpretation is not expected to have any significant impact on the Group's consolidated financial statements and the required disclosures.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its investment properties and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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 employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(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 the key management personnel of the entity (or of a parent of the entity); and

(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 parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	33.3%
Furniture and fixtures	20% to 33.3%
Motor vehicle	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised 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 the consolidated statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss and other comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss and other comprehensive income in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Licences

Licences with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss and other comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling;

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, cash and cash equivalents, notes receivable, trade and loans receivables, prepayments, other receivables and other assets, and pledged deposits for bank loans as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the consolidated statement of profit or loss and other comprehensive income in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments

- Stage 3: Financial assets with objective evidence of impairment at the reporting date are included in Stage 3, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the consolidated statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, trade payables, other payables and accruals, bonds issued, interest-bearing bank and other borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

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 finance costs in the consolidated statement of profit or loss and other comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(b) Consultation service fee income is recognised when the services are provided.

(c) Revenue from the provision of management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(d) Dividend income is recognised when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018)

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) Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset 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.

(b) Consultancy service fee income is recognised when the services are provided.

(c) Dividend income is recognised when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are included in note 24.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government (the "Mainland Scheme"). The subsidiaries are required to contribute a percentage of the basic salaries of its employees to the Mainland Scheme to fund their retirement benefit obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the Mainland Scheme is to pay the ongoing required contributions under the Mainland Scheme mentioned above. Contributions under the Mainland Scheme are charged to profit or loss as incurred as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Entities incorporated/registered in Mainland China determine RMB as their functional currency, while entities incorporated/registered outside Mainland China determine HKD as their functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss and other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year ended 31 December 2018.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the 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 described below.

Impairment of trade and loans receivables

The policy for provision for impairment of trade and loans receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details are included in note 15.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset. Further details are included in note 14.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the unused tax credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note 22.

4 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the internal reports reviewed and used by executive directors for strategic decision making. The executive directors consider the business from a product and service perspective. Due to increasing focus on commercial factoring and finance lease services in the current period, the Group divides the financing services segment into commercial factoring services, finance lease services and other financing services segments to provide better assessment of segment performance. Summary of details of the operating segments is as follows:

Operating segments	Nature of business activities
Commercial factoring services	Commercial factoring services in Mainland China
Finance lease services	Finance lease services in Mainland China
Other financing services	Pawn loan services, real estate-backed loan services, other loan services and consultation service in Mainland China and money lending services in Hong Kong

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that bank interest income, investment income, finance costs of bonds issued, exchange gain or loss as well as items not specifically attributed to an individual reportable segment, such as unallocated corporate expenses, are excluded from such measurement.

Segment assets include all tangible and intangible assets, current assets with the exception of notes receivable and other corporate assets which are not allocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the activities of the individual segments, interest-bearing bank and other borrowings managed directly by the segments with the exception of other corporate liabilities which are unallocated to an individual reportable segment.

4 OPERATING SEGMENT INFORMATION (continued)

	Year ended 31 December 2018			
	Commercial factoring services RMB'000	Finance lease services RMB'000	Other financing services RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers	46,173	14,906	7,925	69,004
Segment results	7,153	(12,688)	(9,210)	(14,745)
Reconciliation:				
Bank interest income				29,856
Finance costs				(16,210)
Exchange gain				3,816
Unallocated expenses				(4,865)
Loss before taxation				(2,148)
Taxation				3,587
Profit for the year				1,439

4 OPERATING SEGMENT INFORMATION (continued)

	At 31 December 2018			
	Commercial factoring services RMB'000	Finance lease services RMB'000	Other financing services RMB'000	Total RMB'000
Segment assets	987,413	444,336	158,745	1,590,494
Reconciliation:				
Unallocated assets				988,332
Total assets				2,578,826
Segment liabilities	778,144	6,739	6,458	791,341
Reconciliation:				
Unallocated liabilities				29,838
Total liabilities				821,179

	Year ended 31 December 2018				
	Commercial factoring services RMB'000	Finance lease services RMB'000	Other financing services RMB'000	Unallocated items RMB'000	Total RMB'000
Other segment information:					
Depreciation and amortisation	2,849	1,203	2,681	–	6,733
Provision for/(reversal of) impairment loss on trade and loans receivables	4,789	9,749	(336)	–	14,202
Additions to non-current assets*	947	–	43	–	990

4 OPERATING SEGMENT INFORMATION (continued)

	Year ended 31 December 2017			
	Commercial factoring services RMB'000	Finance lease services RMB'000	Other financing services RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers	67,770	2,510	3,527	73,807
Segment results	13,264	(6,828)	7,346	13,782
Reconciliation:				
Investment income				1,578
Bank interest income				16,538
Finance costs				(8,290)
Exchange gain				11,747
Unallocated expenses				(10,441)
Profit before taxation				24,914
Taxation				(3,190)
Profit for the year				21,724

	At 31 December 2017			
	Commercial factoring services RMB'000	Finance lease services RMB'000	Other financing services RMB'000	Total RMB'000
Segment assets	723,095	528,490	145,910	1,397,495
Reconciliation:				
Unallocated assets				1,177,991
Total assets				2,575,486
Segment liabilities	795,121	31,016	2,254	828,391
Reconciliation:				
Unallocated liabilities				28,070
Total liabilities				856,461

4 OPERATING SEGMENT INFORMATION (continued)

	Year ended 31 December 2017				
	Commercial factoring services RMB'000	Finance lease services RMB'000	Other financing services RMB'000	Unallocated items RMB'000	Total RMB'000
Other segment information:					
Depreciation and amortisation	1,971	1,263	3,516	1	6,751
Provision for/(reversal of) impairment loss on trade and loans receivables	(2,563)	786	(10,637)	–	(12,414)
Additions to non-current assets*	90	–	682	–	772

* Additions to non-current assets only include the additions to property, plant and equipment and the intangible assets during the year.

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Hong Kong	**–**	1,740
Mainland China	**69,004**	72,067
	69,004	73,807

The revenue information above is based on the locations of the customers.

4 OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	31 December 2018 RMB'000	31 December 2017 RMB'000
Hong Kong	**659**	884
Mainland China	**13,198**	18,711
	13,857	19,595

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

Information about a major customer

Revenue of approximately RMB7,925,000 for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB7,913,000) was consultation service income derived from other financing service to a major customer.

5 REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	2018 RMB'000	2017 RMB'000
Revenue		
Interest income		
Commercial factoring loans	**42,941**	67,770
Finance lease receivables	**14,906**	2,510
Real estate-backed loans	**–**	847
Personal property pawn loans	**–**	302
Other loans receivables	**–**	2,378
	57,847	73,807
Consultation service income	**7,925**	–
Management fee income	**3,232**	–
	69,004	73,807
Other income		
Bank interest income	**29,856**	16,538
Others	**280**	191
	30,136	16,729
Other gains		
Exchange gain	**3,816**	11,747
Investment income	**–**	1,578
	3,816	13,325
	33,952	30,054

6 LOSS/(PROFIT) BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 8)):		
Wages and salaries	**26,977**	17,356
Retirement benefit scheme contributions	**3,125**	1,586
	30,102	18,942
Gains on financial assets at fair value through profit or loss	**7,941**	–
Provision for/(reversal of) impairment loss on trade and loans receivables (Note 15)	**14,202**	(12,414)
Legal and professional fees	**3,795**	6,253
Amortisation of intangible assets (Note 14)	**5,102**	5,112
Minimum lease payments under operating leases	**4,988**	4,700
Auditor's remuneration	**1,044**	3,850
Software maintenance	**2,900**	2,900
Depreciation of property, plant and equipment (Note 13)	**1,631**	1,639
Business taxes and other levies	**671**	704

7 FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest expenses on:		
Bank and other borrowings	**34,836**	33,255
Bonds issued	**2,503**	2,527
	37,339	35,782

8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	**1,744**	1,648
Other emoluments:		
Salaries, allowances and benefits in kind	**2,406**	1,348
Pension scheme contributions	**100**	150
	2,506	1,498
	4,250	3,146

In prior years, certain directors were granted share options, in respect of their services to the Group under the share option schemes of the Company, further details are included in note 24. The fair value of such options, which was recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current period was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 RMB'000	2017 RMB'000
Mr. Hung Ka Hai, Clement	**271**	277
Mr. Li Liangwen	**271**	277
Mr. Zhang Liqing	**271**	277
Mr. Wan Jianhua (Note i)	**271**	97
	1,084	928

8 DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2018				
Executive directors				
Ms. Chen Wei (Note ii)	**103**	**1,440**	**–**	**1,543**
Mr. Ding Donghua	**102**	**647**	**57**	**806**
Mr. Liu Xiaopeng (Note iii)	**353**	**319**	**43**	**715**
Mr. Chung Tat Fun	**–**	**–**	**–**	**–**
Non-executive director				
Ms. Wei Qiuli	**102**	**–**	**–**	**102**
	660	**2,406**	**100**	**3,166**

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2017				
Executive directors				
Mr. Liu Xiaopeng (Note iii)	410	352	44	806
Mr. Ding Donghua	104	647	53	804
Mr. Zhang Jun (Note iv)	102	349	53	504
Mr. Chung Tat Fun	–	–	–	–
Ms. Chen Wei (Note ii)	–	–	–	–
Non-executive director				
Ms. Wei Qiuli	104	–	–	104
	720	1,348	150	2,218

8 DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (Continued)

Notes:

(i) Mr. Wan Jianhua was appointed as an independent non-executive director on 26 August 2017.

(ii) Ms. Chen Wei was appointed as an executive director on 27 December 2017.

(iii) Mr. Liu Xiaopeng was appointed as an executive director on 26 August 2017, and then resigned as executive director on 30 August 2018.

(iv) Mr. Zhang Jun resigned as executive director on 27 December 2017.

For the year ended 31 December 2018 and the year ended 31 December 2017, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There was one director who agreed to waive remuneration of RMB600,000 for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB600,000).

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2018, included 2 director (for the year ended 31 December 2017: 1), details of whose remuneration are included in note 8 above. Details of the remuneration for the year of the remaining 3 (for the year ended 31 December 2017: 4) non-director, highest paid employees are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and benefits in kind	**2,235**	2,682
Pension scheme contributions	**75**	186
	2,310	2,868

9 FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	2018	2017
Nil to RMB1,000,000	**3**	4
	3	4

In prior years, share options were granted to the certain non-director, highest paid employees in respect of their services to the Group, further details of which are included in note 24. The fair value of such options, which is recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director, highest paid employees' remuneration disclosures.

For the year ended 31 December 2018 and for the year ended 31 December 2017, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10 INCOME TAX

No provision of Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the year ended 31 December 2018 and for the year ended 31 December 2017. Mainland China income tax has been provided at the rate of 25% for the year ended 31 December 2018 (for the year ended 31 December 2017: 25%) on the estimated assessable profits arising in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdiction) in which the Group operates.

	2018 RMB'000	2017 RMB'000
Current income tax		
– Mainland China	**143**	3,004
Total current tax	**143**	3,004
Deferred tax (Note 22)	**(3,730)**	186
Total tax charge for the year	**(3,587)**	3,190

10 INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit or loss before tax at the statutory rates for the country (or jurisdiction) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2018 RMB'000	2017 RMB'000
(Loss)/profit before tax	**(2,148)**	24,914
Tax at the statutory tax rates	**(2,193)**	4,705
Income not subject to tax	**(4,725)**	(5,165)
Expenses not deductible for tax	**445**	1,412
Tax losses not recognised	**3,489**	3,212
Temporary differences not recognised	**716**	647
Utilisation of previously unrecognised tax losses	**(591)**	(9)
Utilisation of previously unrecognised temporary differences	**(85)**	(2,360)
Adjustments in respect of current tax of previous periods	**(643)**	748
Tax charge at the Group's effective rates	**(3,587)**	3,190

11 DIVIDENDS

The directors did not recommend the payment of any dividend for the year ended 31 December 2018 and the year ended 31 December 2017.

12 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit or loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,701,123,120 (for the year ended 31 December 2017: 2,701,123,120) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit or loss for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2018 and 2017 in respect of dilution as the Group had no potential dilutive ordinary shares in issue for the year ended 31 December 2018 and 2017. The basic earnings per share equals to the diluted earnings per share.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**1,439**	21,724

	2018	2017
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,701,123**	2,701,123
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	–
	2,701,123	2,701,123

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicle RMB'000	Total RMB'000
Cost:				
At 1 January 2017	5,006	2,748	890	8,644
Additions	–	99	681	780
Acquisition of a subsidiary	–	(8)	–	(8)
Exchange difference	(141)	(64)	–	(205)
At 31 December 2017 and 1 January 2018	4,865	2,775	1,571	9,211
Additions	861	87	42	990
Exchange difference	97	44	–	141
At 31 December 2018	**5,823**	**2,906**	**1,613**	**10,342**
Accumulated depreciation:				
At 1 January 2017	3,946	1,678	220	5,844
Additions	969	494	176	1,639
Acquisition of a subsidiary	–	(3)	–	(3)
Exchange difference	(112)	(50)	–	(162)
At 31 December 2017 and 1 January 2018	4,803	2,119	396	7,318
Additions	924	387	320	1,631
Exchange difference	96	40	–	136
At 31 December 2018	**5,823**	**2,546**	**716**	**9,085**
Net book value:				
At 1 January 2017	1,060	1,070	670	2,800
At 31 December 2017	62	656	1,175	1,893
At 31 December 2018	**–**	**360**	**897**	**1,257**

14 OTHER INTANGIBLE ASSETS

	Pawn shop licence RMB'000	Computer software RMB'000	Total RMB'000
Cost:			
At 1 January 2017	4,656	25,541	30,197
At 31 December 2017 and 1 January 2018	4,656	25,541	30,197
At 31 December 2018	**4,656**	**25,541**	**30,197**
Accumulated amortisation:			
At 1 January 2017	–	2,727	2,727
Additions	–	5,112	5,112
At 31 December 2017 and 1 January 2018	–	7,839	7,839
Additions	–	5,102	5,102
At 31 December 2018	**–**	**12,941**	**12,941**
Accumulated impairment losses:			
At 1 January 2017	4,656	–	4,656
At 31 December 2017 and 1 January 2018	4,656	–	4,656
At 31 December 2018	**4,656**	**–**	**4,656**
Net carrying value:			
At 31 December 2016	–	22,814	22,814
At 31 December 2017	–	17,702	17,702
At 31 December 2018	**–**	**12,600**	**12,600**

15 TRADE AND LOANS RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Trade and loans receivables		
Commercial factoring loans (Note (a))	**500,061**	352,420
Finance lease receivables (Note (b))	**131,193**	69,233
Personal property pawn loans (Note (c))	**4,216**	4,551
Other trade receivables (Note (d))	**8,400**	–
	643,870	426,204
Impairment	**(29,634)**	(15,844)
	614,236	410,360
Carrying amount analysed for reporting purpose:		
Current assets	**507,484**	353,640
Non-current assets	**106,752**	56,720
	614,236	410,360

The directors consider that the fair values of trade and loans receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

Notes:

(a) For commercial factoring loans arising from the Group's commercial factoring business, customers are obliged to settle the amounts according to the terms set out in the relevant contracts. The loan periods range from 30 days to 365 days.

(b) For finance lease receivables arising from the Group's leasing business, customers are obliged to settle the amounts according to the terms set out in the relevant contracts. The loan periods range from 30 days to 1,095 days.

(c) For personal property pawn loans arising from the Group's pawn loan business, customers are obliged to settle amounts according to the terms set out in the relevant contracts. The loan periods range from 30 days to 240 days.

15 TRADE AND LOANS RECEIVABLES (continued)

Notes: (continued)

(d) For other trade receivables arising from the money lending business and other consultation services, customers are obligated to settle the amounts according to the terms set out in the relevant contracts.

(1) An ageing analysis of the trade and loans receivables as at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**226,833**	398,336
3 to 6 months	**1,826**	9,540
6 to 12 months	**355,918**	4,309
Over 12 months	**59,293**	14,019
	643,870	426,204
Impairment	**(29,634)**	(15,844)
	614,236	410,360

(2) The ageing analysis of the trade and loans receivables that are not individually considered to be impaired is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Neither past due nor impaired	**363,755**	412,628
Less than 30 days past due	**32,827**	82
30 to 60 days past due	**3,922**	–
61 to 120 days past due	**3,991**	–
More than 120 days past due	**12,769**	–
	417,264	412,710

15 TRADE AND LOANS RECEIVABLES (continued)

(3) The movements in provision for impairment of trade and loans receivables are as follows:

	Year ended 31 December 2018			
	Stage 1 (expected credit loss of 12 months) RMB'000	Stage 2 (expected credit loss of whole period) RMB'000	Stage 3 (impaired expected credit loss of whole period) RMB'000	Total RMB'000
As at 1 January 2018	1,823	144	13,480	15,447
Transfer to Stage 1	20	(20)	–	–
Transfer to Stage 2	(211)	211	–	–
Transfer to Stage 3	(100)	(31)	131	–
Charge for the period	1,157	987	10,992	13,136
Release for the period	(1,114)	(60)	(705)	(1,879)
Stage transfer	(15)	117	2,843	2,945
Write-offs	–	–	(15)	(15)
As at 31 December 2018	1,560	1,348	26,726	29,634

	31 December 2018 RMB'000	31 December 2017 RMB'000
At beginning of year	15,844	28,728
Effect of adoption of HKFRS 9	(397)	–
At beginning of year (restated)	15,447	28,728
Impairment loss recognised (Note 6)	16,088	2,661
Impairment loss reversed* (Note 6)	(1,886)	(15,075)
Bad debt allowance written off	(15)	(245)
Exchange difference	–	(225)
	29,634	15,844

* The directors considered that the amounts due could not be recovered and sufficient impairment has been made in the previous years. During the year, the debtor has made repayment in respect of the outstanding amount, therefore, the reversal of impairment loss was recognised for the year.

15 TRADE AND LOANS RECEIVABLES (continued)

Included in the above provision for impairment of trade and loans receivables is a provision for individually impaired trade and loans receivables of approximately RMB17,894,000 (as at 31 December 2017: approximately RMB13,480,000) with a carrying amount before provision of approximately RMB226,606,000 (as at 31 December 2017: approximately RMB13,494,000).

The individually impaired trade and loans receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and sufficient impairment has been made on these trade and loans receivables.

Trade and loans receivables from the Group's related parties are included in note 29.

The Group has certain concentration risk on trade and loans receivables as it has total outstanding balances of approximately RMB292,378,000 (as at 31 December 2017: approximately RMB310,235,000) from five customers (as at 31 December 2017: five), and two (as at 31 December 2017: four) customers contribute more than 10% of trade and loans receivables of the Group.

The Group is not permitted to sell or re-pledge the collateral in the absence of default by the customers.

16 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Prepayment for acquisition of a third-party payment company	**576,000**	576,000
Deposits	**1,172**	974
Other prepayments	**7,762**	9,844
Other receivables	**21,870**	18,253
	606,804	605,071

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to prepayments, other receivables and other assets for which there was no recent history of default.

17 PLEDGED DEPOSITS FOR BANK LOANS AND CASH AND CASH EQUIVALENTS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash and bank balances	**1,207,991**	1,539,865
Less: Pledged deposits for bank loans	**889,470**	831,464
Cash and cash equivalents	**318,521**	708,401

	31 December 2018		
	Original currency '000	**Exchange rate**	**RMB'000**
RMB	**222,423**	**1.0000**	**222,423**
HKD	**41,214**	**0.8762**	**36,112**
USD	**138,340**	**6.8632**	**949,456**
			1,207,991

	31 December 2017		
	Original currency '000	Exchange rate	RMB'000
RMB	397,279	1.0000	397,279
HKD	51,536	0.8359	43,080
USD	168,269	6.5342	1,099,506
			1,539,865

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The cash and bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and bank balances approximate to their fair values.

18 TRADE PAYABLES

The following is an analysis of trade payables by age based on the invoice date:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 month	**2,244**	3,909
1 to 2 months	**–**	1,664
2 to 3 months	**–**	774
Over 3 months	**446**	5,383
	2,690	11,730

As at 31 December 2018, the Group had trade payables due to related parties of approximately RMB30,000 (as at 31 December 2017: RMB214,000).

The trade payables are non-interest-bearing and the Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The carrying amounts of trade payables approximate to their fair values.

19 OTHER PAYABLES AND ACCRUALS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Deposit received	**3,505**	3,858
Accruals	**3,919**	1,031
Receipt in advance	**627**	5,396
Other payables	**4,879**	27,537
	12,930	37,822

Other payables and accruals are non-interest-bearing and have an average term of three months. The carrying amounts of the other payables and accruals approximate to their fair values.

20 INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2018			31 December 2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current borrowings						
Bank loans – secured	**4.7850%–5.2200%**	**2019/7/4–2019/12/27**	**774,000**	4.1325%–4.3500%	2018/7/2–2018/12/27	776,000
			774,000			776,000

Note:

The Group's bank loans of RMB774,000,000 at 31 December 2018 (as at 31 December 2017: RMB776,000,000) were secured by the Group's fixed deposits. Relevant disclosures are included in note 17.

21 BONDS ISSUED

	31 December 2018 RMB'000	31 December 2017 RMB'000
Unlisted corporate bonds	**28,364**	26,635

On 17 December 2014, the Company issued an eight-year unlisted corporate bond at a principal amount of HKD5 million which is unsecured, and bears a fixed interest rate of 7% per annum.

On 22 December 2014, the Company issued an eight-year unlisted corporate bond at a principal amount of HKD10 million which is unsecured, and bears a fixed interest rate of 7% per annum.

On 15 January 2015, the Company issued an eight-year unlisted corporate bond at a principal amount of HKD10 million which is unsecured, and bears a fixed interest rate of 7% per annum.

On 26 May 2015, the Company issued an eight-year unlisted corporate bond at a principal amount of HKD10 million which is unsecured, and bears a fixed interest rate of 7% per annum.

The effective interest rate of the unlisted corporate bonds is approximately 9.28%.

22 DEFERRED TAX

As at 31 December 2018 and 31 December 2017, the Group had no deferred tax liabilities.

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

	Impairment of trade and loans receivables RMB'000	Fair value change of financial assets at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2017	781	–	781
Deferred tax charged to the consolidated statement of profit or loss and other comprehensive income during the year (Note 10)	(186)	–	(186)
At 31 December 2017	595	–	595
Impact of adopting HKFRS 9 (Note 2.2.1)	(99)	(7)	(106)
At 1 January 2018	**496**	**(7)**	**489**
Deferred tax credited to the consolidated statement of profit or loss and other comprehensive income during the year (Note 10)	**3,723**	**7**	**3,730**
At 31 December 2018	**4,219**	**–**	**4,219**

22 DEFERRED TAX (continued)

Deferred tax assets (continued)

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Tax losses	**94,210**	80,406
Deductible temporary differences	**21,862**	19,322

As at 31 December 2018, the Group had tax losses arising from the operation in Hong Kong of approximately equivalent RMB75,371,000 (as at 31 December 2017: approximately RMB68,861,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Tax losses as at 31 December 2018 and 31 December 2017 are subject to approval of the Hong Kong Inland Revenue Department.

As at 31 December 2018, the Group also had tax losses arising from the operation in Mainland China of approximately RMB18,839,000 (as at 31 December 2017: approximately RMB11,545,000) that will expire in one to five years for offsetting against future taxable profits.

The above deductible temporary differences include impairment of trade and loans receivables, and other timing difference in respect of depreciation and amortisation. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

23 SHARE CAPITAL

Shares

	31 December 2018 HKD'000	31 December 2017 HKD'000
Authorised:		
6,000,000,000 (at 31 December 2017: 6,000,000,000) ordinary shares of HKD0.1 each	**600,000**	600,000

	31 December 2018 RMB'000	31 December 2017 RMB'000
Issued and fully paid:		
2,701,123,120 (at 31 December 2017: 2,701,123,120) ordinary shares of HKD0.1 each	**230,159**	230,159

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue '000	**Share capital** RMB'000
At 1 January 2017	2,701,123	230,159
At 31 December 2017 and 31 December 2018	2,701,123	230,159

24 SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 28 September 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including executive, non-executive and independent non-executive directors, other employees of the Group, suppliers, consultants, agents and advisers of any person who, in the sole discretion of the board of directors, has contributed or may contribute to the Group. Unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme and any other share option schemes of the Company is an amount equivalent, upon their exercise, to 30% (or where applicable, such higher percentage as may from time to time to be permitted under the Listing Rules or by the Stock Exchange) of the shares of the Company in issue at any time. The total number of shares available for issue under options which may be granted under the Scheme must not in aggregate exceed 60,157,078 shares, after the refreshment of the limit of the Scheme effected on 5 September 2014, representing 10% of the issued share capital of the Company, as at the date on which the shareholders passed the relevant resolution approving such refreshment. The Company may seek approval of its shareholders at a general meeting to renew the 10% limit. However, the total number of shares available for issue under options which may be granted under the Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of renewing such a limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HKD1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and shall not exceed the period of ten years from the date of the grant of the particular option but subject to the provisions for early termination.

The exercise price of share options is determinable by the board of directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

24 SHARE OPTION SCHEME (continued)

On 2 September 2014, the Company granted an aggregate of 21,000,000 share options to subscribe for ordinary shares of HKD0.1 each of the share to a number of eligible participants ("grantees") under the Scheme. Each option shall entitle the grantee to subscribe for one share upon exercise of such option at an exercise price of HKD1.25.

The following share options granted on 2 September 2014 were outstanding under the Scheme during the year:

	31 December 2018		31 December 2017	
	Weighted average exercise price HKD per share	**Number of options '000**	Weighted average exercise price HKD per share	Number of options '000
At beginning of year	**–**	**–**	1.25	6,000
Lapsed during the year	**–**	**–**	1.25	(6,000)
At end of year	**–**	**–**	–	–

On 30 September 2014, the Company granted an aggregate of 39,000,000 share options to subscribe for ordinary shares of HKD0.1 each of the share to a number of grantees under the Scheme. Each option shall entitle the grantee to subscribe for one share upon exercise of such option at an exercise price of HKD1.23.

24 SHARE OPTION SCHEME (continued)

The following share options granted at 30 September 2014 were outstanding under the Scheme during the year:

	31 December 2018		31 December 2017	
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000
At beginning of year	–	–	1.23	24,000
Lapsed during the year	–	–	1.23	(24,000)
At end of year	–	–	–	–

No share options were exercised during the year ended 31 December 2018 and the year ended 31 December 2017.

As at 31 December 2018 and 31 December 2017, the Company had no share option outstanding.

The fair values of the equity-settled share options granted on 2 September 2014 and 30 September 2014 were estimated by Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent firm of professionally qualified valuers, using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Grant date	2 September 2014	30 September 2014
Grantees	Directors, consultants and employees	Directors, consultants and employees
Expected volatility (%)	46.72	45.72
Risk-free interest rate (%)	0.709	0.925
Expected life of options (year)	3	3
Weighted average share price (HKD per share)	1.25	1.23

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

24 SHARE OPTION SCHEME (continued)

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had no share options outstanding under the Scheme.

25 RESERVES

The amounts of the Group's reserves and the movements therein for the current period and prior years are presented in the consolidated statement of changes in equity on page 80 of the consolidated financial statements.

Share premium

The share premium account of the Group includes shares issued at premium.

Contributed surplus

The contributed surplus is resulted from elimination of accumulated losses from the share premium account, offset to accumulated losses and acquisition of subsidiaries in previous years.

Capital reserves

The capital reserve of the Group represents the cash received in excess of the fair value of a promissory note issued to a shareholder by the Company in previous years.

Share option reserves

Share option reserves related to share options granted under the Company's share option scheme and those that are reclassified to share capital and share premium when the share options were exercised, and to accumulated losses when the share options lapsed or expired.

26 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018 and 31 December 2017.

27 OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its offices under operating lease arrangements, which are negotiated for terms ranging from one to seven years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within one year, inclusive	**3,402**	3,541
In the second to fifth years, inclusive	**4,487**	3,747
After five years	**302**	1,199
	8,191	8,487

28 COMMITMENTS

In addition to the operating lease commitments detailed in note 27 above, the Group had the following capital commitments at the end of the reporting period:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Contracted, but not provided for:		
Loan commitment	**144,000**	144,000

Details of the loan commitment are included in note 29.

29 RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

	2018 RMB'000	2017 RMB'000
Transactions with related parties which are significantly influenced by a close member of the beneficial controlling person of the Group:		
Consultation service fee	**7,925**	–
Rental expense	**2,240**	1,489
Property management fee	**1,250**	710
Interest income from finance lease receivables	**–**	1,224

The above transactions were conducted in accordance with respective contractual terms.

(b) Balances with related parties of the Group as at the end of the year are as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Balances with related parties which are significantly influenced by a close member of the beneficial controlling person of the Group:		
Trade and loans receivables	**8,400**	38,168
Prepayments, other receivables and other assets	**630**	825
Trade payables	**30**	214
Other payables and accruals	**19**	22,159
Prepayments due from a related party controlled by the beneficial controlling person of the Group (Note)	**576,000**	576,000
Other receivables due from the beneficial controlling person of the Group	**900**	900
Other receivables due from directors	**100**	100

29 RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties of the Group as at the end of the year are as follows: (continued)

Note: As disclosed in the circular dated 29 June 2017, the Board announced that Gome Xinda Commercial Factoring Limited (the "Xinda Factoring") entered into a loan agreement (the "Loan") with Beijing Bosheng Huifeng Business Consulting Co., Limited (the "OPCO"), meanwhile the OPCO and Tibet Yang Guan LLP and Mr. Mao Deyi (together the "Sellers") entered into a framework agreement, pursuant to which Xinda Factoring agreed to provide a non-interest-bearing loan of an amount of RMB720 million to the OPCO solely for the purpose of acquiring the entire equity interest in Tianjin Guanchuang Mei Tong Electronic Commerce Limited from the Sellers. On 25 July 2017, The OPCO and the Sellers entered into a formal sale and purchase agreement when the Loan was approved by the Company's Independent Shareholders.

According to the Loan and the sale and purchase agreement, the Loan would be granted based on progress of the above acquisition. As at 31 December 2018, the transaction was subject to approval of the People's Bank of China (the "PBOC") or its affiliated institutions. As at 31 December 2018, RMB576 million (as at 31 December 2017: RMB576 million) was paid to the OPCO according to the aforesaid agreements and was recorded as a prepayment. The remaining amount of RMB144 million, disclosed as a loan commitment in note 28, will be paid to the OPCO after the approval of the PBOC or its affiliated institutions, and the completion of the contemplated transactions under the aforesaid agreements and the change of registration.

(c) Other transactions with related parties:

(i) Trade and loans receivables of nil of debt portfolio were transferred from a related party which is significantly influenced by a close member of the beneficial controlling person of the Group during the year ended 31 December 2018 (for the year ended 31 December 2017: RMB300,340,000).

(ii) On 31 January 2017, the Company acquired a 100% interest in Tianjin Financial Leasing from a related party which is ultimately controlled by a close member of the beneficial controlling person of the Group at nil consideration.

29 RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Salaries, other allowances and benefits in kind	**4,530**	3,323
Pension scheme contributions	**137**	173
	4,667	3,496

30 TRANSFERRED FINANCIAL ASSETS

As part of its normal business, the Group entered into an agreement on transfer of creditor's rights (the "Agreement") and transferred certain trade and loans receivables to a factoring company. The Group assesses whether to derecognise relevant assets or not based on the extent of risks and rewards retained. If these transfers qualify for derecognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets. During the year ended 31 December 2018, the trade and loans receivables amounting approximately RMB892,030,000 had been derecognised by the Group (for the year ended 31 December 2017: RMB719,960,000).

31 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts and fair values of each of the categories of financial instruments as at the end of the reporting period are as follows:

	31 December 2018		31 December 2017	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial assets:				
Trade and loans receivables	614,236	614,236	410,360	410,360
Prepayments, other receivables and other assets	606,804	606,804	605,071	605,071
Financial assets at fair value through profit or loss	131,719	131,719	–	–
Pledged deposits for bank loans	889,470	889,470	831,464	831,464
Cash and cash equivalents	318,521	318,521	708,401	708,401
	2,560,750	2,560,750	2,555,296	2,555,296
Financial liabilities:				
At amortised cost				
Trade payables	2,690	2,690	11,730	11,730
Other payables and accruals	12,930	12,930	37,822	37,822
Bonds issued	28,364	28,364	26,635	26,635
Interest-bearing bank and other borrowings	774,000	774,000	776,000	776,000
	817,984	817,984	852,187	852,187

32 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(a) Fair value measurement

Management has assessed that the fair values of cash and cash equivalents, trade and loans receivables, prepayments, other receivables and other assets, pledged deposits for bank loans, trade payables, other payables and accruals, interest-bearing bank and other borrowings, and bonds issued approximate to their carrying amounts largely due to the short term maturities of these instruments.

Financial assets at fair value through profit or loss is stated at fair value. Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period. The carrying amount and fair value of financial assets at fair value through profit or loss are disclosed in note 31.

The Group's finance department headed by the chief financial officer and risk management department headed by the risk management director are responsible for determining the policies and procedures for the fair value measurement of financial instruments. The chief financial officer reports directly to the audit committee. At each reporting date, the finance department and risk management department analyse the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer and chief executive officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's financial liabilities mainly include interest-bearing bank and other borrowings and bonds issued. The carrying amounts of financial liabilities approximate their fair values.

32 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(b) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of the over-the-counter (OTC) derivative contracts. Input parameters like ChinaBond interbank yield curves or London interbank offered rate (LIBOR) yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Assets measured at fair value

	31 December 2018			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Financial assets at fair value through profit or loss	–	–	131,719	131,719

32 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(b) Fair value hierarchy(continued)

Asset measured at fair value(continued)

The movements during the year ended 31 December 2018 in the balance of Level 3 fair value measurements are as follows:

	Financial assets at fair value through profit or loss RMB'000
At 1 January 2018	**210,066**
Total gains or losses in profit or loss for the current year	**7,941**
Purchases	**1,500,669**
Disposals or settlements	**(1,578,757)**
Transfers out of Level 3, net	**(8,200)**
At 31 December 2018	**131,719**
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	**719**

(c) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2018 and 31 December 2017, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, and trade payables. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various other financial assets and liabilities such as cash and bank balances, pledge deposits for bank loans, trade and loans receivables, trade payables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings at a floating interest rate. The Group has not used any interest rate swaps to hedge its interest rate risk.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in the future as may be necessary.

As at 31 December 2018, if interest rates had been 50 basis points higher/lower and all other variables had been held constant, the Group's operating results before tax for the year would have increased/decreased by RMB3,870,000 (for year ended 31 December 2017: RMB2,340,000). This is mainly attributed to the Group's exposure to the risk of changes in the interest rates on its variable-rate bank borrowings.

The Group does not have any significant exposure to the risk of changes in market interest rates in relation to bank balances as these mainly represent demand deposits in banks.

Foreign currency risk

Certain of the Group's trade and loans receivables, cash and bank balances and trade payables are denominated in Hong Kong dollars and United States dollars, which expose the Group to foreign currency risk. The Group has not used any financial instruments to hedge against currency risk.

As at 31 December 2018, if Hong Kong dollar exchange rates had been 50 basis points higher/lower and all other variables had been held constant, the Group's operating results before tax for the year would have decreased/increased by approximately RMB4,747,000 (for the year ended 31 December 2017: RMB5,498,000), and the Group's equity as at 31 December 2018 would have decreased/increased by approximately RMB4,747,000 (as at 31 December 2017: approximately RMB5,498,000).

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The Group reviews the recoverable amount of each individual trade debtor at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group also requests the customers to provide collateral for real-estate-backed loans and personal property pawn loan arrangements as appropriate. In the event of default or failure to repay any outstanding guarantee amounts by the customers, the Group will proceed with the sale of collateral. In addition, the customers provide leased assets as collateral for finance leases. In the event of default, the Group will proceed with the sale of the leased assets. Moreover, the Group receives financial guarantees from financial institutions or individuals to secure the other loan arrangements.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and loans receivables are included in note 15.

Credit risk measurement

Measurement of ECL

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the reporting date of the current period, if the financial instrument is no longer in the situation of there being a significant increase in credit risk since the initial recognition, the Group will measure the impairment allowance of the financial instruments on the reporting date of the current period according to the ECL in the next 12 months.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

The Group shall measure ECL of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial assets
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flow

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement (continued)

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each reporting date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the reporting date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when the financial instrument has been downgraded within the five-tier loan classification or the debtor's contractual payments (including principal and interest) are past due for certain days.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the requirements of HKFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the internal and external ratings, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement (continued)

Parameters of ECL measurement (continued)

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collaterals, the LGD varies.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of PD and therefore the calculation of ECL involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on an annually basis and determines the impact of these economic indicators on the PD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines the statistic model with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and therefore does not result in derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in the current profit and loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement (continued)

Modification of contractual cash flows (continued)

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2(Lifetime ECL) to Stage 1(12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. As at 31 December 2018, the carrying amount of financial assets with such modified contractual cash flows was not significant.

Price risk

The Group is exposed to equity price risk through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles.

Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds either through the financial markets or from the realisation of its assets if required.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's available cash.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

At 31 December 2018

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Non-derivative financial liabilities						
Other payables and accruals	1,162	11,768	–	–	–	12,930
Trade payables	80	2,610	–	–	–	2,690
Bonds issued	–	–	2,147	37,357	–	39,504
Interest-bearing bank and other borrowings	–	9,533	795,965	–	–	805,498
	1,242	23,911	798,112	37,357	–	860,622

At 31 December 2017

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Non-derivative financial liabilities						
Other payables and accruals	22,118	15,704	–	–	–	37,822
Trade payables	9,937	1,793	–	–	–	11,730
Bonds issued	–	–	2,048	20,707	16,976	39,731
Interest-bearing bank and other borrowings	–	8,272	795,072	–	–	803,344
	32,055	25,769	797,120	20,707	16,976	892,627

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018 and year ended 31 December 2017.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as total debt divided by equity attributable to the owners of the Company.

The debt-to-equity ratios as at the end of the reporting periods were as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Total debt	**821,179**	856,461
Equity attributable to owners of the Company	**1,757,647**	1,719,025
Debt-to-equity ratio	**46.72%**	49.82%

34 EVENT AFTER THE REPORTING PERIOD

There were no significate events after the reporting period of the Group.

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets		
Interests in subsidiaries	**30,878**	29,458
Total non-current assets	**30,878**	29,458
Current assets		
Amounts due from subsidiaries	**949,771**	684,221
Prepayments, other receivables and other assets	**6,471**	95
Pledged deposits for bank loans	**889,470**	831,464
Cash and cash equivalents	**59,280**	280,099
Total current assets	**1,904,992**	1,795,879
Current liabilities		
Amounts due to subsidiaries	**211,985**	202,237
Other payables and accruals	**1,473**	1,435
Total current liabilities	**213,458**	203,672
Net current assets	**1,691,534**	1,592,207
Total assets less current liabilities	**1,722,412**	1,621,665
Non-current liabilities		
Bonds issued	**28,364**	26,635
Total non-current liabilities	**28,364**	26,635
Net assets	**1,694,048**	1,595,030

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2018 RMB'000	31 December 2017 RMB'000
Equity		
Equity attributable to owners of the Company		
Share capital	**230,159**	230,159
Reserves	**1,463,889**	1,364,871
Total equity	**1,694,048**	1,595,030

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Contributed surplus RMB'000	Capital reserves RMB'000	Share option reserves RMB'000	Exchange reserves RMB'000	Accumulated losses RMB'000	Total reserve RMB'000
At 1 January 2017	1,944,601	520,838	87,072	3,742	44,488	(1,137,811)	1,462,930
Profit for the year	–	–	–	–	–	13,304	13,304
Equity-settled share option arrangements	–	–	–	(3,742)	–	3,742	–
Exchange differences on translation of foreign operations	–	–	–	–	(111,363)	–	(111,363)
At 31 December 2017	1,944,601	520,838	87,072	–	(66,875)	(1,120,765)	1,364,871
Profit for the year	–	–	–	–	–	21,387	21,387
Exchange differences on translation of foreign operations	–	–	–	–	77,631	–	77,631
At 31 December 2018	1,944,601	520,838	87,072	–	10,756	(1,099,378)	1,463,889

36 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

FIVE YEAR/PERIOD FINANCIAL SUMMARY

The consolidated results, and assets and liabilities of the Group for the last five financial years/period are summarised below.

Results

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	Nine months period ended 31 December 2016 RMB'000 (Restated)	Year ended 31 March 2016 RMB'000 (Restated)	Year ended 31 March 2015 HK$'000
Continuing operations					
Revenue	**69,004**	73,807	35,500	26,197	48,932
Profit/(loss) for the year/ period attributable to – Owners of the Company	**1,439**	21,724	(31,528)	1,861	(41,783)

Assets and liabilities

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000 (Restated)	As at 31 March 2016 RMB'000 (Restated)	As at 31 March 2015 RMB'000 (Restated)
Total assets	**2,578,826**	2,575,486	2,500,325	465,641	738,330
Total liabilities	**(821,179)**	(856,461)	(710,276)	(51,702)	(342,699)
Total equity	**1,757,647**	1,719,025	1,790,049	413,939	395,631