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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6878

ANNUAL REPORT 2019

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

Mr. CAI Huatan *(Honorary Chairman) (former executive director; re-designated as non-executive director with effect from 28 February 2019)*
Mr. CAI Jianfeng *(resigned on 28 February 2019)*
Mr. WU Qinghan

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. CHAN Sing Nun
Mr. LAM Kit Lam
Mr. ZENG Haisheng *(resigned on 4 December 2019)*
Mr. CHEN Naike *(appointed on 4 December 2019)*

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

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

16/F, Euro Trade Centre
13-14 Connaught Road Central
Central, Hong Kong

COMPANY SECRETARY

TAM Wai Tak Victor

AUDITOR

BDO Limited

AUTHORISED REPRESENTATIVES

HONG Mingxian
TAM Wai Tak Victor

MEMBERS OF AUDIT COMMITTEE

Mr. CHAN Sing Nun *(Chairman)*
Mr. LAM Kit Lam
Mr. WU Qinghan

MEMBERS OF REMUNERATION COMMITTEE

Mr. LAM Kit Lam *(Chairman)*
Mr. NG Chi Chung
Mr. CHAN Sing Nun

MEMBERS OF NOMINATION COMMITTEE

Mr. HONG Mingxian *(Chairman)*
Mr. LAM Kit Lam
Mr. CHAN Sing Nun

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Bank of China
Bank of Communications

COMPANY WEBSITE

www.dfh.cn

STOCK CODE

06878

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
Income from financial related services	**144,634**	129,462	181,215	201,659	162,150
Income from assets management business	**777,613**	715,038	118,053	93,209	21,000
Income from trading of commodities	**1,329,594**	–	–	–	–
Other income	**53,686**	35,832	53,272	3,478	4,443
Costs of property sold	**(539,075)**	(466,131)	–	–	–
Costs of trading of commodities	**(1,328,264)**	–	–	–	–
Gain/(loss) on disposals of subsidiaries	**72,888**	31,947	–	6,942	(5,836)
Gain on redemption of convertible bonds	**–**	–	8,770	–	–
Employee benefit expenses	**(59,949)**	(39,706)	(33,547)	(23,315)	(14,576)
Depreciation and amortisation expenses	**(16,692)**	(4,355)	(2,385)	(3,158)	(2,634)
Operating lease expenses	**–**	(7,629)	(3,003)	(2,601)	(1,357)
Short-term lease expenses	**(1,195)**	–	–	–	–
Equity-settled share-based payments	**(1,624)**	(3,729)	(8,335)	(12,120)	–
Other expenses	**(97,739)**	(52,947)	(53,133)	(53,063)	(27,979)
Share of results of associates	**124**	(7,076)	492	7	–
Share of results of joint ventures	**11,088**	–	10,910	14,192	52,724
Gain on disposal of investment properties	**61,874**	–	–	–	–
Change in fair value of derivative financial instruments	**–**	–	1,960	14,028	–
Gain on bargain purchase arising from acquisition of subsidiaries	**–**	40,072	1,861	–	18,082
Change in fair value of investment properties	**72,362**	56,495	7,094	–	–
Change in fair value of other financial assets	**(863)**	6,750	–	–	–
Finance costs	**(43,353)**	(35,505)	(56,337)	(42,367)	(6,891)
Profit before income tax	**435,109**	398,518	226,887	196,891	199,126
Income tax expense	**(98,978)**	(108,091)	(47,975)	(50,639)	(36,960)
Profit for the year	**336,131**	290,427	178,912	146,252	162,166
Attributable to:					
Owners of the Company	**335,503**	255,728	173,562	144,283	167,168
Non-controlling interests	**628**	34,699	5,350	1,969	(5,002)
	336,131	290,427	178,912	146,252	162,166

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
Total assets	**5,937,918**	5,572,090	4,668,602	3,645,728	2,752,268
Total liabilities	**(4,346,667)**	(3,912,751)	(3,175,034)	(2,302,695)	(1,578,932)
Non-controlling interests	**(4,098)**	(29,846)	(122,995)	(165,605)	(156,169)
Equity attributable to owners of the Company	**1,587,153**	1,629,493	1,370,573	1,177,428	1,017,167

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of directors (the "Board"), I hereby present the annual results of Differ Group Holding Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 (the "Year").

BUSINESS REVIEW

During the Year, the Group reported a record high profit of approximately RMB336.1 million, representing an increase of 15.7% as compared to the corresponding period of last year. The increase in profit are primarily attributable to the significant growth in our assets management business.

The Group considers the asset management business as a key driver of business growth. The Group maintained a balance portfolio of assets management business to provide the Group with stable and diversified revenue stream. During the year 2018 and 2019, the Group has purchases a number of distressed assets, some of which have been successfully disposed and generated a decent profit during the Year. In the meantime, the Group has also recorded a remarkable financial results from sales of properties. Following the completion of the acquisition of certain property companies and land plots in 2018 and 2019, the Board considers the property development business in the theme of cultural tourism to be an extension of the Group's original assets management business. It successfully extended its assets management classes from distressed assets to value assets. In respect of property development business, the Group mainly focuses on residential and commercial projects in PRC's second and third tier cities. The Group expects that the housing demand in these cities will remain robust while the overall real estate sale volume will mildly increase in future. By adopting a flexible investment approach, the Group will actively seek opportunities to acquire quality lands and properties through different ways, include but not limited to acquisition of companies, assets restructuring, tenders, auctions and bids to increase the portfolio of land and properties in the PRC.

In addition to assets management business, the Group will continue to explore the new business opportunities to broaden its income stream. The Group has obtained licenses from the Securities and Futures Commission to carry out Type 1 (Dealing in securities) and Type 9 (Asset Management) regulated activities in 2018. The Group is engaged in provision of securities dealing and brokerage services, participation of the fund raising activities for placing and initial public offering for listed companies and management of funds in Hong Kong during the Year.

The Group is also highly recognized by the capital market. The Group was honoured with "Asia's 200 Best Under A Billion" companies organized by Forbes Asia and was awarded "The Listed Enterprise Excellence Awards 2019" organised by Capital Weekly magazine. The Group also took advantage of its status as reputable listed company in Hong Kong to raise funds through bank and other borrowings and issue of bonds. The Group believed a stable and prudent capital structure will build a solid foundation for its long term development. The Group will continue to explore and diversify its financing channels to ensure sustainable and steady development.

CHAIRMAN'S STATEMENT

Going forward, it is widely anticipated that global economic uncertainties will persist in 2020 amid the outbreak of coronavirus disease (COVID-19), the Group will adopt a prudent approach and closely monitor the financial position. The Group shall maintain as position of financial stability and solid cash reserves to take advantage of any expansion or investment opportunities that may rise from time to time.

APPRECIATION

I express my heartfelt gratitude to all shareholders, investors, customers and business partners for their continued trust and support. I would also like to express my sincere appreciation to all the staff members of the Group for their valuable contribution over the year. In the future, the Company will continue to strive for sustainable and satisfactory returns for all of its shareholders.

Mr. HONG Mingxian
Chairman

Hong Kong
31 March 2020

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

EXECUTIVE DIRECTORS

Mr. HONG Mingxian (洪明顯), aged 45, was appointed as our executive Director on 4 December 2012. Mr. Hong is the chairman of our Company. Mr. Hong is responsible for the overall strategic formulation, management and planning of our Group.

Mr. Hong attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in July 2004. Mr. Hong is the vice chairman of Xiamen City Federation of Industry and Commerce (Chamber of Commerce) (廈門市工商聯(總商會)), the vice chairman of 2nd Council of Xiame Glory Society (廈門光彩事業促進會), a chief supervisor of Capital Association of Fujian Chamber of Commerce (福建閩商資本聯合會), the honorary chairman of Zhejiang Province Fujian Chamber of Commerce (浙江省福建商會) and the honorary chairman of Fujian Youth Entrepreneurship Promotion Association (福建青年創業促進會). Mr. Hong was awarded the title of "Excellent builder of non-public economy of Fujian Province (福建省非公有制經濟優秀建設者)" from People's Government of Fujian Province.

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

Mr. NG Chi Chung (吳志忠), aged 47, was appointed as an executive Director on 26 November 2013. Mr. Ng is the chief executive officer of our Company. Mr. Ng is responsible for the overall business development and management of our Group. Mr. Ng attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in January 2008. Mr. Ng has previously worked at various companies in Hong Kong and Shishi, Fujian Province, and has over 10 years' experience in corporate management. From 2002 to 2008, Mr. Ng was a member of the senior management of a vehicle trading company based in Shishi. Mr. Ng joined the Group in September 2008.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

NON-EXECUTIVE DIRECTORS

Mr. CAI Huatan (蔡華談), aged 60, was appointed as an executive Director on 26 November 2013 and re-designated to a non-executive director on 28 February 2019. Mr. Cai is the honorary chairman of our Company. Mr. Cai graduated from a postgraduate programme in economic law from the Law School of Sichuan University (四川大學) in 1996. Before he joined the Group in September 2008, Mr. Cai has approximately 30 years of experience in management and public administration. From 1980 to 2005, Mr. Cai worked for various departments of the governments of Shishi and Quanzhou.

Mr. WU Qinghan (吳清函), aged 56, was appointed as a non-executive director on 26 November 2013. Mr. Wu has over 25 years experience in trading and manufacturing. He has been the chairman of a manufacturing company in Shishi since 2000. He has been the chairman of Shishi Lingxiu General Chamber of Commerce (石獅市靈秀商會) since 2005. Mr. Wu was a director of a group company from April 2010 to May 2012 and a director of another group company from July 2009 to January 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Kit Lam (林洁霖), aged 45, joined the Group as an independent non-executive Director on 7 June 2017. Mr. Lam is an Honorary Citizen of Xiamen City and is the chairman of DEBON Asset Management Inc.. He has over 15 years of experience in the banking industry. He became a deputy general manager of the Bank of East Asia (China) Ltd. ("BEA") Shanghai branch in 2007, he then worked as a general manager at BEA Wuhan branch and subsequently at BEA Xiamen branch until August 2014.

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

Mr. CHAN Sing Nun (陳星能), aged 45, joined the Group as an independent non-executive Director on 26 November 2013. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Mr. Chan has over 15 years' experience in auditing, accounting and financial management. Mr. Chan currently is a financial controller for a private company and a principal of an audit firm in Hong Kong. Other than his directorship in the Company, Mr. Chan is currently an independent non-executive director of Guangdong Kanghua Healthcare Co., Ltd (stock code: 3689) and Fameglow Holdings Limited (stock code: 8603).

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Mr. Chen Naike (陳乃科), aged 52, joined the Group as an independent non-executive Director on 4 December 2019. Mr. Chen is the chairman of Guohe Holding Group Limited (國和控股集團有限公司) since 2007, chairman of Zhejiang Qiaoshang Holding Limited (浙江僑商控股有限公司) since 2014. He has over 25 years' experience in corporate management, trading and manufacturing.

Mr. Chen obtained a bachelor's degree in Electronic Technology from School of Marine Science and Technology at Northwestern Polytechnical University (西北工業大學航海工程學院) in 1990 and a master's degree in Business Administration from School of Management at Zhejiang University (浙江大學工商管理學院) in 2006. Mr. Chen has undertaken a number of public service and community activities. Mr. Chen is at present a deputy of the Thirteenth National People's Congress of the People's Republic of China (十三屆人大代表), vice chairman of Zhejiang Federation of Returned Overseas Chinese (浙江省僑聯副主席), vice chairman of Zhejiang Association of Overseas Chinese Entrepreneurs (浙江省僑商會常務副會長), the first chairman of Zhejiang Lishui Association of Overseas Chinese Entrepreneurs (浙江首屆麗水僑商會會長) and member of All-China Federation of Returned Overseas Chinese (中國僑聯常委).

SENIOR MANAGEMENT

Mr. CHENG Yun Chung RONIE (鄭潤聰), aged 47, is the manager in charge of corporate finance and fund raising activities within the Group. Graduated from University of Warwick, Mr. Cheng is a fellow member of the Institute of Chartered Accountant of England and Wales with over 20 years of experience in the financial industries with experience spanning from auditing to private equity fund to listed companies.

Mr. TAM Wai Tak Victor (譚偉德), aged 42, is the financial controller and company secretary of the Company. Mr. Tam joined our Group in late January 2013. He is responsible for financial reporting and company secretarial matters of the Company. Mr. Tam graduated with a bachelor of arts in accounting & finance (first class honours) from the University of Glamorgan (now known as the University of South Wales) in June 2001. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the (i) assets management business (including a.) property development and investment and b.) distressed assets, equities investment and fund management), (ii) provision of financial related services (including finance lease services, express loan services, consultancy services, guarantee services and security brokerage services) and (iii) commodity trading business. The management of the Company decided to rename and group certain businesses to better reflect the nature of each business. It should also enable more appropriate understanding of each business by our customers and shareholders.

FINANCIAL REVIEW

Turnover

The turnover increased from approximately RMB844.5 million for the year ended 31 December 2018 to approximately RMB2,251.8 million for the year ended 31 December 2019, representing an increase of approximately RMB1,407.3 million or 166.6%. The increase was attributable to the net effect of the following reasons:

(i) Assets management business

a.) Property development and investment

The income from assets management business is mainly contributed by the sales of properties of Differ Sky Realm (鼎豐天境), Chu Zhou Fu Cheng (處州府城) and She People Ancient City (畲鄉古城) (formerly known as Phoenix Ancient Town (鳳凰古鎮)), all of which were located in Lishui, the PRC. Differ Sky Realm (鼎豐天境) is a residential development comprises mostly properties for residential purposes and minor areas for commercial use on the ground floor. The said development covers a total site area of approximately 99,729 sq. m and a total gross floor area of approximately 377,169 sq. m upon completion. The Phase 1 and 2 of Differ Sky Realm (鼎豐天境) was completed in 2018 and a large part of the properties were delivered to the purchasers in last year. The Phase 3 was completed on December 2019. Most of the remaining parts of Phase 1 and 2 and approximately 90% of the properties of Phase 3 of Differ Sky Realm (鼎豐天境) were sold and delivered to the purchasers for the year ended 31 December 2019. The revenue from the Differ Sky Realm (鼎豐天境) for the year ended 31 December 2019 was approximately RMB489.3 million. In addition, Chu Zhou Fu Cheng (處州府城) is a commercial development in the theme of cultural tourism. The said development covers a total site area of approximately 74,721 sq. m and total gross floor area of approximately 97,929 sq. m. The construction works of Chu Zhou Fu Cheng (處州府城) was completed in 2019 and part of which were recognised as revenue of approximately RMB53.3 million for the year ended 31 December 2019 in accordance with HKFRSs. Furthermore, She People Ancient City (畲鄉古城) is a commercial cultural development with total site area of approximately 173,934 sq.m. and a total gross floor area of approximately 311,585 sq.m. The construction works of She People Ancient City (畲鄉古城) was completed in December 2019 and small part of which delivered to the purchasers in 2019. The revenue from She People Ancient City (畲鄉古城) for the year ended 31 December 2019 was approximately RMB222.4 million.

b.) Distressed assets, equities investment and fund management

Apart from the income as mentioned above, the Group also recorded the income from assets management business of approximately RMB12.7 million during the year ended 31 December 2019. Such income mainly represented the income from disposals of distressed financial assets, rental income and management income.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Financial related services

Finance lease business

Our Group mainly provide the finance lease services for machineries, distant fishing vessels, properties and motor vehicles.

Our Group's finance lease services income decreased by 28.1% from approximately RMB33.6 million for the year ended 31 December 2018 to RMB24.2 million for the year ended 31 December 2019. The decrease was mainly due to the Group's prudent and conservative strategy to develop this business.

Express loan services

Entrusted loan services

Our customers of entrusted loan services are mainly small and medium enterprises. Our Group's entrusted loan service income decreased by 68.0% from approximately RMB54.8 million for the year ended 31 December 2018 to RMB17.5 million for the year ended 31 December 2019. The decrease of entrusted loan service income was mainly due to the decrease of average entrusted loan receivables during the period.

Money lending services

The Group has also provided short–team financing to certain customers in Hong Kong and the PRC and recorded the interest income of approximately RMB51.3 million (2018: RMB21.6 million).

Financial consultancy services

The financial consultancy service income of our Group increased from approximately RMB3.4 million for the year ended 31 December 2018 to RMB36.9 million for the year ended 31 December 2019. Our Group mainly provide financial and business solutions to various customers. The increase of the demand of financial consultancy services which lead to increase of our income from financial consultancy services.

Guarantee services

We provided the financing guarantee services during the year ended 31 December 2019 and 2018. Our Group's guarantee service income slightly decreased by 6.5% from approximately RMB12.1 million for the year ended 31 December 2018 to approximately RMB11.3 million for the year ended 31 December 2019. The Group is adopting a prudent approach to approve the application of our guarantee services from potential customers. The decrease of income from guarantee services was mainly due to the decrease of the number of the customers of guarantee services.

(iii) Supply chain agency services / Commodity trading business

Before July 2019, the Group provided supply chain agency services to its customers. Under normal circumstances, the Group has entered the supply chain agency agreements with its customers and mainly provided the services including sourcing of materials (e.g chemical products) and negotiation the term of sale and purchase agreements on behalf of the customers with their designated suppliers. The supply chain agency fee is based on the pre–agreed percentage of the relevant transaction amount. During the year ended 31 December 2019, the Group recorded the supply chain agency fee of approximately RMB0.2 million (2018: RMB3.6 million) and the relevant total transaction amount was approximately RMB49.8 million (2018: RMB0.7 billion).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group explored the possibility of business restructuring from supply chain agency services to commodity trading business in the second half of 2019. The Group considered that the experiences of supply chain agency services give the Group an advantage in sourcing and procurement of various commodities. The Group further considered that the existing client base and network from supply chain agency services give the Group an advantage in locating the buyers and sellers. Based on the foregoing, the Group concluded that engaging in commodity trading business under a different business model to be a business transformation from supply chain agency services and poses an opportunity for the Group to diversify its source of income. Started from August 2019, the Group was no longer acting as an agency of the supply chain business. The Group engaged in commodity trading business and provided various commodities (e.g aluminum ingot) to the customers under the following business model.

The Group proactively seek various suppliers for the availability of different kinds of commodities and the relevant quantities and unit price which can be offered to the Group. For lucrative offers from suppliers, the Group will contact different potential customers and negotiate the selling terms with them. The Group will enter into the sales and purchase agreement with the customers and there is no credit period granted to them. The Group will arrange handover of the relevant commodities to its customers when the sales invoices have been settled. Revenue from the commodity trading business is recognised when the control of goods is transferred to the customers and the relevant cost of sales (i.e purchase costs from the suppliers) is recognised simultaneously. During the year ended 31 December 2019, the Group recorded the income from commodity trading business of approximately RMB1,329.6 million and the relevant cost of trading of commodities and gross profits were approximately RMB1,328.3 million and RMB1.3 million respectively.

Other income

Other income increased from approximately RMB35.8 million for the year ended 31 December 2018 to approximately RMB53.7 million for the year ended 31 December 2019, representing an increase of approximately RMB17.9 million or 49.8%. Our Group's other income for the year ended 31 December 2019 mainly represented bank and other interest income, sales of electronic devices and reversal of impairment loss on financial lease, loan and account receivables.

Costs of property sold

The Group recorded cost of property development of approximately RMB539.1 million for the year ended 31 December 2019. It mainly represented the land costs, construction costs and other relevant costs for i) Phase 1 to 3 of Differ Sky Realm (鼎豐天境), ii) part of Chu Zhou Fu Cheng (處州府城) and iii) part of She People Ancient City (畲鄉古城) projects.

Gain on disposal of subsidiaries

In June 2019, the Group disposed 1) the entire issued share capital of Karhoe Company Limited ("Karhoe") ("Sale Shares") and 2) the sale loan, representing the amount due from Karhoe Group (as defined below) to the Group in the sum of RMB235.4 million ("Sale Loan"), at the total consideration of RMB279.4 million. Karhoe and its subsidiaries (the "Karhoe Group") is principally engaged in property development in Yingkou City, Liaoning Province. The Group recorded the gain on disposal of Karhoe Group of approximately RMB46.2 million in 2019. Besides, in December 2019, the Group disposed the entire issued share capital of Differ Development Limited ("Differ Development") at the consideration of RMB40 million. Differ Development and its subsidiaries ("Differ Development Group") is principally engaged in distressed assets management business. The Group recorded the gain on disposal of Differ Development Group of approximately RMB26.7 million in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Employee benefit expenses

The employee benefit expenses increased from approximately RMB39.7 million for the year ended 31 December 2018 to approximately RMB59.9 million for the year ended 31 December 2019, representing an increase of approximately RMB20.2 million or 51.0%. Our Group's employee benefit expenses mainly comprised staff salaries, directors' emoluments and other benefits. The increase in employee benefit expenses was mainly attributable to the increase of number of staff and staff salaries as a result of business expansion.

Other expenses

The other expenses increased from approximately RMB52.9 million for the year ended 31 December 2018 to approximately RMB97.7 million for the year ended 31 December 2019, representing an increase of approximately RMB44.8 million or 84.6%. The increase was mainly due to the business expansion of the Group.

The following table sets forth a breakdown of our other expenses:

	2019 **RMB'000**	2018 RMB'000 (Restated)
Advertising expense	**9,004**	5,762
Bank charges	**773**	762
Business tax and other taxes	**16,810**	8,406
Cost of electronic device sold	**11,070**	1,823
Entertainment expense	**3,813**	2,105
Legal and professional fee	**12,164**	12,933
Motor vehicle expense	**885**	875
Office expense	**7,046**	2,947
Telecommunication fee	**645**	400
Travelling expense	**1,980**	2,184
Water and electricity	**2,144**	1,109
Impairment loss on finance lease, loan and account receivable and other receivables	**5,794**	5,758
Exchange loss, net	**1,809**	2,210
Provision for compensation	**11,322**	–
Others	**12,480**	5,673
	97,739	52,947

Gain on disposal of investment properties

The Group recorded gain on disposal of investment properties of approximately RMB61.9 million for the year ended 31 December 2019. It mainly represented the net gain of disposal of parts of Chu Zhou Fu Cheng (處州府城) project recognised in accordance with HKFRSs.

MANAGEMENT DISCUSSION AND ANALYSIS

Change in fair value of investment properties

The Group's investment properties are situated in the PRC and are held under the lease term from 40 to 50 years. As at 31 December 2019, the carrying amount of investment properties represents i) an investment property in Xiamen which are held to earn rentals under operating lease, ii) parts of Chu Zhou Fu Cheng (處州府城) project, which are held for capital appreciation or held to earn rentals and iii) parts of Differ One City (鼎豐壹城) project which are under construction for shopping mall and hold to earn rentals in future. The fair value gains on the Group's investment properties of approximately RMB72.4 million for the year ended 31 December 2019 are based on valuations of such properties conducted by independent property valuers, using property valuation techniques involving certain assumptions of market conditions.

Profit for the year attributable to the owners of the Company

Our Group's profit for the year attributable to the owners of the Company was approximately RMB335.5 million for the year ended 31 December 2019, representing an increase of approximately RMB79.8 million, or 31.2%, from approximately RMB255.7 million for the year ended 31 December 2018.

OUTLOOK

The Group considers the property development business to be an extension of the Group's original assets management business and is the key growth driver. Apart from the acquisition of the companies for Differ Sky Realm (鼎豐天境) and Chu Zhou Fu Cheng (處州府城) projects in 2018, the acquisitions of the companies for She People Ancient City (畲鄉古城) project and lands plots in Zhejiang province for Differ One City (鼎豐壹城) project were completed in 2019. The acquisitions have demonstrated that the Group is capable of diversifying its asset classes. It successfully extended its asset classes from distressed assets to value assets. Besides, for the original assets management business, the Group has also acquired a number of distressed assets in 2019. In view of the favorable economy and the capital appreciation potential of the value and distressed assets in our portfolio, the Board believes that the above acquisitions will generate significant returns in the next few years. Meanwhile, the Group is looking for the other value and distressed assets in PRC continuously.

Other than developing asset management business, the Group is seeking to develop new business opportunities to broaden its income stream. The Group has obtained licenses from the Securities and Futures Commission to carry out Type 1 (Dealing in Securities) and Type 9 (Asset Management) regulated activities in 2018 and actively engaged in the relevant business in 2019. The Group will continue to actively seek and seize the market opportunities and create multiple income streams in order to generate satisfactory returns for shareholders on a continuous basis.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENT

The details of the commitment of the Group as at 31 December 2019 are set out in note 45 to the financial statements in this annual report.

FOREIGN EXCHANGE RISK MANAGEMENT

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

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

(a) On 7 November 2018, Differ Cultural Tours Limited ("Differ Tours"), an indirect wholly–owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Ms. Shi Hongjiao ("Ms. Shi") to acquire the entire issued share capital of Prime Thrive Investments Limited ("Prime Thrive"). Prime Thrive was under the control and managed by Mr. Hong Mingxian ("Mr. Hong"), the substantial shareholder of the Company, via Ms. Shi through a trust arrangement, the acquisition is considered as a combination of businesses under the common control. The consideration of RMB444,862,000 is settled by 1,033,000,000 shares of the Company at issue price of HK$0.495 per share. The principal activity of Prime Thrive and its subsidiaries are property development. The acquisition was completed on 23 January 2019. Upon the completion of the acquisition, Prime Thrive became a wholly–owned subsidiary of the Company.

(b) On 8 November 2018, Longquan City Land and Resources Bureau, a local PRC government authority (as the vendor) has granted Longquan Differ Cultural Tourism Company Limited, an indirect 70% owned subsidiary of the Company (as the purchaser) the right to acquire two land use rights both located in Chengdong District, Longquan City, Zhejiang Province, the PRC, in the total consideration of RMB1,135,050,000. The purchaser and the vendor entered into the relevant land use rights grant contracts on 23 November 2018 and the transaction was completed on 23 November 2019.

(c) On 15 January 2019, the Group received a notification (the "Notification") from Shandong Lid Liquidation Affairs Limited (the "Administrator"), a limited liability company established in the PRC, being appointed by the court as the Administrator of Weihai Zhongtian Real Estate Limited 威海中天房地產有限公司 (now known as Weihai Rong Jing Property Development Limited 威海融璟房地產開發有限公司) ("Weihai Property") and responsible for the reorganisation of Weihai Property, that the court has formally approval a wholly–owned subsidiary of the Company and Zhangzhou Fuyi Investment Co., Limited ("Zhangzhou Fuyi") to be the reforming parties to the restructuring plan in respect of Weihai Property in accordance with the Corporate Bankruptcy Law of the PRC under the supervision of the Administrator.

    Pursuant to the Notification, the Group and Zhangzhou Fuyi acquired 51% and 49% of the equity interest in Weihai Property respectively without payment of any consideration. The transaction was completed on 18 January 2019. Upon the completion of the acquisition, Weihai Property became a joint venture company of the Group.

(d) On 25 June 2019, Differ Cultural and Creative Investment Company Limited ("Differ Cultural"), a direct wholly–owned subsidiary of the Company (as the vendor) entered into the sale and purchase agreement with Wang Yanxuan (as the purchaser), pursuant to which the vendor has agreed to sell and the purchaser has agreed to acquire the Sale Shares and the Sale Loan of Karhoe Group at the total consideration of RMB279,379,667. The principal activity of Karhoe Group is property development. The aforesaid disposal was completed on 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

(e) On 17 December 2019, Differ Tours (as the purchaser) entered into the conditional sale and purchase agreement with Hong Baota (as the vendor), pursuant to which the vendor has agreed to sell and the purchaser has agreed to acquire the entire issued share capital of Cyut Shing Company Limited ("Cyut Shing") at the consideration of RMB405,000,000. Longquan Differ Hotel Company Limited ("Longquan Differ"), a 70% indirectly owned subsidiary of the Company, is indirectly held as to 30% by Cyut Shing. The principal activities of Longquan Differ are property development and management. The acquisition was completed on 18 December 2019. Upon the completion of the acquisition, Longquan Differ became an indirect wholly–owned subsidiary of the Company.

(f) On 24 December 2019, the Company (as the vendor) entered into the sale and purchase agreement with Wong Wai Pan (as the purchaser), pursuant to which the vendor has agreed to sell and the purchaser has agreed to acquire the entire issued share capital of Differ Development at the consideration of RMB40 million. Differ Development Group is principally engaged in distressed assets management business. The aforesaid disposal was completed on 27 December 2019.

Save as disclosed above, there was no significant investment and material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2019.

FINAL DIVIDENDS

The Directors do not recommend the payment of a find dividend for the year ended 31 December 2019 (2018: Nil).

EVENT AFTER THE REPORTING DATE

The emergence and spread of novel Coronavirus in early January 2020 has affected business and economic activity in the PRC and beyond. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future but the estimate of its financial effect cannot be made at this stage.

The Group does not have other significant subsequent events.

HUMAN RESOURCES

As at 31 December 2019, the Group had a total of 401 employees (2018 (restated): 327). The staff costs (included Directors' emoluments) were approximately RMB59.9 million for the year ended 31 December 2019 (2018 (restated): RMB39.7 million). The remuneration package of the employees is determined by various factors such as their working experience and job performance, the market condition, industry practice and applicable employment law. Year–end bonus based on job performance will be paid to employees as recognition of and reward for their contributions.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of employees' salaries to the central pension scheme. The Group also maintains the Mandatory Provident Fund ("MPF") Scheme and insurance for its employees in Hong Kong. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF ordinance. The Group had no forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this report, there was no specific plan for material investments or capital assets as at 31 December 2019 (2018: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the Group had total cash and bank balances and current restricted bank deposits of approximately RMB178.5 million (2018 (restated): RMB125.8 million). The gearing ratio, calculated as percentage of total borrowings to the total assets of the Group was 25.0% as at 31 December 2019 (2018 (restated): 22.4%). The current ratio is 1.39 times as at 31 December 2019 (2018 (restated): 1.64 times). The Group did not use any financial instruments for hedging purpose.

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

TREASURY POLICIES

Our Group continuously monitors our current and expected liquidity requirements as well as our cash and receivables in order to ensure that we maintain sufficient liquidity to meet our liquidity requirements. In particular, we monitor the ageing of our loan and account receivables as well as the maturity profile of our corporate bonds and bank and other borrowings.

CHARGE ON ASSETS

The Group's restricted bank deposits of approximately RMB38.7 million as at 31 December 2019 (2018: RMB39.9 million) were pledged to secure for the Group's facilities of providing financial guarantee services to the customers and the bills payable. Bank borrowings with carrying amount of approximately RMB12 million (2018: RMB24 million) were secured by finance lease receivables with carrying amount of approximately RMB17.1 million (2018: RMB34.2 million). Bank borrowings with carrying amount of RMB603.8 million were secured by properties held for sale with carrying amount of RMB1,318.5 million and investment properties with carrying amount of RMB401 million (2018: approximately RMB635.5 million were secured by properties under development with carrying amount of RMB1,139.2 million). Other borrowings with carrying amount of RMB139.5 million (2018: RMB139.5 million) were secured by charged of 510,000 shares of one of the subsidiaries.

DIRECTORS' REPORT

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the (i) assets management business (including (a) property development and investment and (b) distressed assets, equities investment and fund management), (ii) provision of financial related services (including finance lease services, express loan services, consultancy services, guarantee services and securities brokerage services) and (iii) commodity trading business. The principal activities and other particulars of the subsidiaries are set out in note 38 to the financial statements.

CORPORATION ORGANISATION

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

RESULTS AND DIVIDENDS

The Group's financial performance for the year ended 31 December 2019 and the financial position of the Group at that date are set out in the financial statements on pages 68 to 71 of this annual report.

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

DIVIDEND POLICY

The dividend policy of the Company aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

PRINCIPLES AND GUIDELINES OF DIVIDEND POLICY

(a) The Board adopts the policy that, in recommending or declaring dividends, the Company shall maintain as position of financial stability and solid cash reserves to take advantage of any expansion or investment opportunities that may rise from time to time, and for meeting its working capital requirements and future growth as well as its shareholder value.

(b) The Company does not have any pre-determined dividend payout ratio.

(c) The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Memorandum of Association and the Bye-Laws of the Company and all applicable laws and regulations and the factors set out below.

DIRECTORS' REPORT

(d) The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- business environment;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

(e) Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

(f) Any final dividend for a financial year will be subject to shareholders' approval.

(g) The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

(h) Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Memorandum of Association and the Bye-Laws of the Company.

The Board will review this policy as appropriate from time to time.

DIRECTORS' REPORT

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the past five years is set out in the financial summary on page 3 to 4 of this annual report. This summary does not form part of the audited financial statements in this annual report.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 35 to the financial statements in this annual report.

PROPERTY, PLANT AND EQUIPMENT

The details of movements in the property, plant and equipment of the Group for the year ended 31 December 2019 are set out in note 14 to the financial statements in this annual report.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively in the report. Details of the distributable reserves of the Company are set out in note 36 to the financial statements. The Company's reserves available for distribution to members as at 31 December 2019 amounted to approximately RMB1,045.6 million (2018: RMB871.3 million).

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest customer and the five largest customers accounted for approximately 12.1% and 33.1% of the Group's total income for the year ended 31 December 2019 respectively.

The purchases made by the Group from its largest supplier and the five largest suppliers accounted for approximately 17.2% and 67.4% of the Group's total cost of sales for the year ended 31 December 2019 respectively.

None of the Directors or any of their close associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year ended 31 December 2019.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Cai Huatan *(formerly executive director; re-designated as non-executive director with effect from 28 February 2019)*
Mr. Cai Jianfeng *(resigned on 28 February 2019)*
Mr. Wu Qinghan ("Mr. Wu")

Independent Non-executive Directors

Mr. Chan Sing Nun
Mr. Lam Kit Lam
Mr. Zeng Haisheng *(resigned on 4 December 2019)*
Mr. Chen Naike ("Mr. Chen") *(appointed on 4 December 2019)*

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical information of the Directors and senior management of the Group are set out on pages 7 to 9 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections "Share Option Scheme" and "Disclosure of interests by Directors and Chief Executives in the Company" below, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

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

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

DIRECTORS' REPORT

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

The total number of shares in respect of which options may be granted under the Scheme shall not exceed 400,000,000 shares, being 6.29% of the total number of shares in issue as at the date of the report. On 25 April 2016, the Company granted an aggregate of 84,108,000 share options to the eligible persons. Details of movements in the Company's share options during the year are set out in note 50 to the financial statements in this annual report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year are set out in note 46 to the financial statements in this annual report.

CONNECTED TRANSACTIONS

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

ACQUISITION OF ALL EQUITY INTEREST IN PRIME THRIVE INVESTMENTS LIMITED

On 7 November 2018, Differ Cultural Tours Limited ("Differ Tours"), a wholly-owned subsidiary of the Company (as the purchaser) entered into a conditional sale and purchase agreement with Ms. Shi Hongjiao ("Ms Shi") (as the vendor) to acquire the entire issue share capital of Prime Thrive Investment Limited ("Prime Thrive") (the "Acquisition A"). The consideration of RMB444,862,000 is settled by 1,033,000,000 shares of the Company at issue price of HK$0.495 per share.

Prime Thrive and its subsidiaries ("Prime Thrive Group") are principally engaged in property development and management. The completion of the Acquisition A took place on 23 January 2019 and Prime Thrive become the wholly-owned subsidiary of the Company. The Directors consider that the Acquisition A represents a good investment opportunity for the Group as it represents a strategic expansion of the Group in line with the Group's general business strategy. For further details, please refer to the circular dated 31 December 2018.

ACQUISITION OF ALL EQUITY INTEREST IN CYUT SHING COMPANY LIMITED

On 17 December 2019, Differ Tours (as the purchaser), a wholly-owned subsidiary of the Company, entered into the conditional sale and purchase agreement with Hong Baota (as the vendor), pursuant to which the vendor has agreed to sell and the purchaser has agreed to acquire the entire issued share capital of Cyut Shing Company Limited ("Cyut Shing") at the consideration of RMB405,000,000 (the "Acquisition B"). Longquan Differ Hotel Company Limited ("Longquan Differ"), a 70% indirectly owned subsidiary of the Company, is indirectly held as to 30% by Cyut Shing. The principal activities of Longquan Differ are property development and management. The acquisition was completed on 18 December 2019. Upon the completion of the acquisition, Longquan Differ became an indirect wholly-owned subsidiary of the Company.

The Directors believe that the Acquisition B would allow the Company to gain full control in Longquan Differ which in turn will strengthen the assets management business of the Group. For further details, please refer to the announcement dated 17 December 2019.

DIRECTORS' REPORT

DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES IN THE COMPANY

As at 31 December 2019, the interests and short positions of the Directors or chief executives of the Company and their associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" contained in the Listing Rules, were as follows:

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

Name of Director	Capacity/ Nature of interest	Number of Shares	Number of underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the total issued share capital of the Company
Mr. Hong	Interest in controlled corporation *(Note 1)*	3,001,200,000	–	3,001,200,000	47.16%
	Beneficial owner	–	6,400,000	6,400,000	0.10%
Mr. Ng	Interest in controlled corporation *(Note 2)*	1,115,800,000	–	1,115,800,000	17.53%
	Beneficial owner	12,098,000	6,400,000	18,498,000	0.29%

Notes:

1. These Shares were held by Expert Corporate Limited ("Expert Corporate"), which was wholly and beneficial owned by Mr. Hong. By virtue of the SFO, Mr. Hong is deemed to be interested in the 3,001,200,000 Shares under the SFO.

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

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2019, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2019, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

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

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of the total issued share capital of the Company
Expert Corporate	Beneficial owner *(Note 1)*	3,001,200,000	47.16%
Ms. Shi	Interest of spouse *(Note 2)*	3,007,600,000	47.26%
Ever Ultimate	Beneficial owner *(Note 3)*	1,115,800,000	17.53%
Ms. Ting Pui Shan ("Ms. Ting")	Interest of spouse *(Note 4)*	1,134,298,000	17.82%
Jianda Value Investment Fund L.P.	Person having a security interest in shares *(Note 5)*	850,000,000	13.36%
Li Yining	Person having a security interest in shares *(Note 5)*	850,000,000	13.36%
Cinda International Holdings Limited	Person having a security interest in shares *(Note 5)*	850,000,000	13.36%

DIRECTORS' REPORT

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of the total issued share capital of the Company
Wu Haitao	Person having a security interest in shares *(Note 5)*	850,000,000	13.36%
Tian Sheng Universal Limited	Person having a security interest in shares *(Note 5)*	850,000,000	13.36%
Caitong Securities Co., Limited	Person having a security intend in shares *(Note 5)*	850,000,000	13.36%
China Cinda Asset Management Co., Limited	Person having a security intend in shares *(Note 5)*	850,000,000	13.36%
Ministry of Finance of Zhejiang Province, the People's Republic of China (中華人民共和國浙江省財政廳)	Person having a security intend in shares *(Note 5)*	850,000,000	13.36%
Cinda Securities Co., Limited	Person having a security intend in shares *(Note 5)*	850,000,000	13.36%

Notes:

1. These Shares were held by Expert Corporate, which was wholly and beneficial owned by Mr. Hong. By virtue of the SFO, Mr. Hong is deemed to be interested in the 3,001,200,000 Shares under the SFO.

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

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

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

5. Expert Corporate had executed a share and account charge in favour of the subscribers of the senior guaranteed notes of US$19,000,000, pursuant to which Expert Corporate charged the securities of at least 850,000,000 Shares and assets in a designated securities account of Expert Corporate as a security for the repayment obligation of the Company under the subscription agreement.

Save as disclosed above and as at 31 December 2019, the Directors are not aware any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

As far as the Directors are aware of, none of the Directors or any of their respective associates (as defined in the Listing Rules) has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year ended 31 December 2019.

All the independent non-executive Director were delegated with the authority to review on an annual basis the compliance of the terms of the non-competition undertaking and the enforcement of the non-competition undertaking given by Mr. Hong, Mr. Ng, Expert Corporate and Ever Ultimate. Each of them confirmed that (a) they have provided all information necessary for the enforcement of the non-competition undertaking, as requested by all independent non-executive Directors from time to time; and (b) each of them had fully complied with the non-competition undertaking for the year ended 31 December 2019. All independent non-executive Directors also confirmed that they were not aware of any non-compliance with the non-competition undertaking given by them during the same period.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 28 to 39 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by BDO Limited which will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution to re-appoint BDO Limited and to authorise the Directors to fix its remuneration will be proposed at the forthcoming AGM.

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

Hong Kong, 31 March 2020

CORPORATE GOVERNANCE REPORT

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2019.

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

Throughout the year ended 31 December 2019, the Company had complied with the CG Code with the exception from the deviation from the code provisions A.1.8 as explained below:

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

THE BOARD AND BOARD COMMITTEES

The Directors who held office during the year ended 31 December 2019 and as at the date of this report are as follows:

Mr. Hong Mingxian	Executive Director and Chairman
Mr. Ng Chi Chung	Executive Director and Chief Executive Officer
Mr. Cai Huatan	Non-executive Director *(former executive director, re-designated as non-executive director with effect from 28 February 2019)* and Honorary Chairman
Mr. Cai Jianfeng	Non-executive Director *(resigned on 28 February 2019)*
Mr. Wu Qinghan	Non-executive Director
Mr. Chan Sing Nun	Independent non-executive Director
Mr. Lam Kit Lam	Independent non-executive Director
Mr. Zeng Haisheng	Independent non-executive Director *(resigned on 4 December 2019)*
Mr. Chen Naike	Independent non-executive Director *(appointed on 4 December 2019)*

The biographical details of all directors are set out under the section headed "Directors' and Senior Management Biographical Details" on pages 7 to 9.

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Company has complied with Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive directors representing more than one-third of the Board and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors also meet the guidelines for assessment of their independence. Each of the independent non-executive Directors has made an annual confirmation of independence and the Board is satisfied that all the independent non-executive Directors were independent and met the independent guidelines set out in Rule 3.13 of the Listing Rules, up to the date of the annual report.

BOARD DIVERSITY POLICY

The board diversity policy aims to set out the Company's approach on the diversity of the Board. This policy applies to the Board. It does not apply to diversity in relation to the employees of the Company, nor the Board and the employees of any subsidiary of the Company.

Policy Statement

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Company believes that greater diversity of directors is good for corporate governance and is committed:

- To attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talent.

- To maintain a Board with diversity perspectives at all levels, in particular, those are aligning with the Company's strategy and objectives.

- To assess regularly the diversity profile of the Board and, where applicable, senior management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any.

- To ensure that the selection and nomination of Board positions are appropriately structured so that a diverse range of candidates can be considered.

- To set up appropriate procedures for development of a broader and more diverse pool of skilled and experienced senior management that would be prepared for Board positions.

- To ensure that changes to the Board's composition can be managed without undue disruption.

CORPORATE GOVERNANCE REPORT

Implementation

The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In reviewing and assessing the Board composition and the nomination of directors (as applicable), Board diversity has to be considered from a number of aspects, including but not limited to the following:

- Gender
- Age
- Cultural and educational background
- Ethnicity
- Professional qualifications
- Skills, knowledge and industry and regional experience
- Length of service

Measurable Objectives

The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Board may adopt and/or amend from time to time (as applicable) such diversity perspectives and/or measurable objectives that are appropriate to the Company's business and Board succession planning, as applicable. The ultimate decision will be made based on the merits and contributions that the candidates can provide to the Company as well as taking into account the business model and specific needs of the Company from time to time.

The Nomination Committee will review this policy as appropriate and recommend revisions, if any, to the Board for consideration and approval.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

There are no financial, business, family or other material/relevant relationship(s) among our Chairman, Chief Executive Officer and all Directors.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEE

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

DIRECTORS' ATTENDANCE RECORD

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

During the year ended 31 December 2019, the Board held four regular board meetings which were held at approximately quarterly intervals and three general meetings, being 2019 AGM and two extraordinary general meetings ("EGM"). The attendance of each Directors is as follows:

	Number of regular board meetings attended/held	**Number of general meeting attended/held**
Executive Directors:		
Mr. Hong Mingxian	4/4	3/3
Mr. Ng Chi Chung	4/4	3/3
Non-executive Directors:		
Mr. Cai Huatan *(former executive director; re-designated as non-executive director with effect from 28 February 2019)*	4/4	1/3
Mr. Cai Jianfeng *(resigned on 28 February 2019)*	0/0	0/2
Mr. Wu Qinghan	4/4	1/3
Independent non-executive Directors:		
Mr. Chan Sing Nun	4/4	1/3
Mr. Lam Kit Lam	4/4	1/3
Mr. Zeng Haisheng *(resigned on 4 December 2019)*	3/3	1/3
Mr. Chen Naike *(appointed on 4 December 2019)*	1/1	0/0

CORPORATE GOVERNANCE REPORT

There were 5 additional board meetings held for normal course of business during the year with the presence of all executive Directors. Apart from the said meetings, matters requiring Board approval were arranged by means of circulation of written resolutions of Board members. The Board is provided with relevant materials in relation to the matters brought before the meetings. Reasonable notices of meetings are given to the Directors and the Directors are encouraged to propose new items as any other business for discussion at the meetings. Minutes are kept by the company secretary and are open for inspections by all Directors at any reasonable time. Procedures for convening meetings of the Board and Board committees and preparing minutes of the meetings have complied with the requirements of the Articles of Association of the Company and applicable rules and regulations.

AUDIT COMMITTEE

The Board has established the Audit Committee with written terms of reference on 26 November 2013, which was latest updated on 31 December 2018 in compliance with the CG code's and relevant listing rules requirements. The Audit Committee also serves and fulfils its duties as corporate governance function of the Company in accordance with the updated terms of reference. As at 31 December 2019, the Audit Committee consists of two independent non-executive Directors, namely Mr. Chan Sing Nun and Mr. Lam Kit Lam and one non-executive Director namely, Mr. Wu Qinghan. Mr. Chan Sing Nun is the chairman of the Audit Committee.

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

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

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

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

– reviewing and examining the compliance and corporate governance policies, code of conduct and the effectiveness of risk management and internal control systems;

– reviewing the compliance with the CG code and disclosure in this Corporate Governance report.

During the year ended 31 December 2019, the Audit Committee (1) reviewed the Group's annual and interim reports and result announcements, the related accounting principles and practices adopted by the Group and provided advice and comments thereon; (2) made recommendations to the Board and the management in respect of the Group's financial reporting, risk management and internal control procedures; and (3) reviewed the Group's connected transactions pursuant to the Listing Rules. The Audit Committee held four meetings during the year and the attendance of each member is as follows:

	Member of Audit Committee Meeting attended/held
Mr. Chan Sing Nun	4/4
Mr. Lam Kit Lam	4/4
Mr. Zeng Haisheng *(resigned on 4 December 2019)*	3/3
Mr. Wu Qinghan *(appointed on 4 December 2019)*	1/1

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee with written terms of reference on 26 November 2013, which was latest updated on 3 July 2015 in compliance with the CG code's and relevant listing rules requirements. As at 31 December 2019, the Remuneration Committee consists of two independent non-executive Directors, namely Mr. Lam Kit Lam and Mr. Chan Sing Nun and one executive Director, namely Mr. Ng Chi Chung. Mr. Lam Kit Lam is the chairman of the Remuneration Committee.

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

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

– ensuring none of the Directors determine their own remuneration.

During the year ended 31 December 2019, the Remuneration Committee reviewed and made recommendation on the remuneration package of Directors and senior management of the Group and assessed the performance of executive Directors. The Remuneration Committee held 2 meetings during the year and attendance of each member is as follows:

	Number of Remuneration Committee Meeting attended/held
Mr. Lam Kit Lam	2/2
Mr. Chan Sing Nun	2/2
Mr. Zeng Haisheng *(resigned on 4 December 2019)*	2/2
Mr. Ng Chi Chung *(appointed on 4 December 2019)*	0/0

NOMINATION COMMITTEE

The Board has established the Nomination Committee with written terms of reference on 26 November 2013, which was latest updated on 31 December 2018 in compliance with the CG code's and relevant listing rules requirements. As at 31 December 2019, the Nomination Committee consists of two independent non-executive Directors, namely Mr. Lam Kit Lam and Mr. Chan Sing Nun and one executive Director, namely Mr. Hong Mingxian. Mr. Hong Mingxian is the chairman of the Nomination Committee.

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

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

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

– identify suitable and qualified individuals to become Board members.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Nomination Committee reviewed and discussed the structure, size and composition of the Board; made recommendation on the appointment or reappointment of Directors; and confirmed the independence of the independent non-executive Directors. The Nomination Committee held 2 meetings during the year and the attendance of each member is as follows:

	Number of Nomination Committee Meeting attended/held
Mr. Zeng Haisheng *(resigned on 4 December 2019)*	2/2
Mr. Hong Mingxian *(appointed on 4 December 2019)*	0/0
Mr. Chan Sing Nun	2/2
Mr. Lam Kit Lam	2/2

NOMINATION POLICY

The Nomination Policy aims to set out the criteria and process in the nomination and appointment of directors of the Company; to advise the Board in relation to appointment of directors; ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of Company; and ensure the Board continuity and appropriate leadership at Board level. This policy applies to the directors of the Company and where applicable, senior management prepared for Board positions under the succession planning of the Company.

The Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the Nomination Committee of the Company. Without prejudice to the authority and duties of the Nomination Committee as set out in its terms of reference, the ultimate responsibility for selection and appointment of directors of the Company rests with the entire Board.

Nomination and Appointment of Directors

Criteria:

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- Character and integrity.

- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy.

- Any measurable objectives adopted for achieving diversity on the Board.

CORPORATE GOVERNANCE REPORT

- Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.

- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.

- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

- Sufficiency of time to be devoted to the Company.

- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

- the considerations listed out in our Board Diversity policy.

Nomination Process

(a) Appointment of New Director

(i) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(ii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iii) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(iv) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

CORPORATE GOVERNANCE REPORT

(b) *Re-election of Director at General Meeting*

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The Nomination Committee will keep monitoring and conduct regular review on the diversity, structure, size and composition of the Board and this policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs and reflects both current regulatory requirements and good corporate governance practice.

INSIDE INFORMATION DISCLOSURE

The Company has established an inside information disclosure policy.

The Board is responsible for timely, accurate and complete dissemination of inside information about the Group to the market by making proper and timely disclosure of inside information announcements.

Our policy strictly requires our directors, management and employees to keep unpublished inside information confidential and refrain from dealing in the Company's securities if they are in possession of such inside information.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by Directors of listed issuers as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the year ended 31 December 2019.

AUDITOR'S STATEMENT AND THEIR REMUNERATION

The statement of the auditor of the Company about their reporting responsibilities on the Group's financial statements for the year ended 31 December 2019 is set out in the section headed "Independent Auditor's Report" of this report.

The remuneration of the Company's external auditor, BDO Limited, in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to RMB1,433,000 (2018: RMB1,305,000) and RMB267,000 (2018: RMB957,000) accordingly. The non-audit services were related to agreed upon procedures. The Audit Committee has assessed and satisfied with the independence of our external auditor.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Company has set up a corporate governance working committee that is composed of senior management that is charged with duties to oversee and report to the Directors and the Company's Audit Committee on a regular basis the effectiveness of our internal controls and prepares reports containing (1) consolidated financial statements, (2) business performance analysis, (3) material events and transaction (such as takeovers and mergers, change of key personnel and shareholders), (4) summary of significant contracts, (5) information of related party transactions, connected transactions and notifiable transactions, and (6) compliance status in our businesses.

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

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

TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, all Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group including reading materials in relation to regulatory update and/or attending training course to develop professional skills. The relevant details are set out below:

	Reading and/or online studying	Seminars and/or workshop
Executive Directors:		
Mr. Hong Mingxian	✓	✓
Mr. Ng Chi Chung	✓	✓
Non-executive Directors:		
Mr. Cai Huatan *(former executive director; re-designated as non-executive director with effect from 28 February 2019)*	✓	✓
Mr. Cai Jianfeng *(resigned on 28 February 2019)*	✓	
Mr. Wu Qinghan	✓	✓
Independent non-executive Directors:		
Mr. Chan Sing Nun	✓	✓
Mr. Lam Kit Lam	✓	✓
Mr. Zeng Haisheng *(resigned on 4 December 2019)*	✓	✓
Mr. Chen Naike *(appointed on 4 December 2019)*	✓	✓

COMPANY SECRETARY

The Company Secretary of the Company, Mr. Tam Wai Tak Victor, is also the Authorized Representative of the Company. During the year, he has received no less than 15 hours of continuous professional development training accredited by various professional associations in compliance with Main Board Listing Rules 3.29.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparation of the consolidated financial statements for the financial year ended 31 December 2019, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and properly prepared on going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

The Board and management are dedicated to meeting and communicating with shareholders at the annual general meeting of the Group. Our Chairman of the board, Chief Executive Officer and senior management will attend the annual general meeting of the Group to answer questions of shareholders.

Notice of the annual general meeting is sent to the shareholders at least 21 clear days before the holding of the annual general meeting. All other general meetings (including extraordinary general meeting) must be called by Notice of not less than fourteen (14) clear days and not less than ten (10) business days.

There are no provisions in the Companies Law of the Cayman Islands (amended in 2018) or in the Articles of Association allowing shareholders to propose new resolutions at shareholders' meetings. Shareholders who wish to propose a resolution may request the company to convene a shareholders' meeting in accordance with the procedures prescribed in the preceding paragraph.

Regarding nominations for directors by shareholders, please refer to Shareholders' Nomination Procedures -- for Directors Candidates on the company website.

Shareholders may send their inquiries and concerns to the Company's principal place of business in Hong Kong in writing at any time.

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

INVESTOR RELATIONS

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

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

During the year ended 31 December 2019, there had been no change in the constitutional documents of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Differ Group Holding Company Limited (the “Company”, or “Differ”) has substantially grown its businesses spanning from financial services to cultural tourism. Upholding the vision of constructing a more sustainable financial institution, the Company sees the integration of sustainability principles into its strategic planning and day-to-day operation through transparent measures as its business key, with a view to delivering long-term value to stakeholders of the Group and maintain its competitive edge. Having a deep ambition to build up long-term trusted ties with stakeholders, the Company is delighted to publish its fourth environmental, social and governance (“ESG”) report (the “Report”) highlighting its initiatives and efforts in pursuit of sustainability.

SCOPE OF THE REPORT

The Report examines the Company’s ESG management approaches, and the corresponding performance for the period commencing on 1st January and ending on 31st December, 2019 (the “Reporting Period”, “2019”) related to its major subsidiaries (collectively, the “Group”) in Zhejiang, Fujian, Shandong and Hong Kong. Subsidiaries in Gingning, Longquan, Nanan and joint venture in Weihai are included in 2019 in addition to that in Xiamen, Lishui and Hong Kong due to the expansion of business.

REPORTING STANDARD

The Report has been prepared in accordance with the “Comply or Explain” provisions of the Environmental, Social and Governance Reporting Guide under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEx ESG Reporting Guide”). The Report has been reviewed and approved by the board of directors of the Company.

CONTACT & FEEDBACK

Having a belief that a strong trusted relationship with the community is critical for its business sustainability, the Company is committed to managing the Group with the best interests of its stakeholders; therefore, treasure your feedback on this ESG report and the sustainability performance. If you have any comments or suggestions, please write to 16/F, Euro Trade Centre, 13-14 Connaught Road, Central, Hong Kong or email to pr@dfh.cn.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

Differ understands the best way to manage its business is having a strong collaboration with its stakeholders; thus, values their interests and views, and above all, their participation.

To identify stakeholders' insights and concerns in relevance to business operation, the Group has been maintaining regular communications with the major stakeholders through various channels, which are illustrated in the table below:

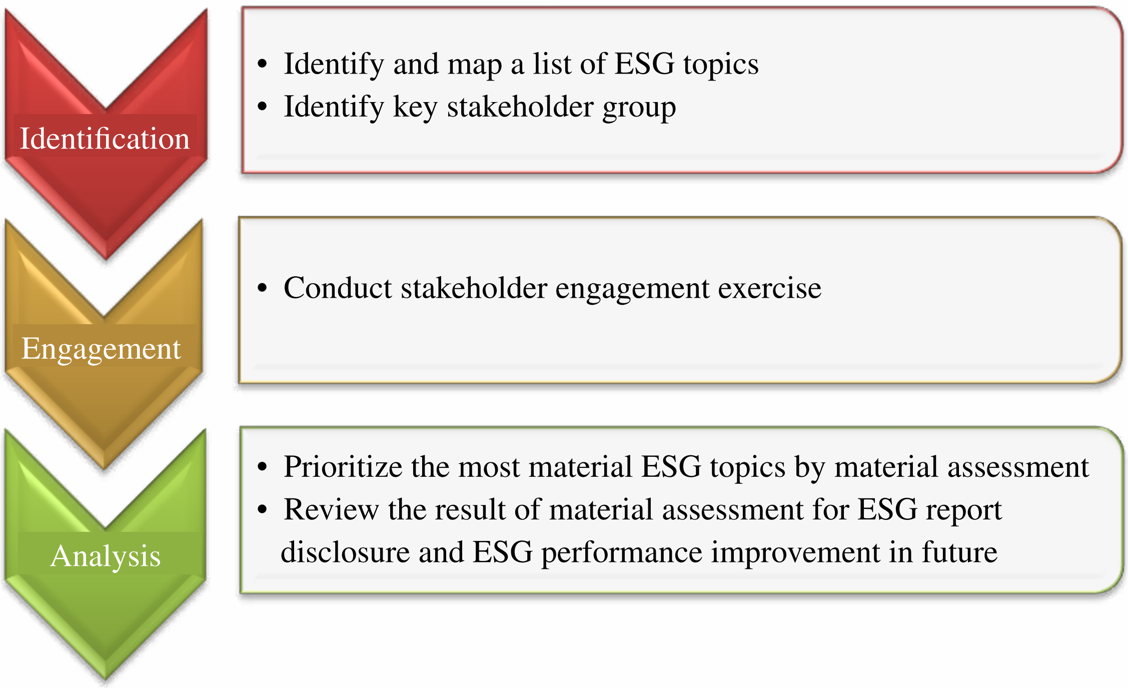
Types of stakeholder group	Communication channels
Investors and shareholders	• Company website • Company's announcements • Annual general meeting • Annual and interim reports
Customers	• Company website • Customer direct communication • Customer feedback and complaints • Customer satisfaction surveys
Employees	• Training and orientation • Emails and opinion box • Regular meetings • Employee performance evaluation • Employee activities
Suppliers and business partners	• Selection assessment • Procurement process • Performance assessment • Regular communication with business partners (e.g. emails, meetings, on-site visit etc.)
Government authorities and regulators	• Documented information submission • Compliance inspections and checks • Regular meetings/luncheons with local government representatives • Forums, conferences and workshops
Communities	• Company website • Community activities
Media	• Company website • Company's announcements

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

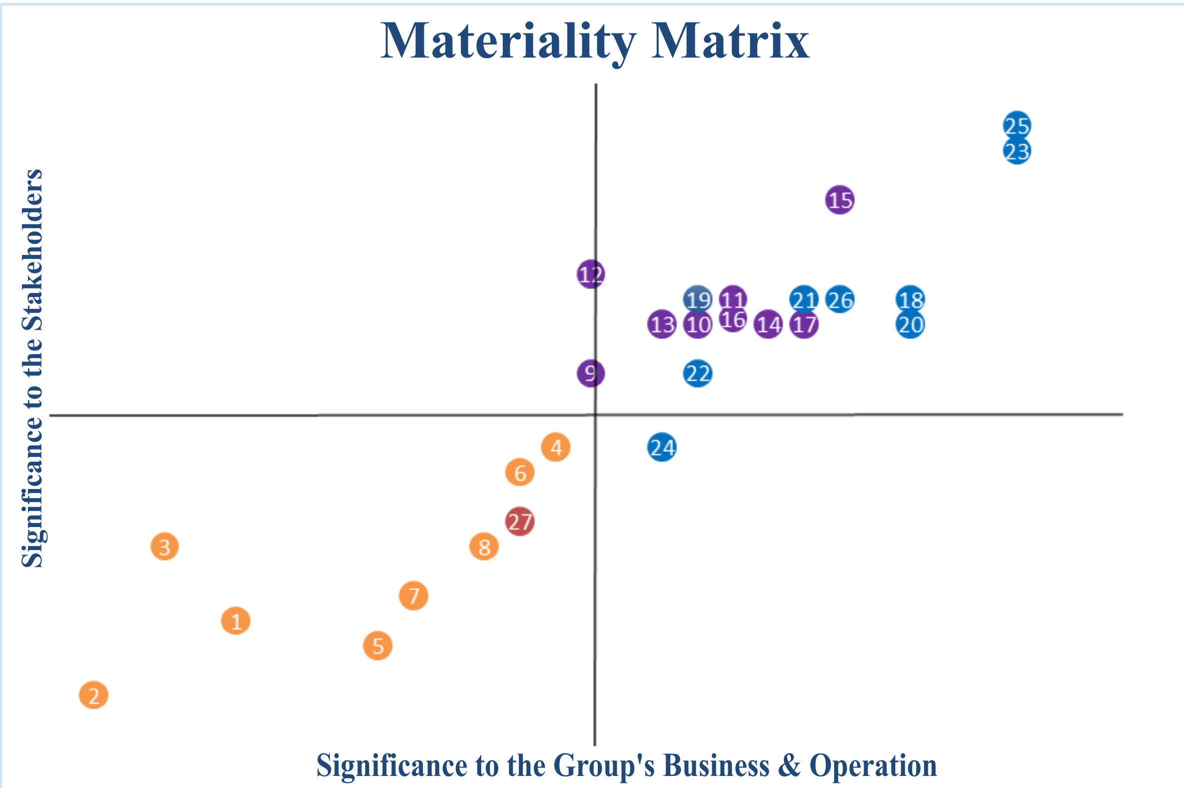
A materiality assessment by means of an online questionnaire has been conducted by an independent consultant for identification and prioritization of material ESG issues to the Group. The result serves as a ground for the formulation of ESG strategies in line with the Group's business development and the direction of this report.

Both our internal and external stakeholders (e.g. board of director, media, employee, and customer) were invited to fill in the questionnaire and score the identified twenty seven ESG issues in accordance with their relevance and importance to the business operation and the stakeholders themselves respectively. Based on the materiality of each of the ESG issues expressed by the stakeholders, the ESG issues were prioritized and shown in the materiality matrix below. The issues which fell in the upper right corner of the matrix were defined as the topics that matter most to both the Group's business operation and our stakeholders' concern.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The materiality matrix based on the received responses and analysis result:



Environment	Social	
	Employment	Operation
1. Air emission 2. Greenhouse gas emission 3. Climate change 4. Energy efficiency 5. Water & effluents 6. Use of materials 7. Waste management 8. Environmental compliance	9. Labour rights 10. Labour-management relations 11. Employee retention 12. Diversity and equal opportunity 13. Non-discrimination 14. Occupational health and safety 15. Employee training 16. Employee development 17. Prevention of child labour & forced labour	18. Customer satisfaction 19. Customer service quality & complaints handling 20. Customer health and safety 21. Marketing and product and service labelling compliance 22. Intellectual property 23. Customer privacy and data protection 24. Responsible supply chain management 25. Business ethics 26. Socio-economic compliance
		Community
		27. Community investment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

According to the results of the materiality matrix, the Group should focus on business ethics, customer privacy and data protection, employee training, customer satisfaction, customer health and safety, socio-economic compliance, marketing and product and service labelling compliance, prevention of child labour & forced labour, occupational health and safety, employee retention, employee development, customer service quality & complaints handling, labour-management relations, intellectual property, and non-discrimination.

Dedicated to providing services beyond the industry standard with professionalism and innovative ideas, the Company always regards the principle of “Integrity, Gratitude, Prudence and Trailblazing” as top priority for all its customer-centric service.

During the Reporting Period, we are very pleased to be identified as one of the best private enterprise in Fujian Province. With our great effort, we were also honoured the “The Listed Enterprise Excellence Award”, recognizing our commitment and efforts in contributing the community.

Looking forward, the Group will continue to review and develop corresponding ESG policies and targets, as well as optimizing the ESG reporting disclosure in order to pursue continuous improvement in our ESG performance in future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTEGRITY

Anti-Corruption

Ethical operation has always been the prime concern of the Company and our stakeholders, as illustrated in the materiality assessment. The Group upholds the highest level of business integrity and exacts zero tolerance on corruption, bribery, extortion, fraud and money laundering by the establishment of Code of Conduct and whistleblowing system.

Employees are strictly prohibited to offer, accept or request any form of advantages such as gifts, rewards, introduction fee and commission fee from business partners and should avoid conflicts of interests. Infringement of the company policy is subject to dismissal or other disciplinary actions. Differ also extends its ethical standard to its suppliers. They are not only chosen based on their business ethics record, but also forbidden from offering gifts, entertainment or hospitality to our employees without Differ's approval. Our suppliers are also required to sign the Integrity Agreement to ensure they are in line with our integrity standard.

The Group believes only with an extensive participation of employees can it sustain an ethical and legal operation. Therefore, employees are encouraged to monitor our business operation, including the policies and systems of recruitment and procurement, and report timely any suspected violations in either written or verbal form. In order to motivate active supervision of employees through our whistleblowing system in which the identity of whistle-blowers is kept confidential, they will be rewarded if the case is found valid.

Our internal whistleblowing management committee which is in charge by our chief executive officer, is responsible to handle the report cases promptly and effectively. Apart from having a thorough investigation about the case nature and people involved, it is accountable to implement remediation and improvement plans to prevent reoccurrence.

During the Reporting Period, the Group confirmed that there were no breaches of relevant laws and regulations, and no concluded legal cases regarding corruption practices were brought against the Group or our employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GRATITUDE

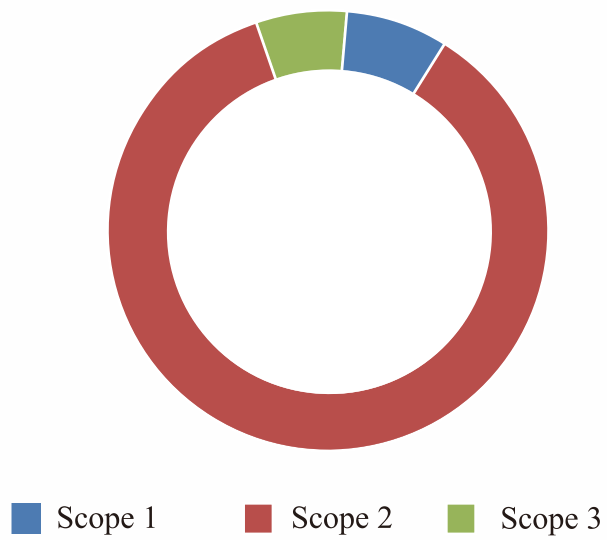
Having a deep appreciation of our natural resources, we recognize our obligation in establishing an effective environmental management system for diminishing our environmental footprint. We seek every opportunity to relentlessly reinforce our operating efficiency by curtailing the consumption of energy and raw materials. A comprehensive set of environmental policies and supporting procedures, covering greenhouse gas emission and resource usage, has been launched.

During the Reporting Period, the Group was not aware of any significant non-compliance with laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, generation of waste and use of resources in Hong Kong and Mainland China.

Air and Greenhouse Gas Emissions

Due to the office-based operation nature of the Group, we have limited emission of air pollutants, and yet we strive to trim our air emission to an operational minimum. We enforce pertinent mitigation with reference to the pollutant source identification of our operation. Mobile fuel combustion, electricity consumption and business air travel are the dominant greenhouse gas ("GHG") emission sources of the Group based on a systematic collection of consumption data. We have conducted periodic audit review, the result of which will be reported to the management team for further policy establishment. Policies on conserving energy have been implemented and will be discussed in the following section. All sorts of business travel have been slashed, especially unnecessary air travel, and have been replaced by phone conference or other applicable measures. In 2019, the Group emitted a total of 1,869.02 tCO_2e of GHG, with an intensity of 5.29 tCO_2e per full-time employee.

GHG Emission (tCO_2e)



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Greenhouse Gas Emission	2017	2018	2019
Scope 1 – Direct GHG emissions[1] (tCO_2e)	43.75	104.49	141.12
Nitrogen oxides (NOx)[2] (kg)	–	–	14.11
Sulphur oxides (SOx) (kg)	–	–	0.87
Particulate matter (PM)[2] (kg)	–	–	1.04
Scope 2 – Energy indirect GHG emissions[3] (tCO_2e)	98.91	1,231.56	1,606.23
Scope 3 – Other indirect GHG emissions[4] (tCO_2e)	56.95	40.85	121.67
Total GHG emissions (tCO_2e)	199.61	1,376.90	1,869.02
GHG Intensity (tCO_2e/employee)	1.52	4.13	5.29

Resource Management

Our operation could not be smoothly run without the provision of resources from our precious environment, therefore, we are always grateful and cherish the natural resources with a commitment to utilize them in a responsible and sustainable manner. We do not have a very mighty goal but an exceedance beyond the compliance of national environmental protection law through development of low carbon economy and protection of ecological environment.

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1 Scope 1 represents direct GHG emissions generated by the mobile combustion of unleaded petrol and gasoline. The calculation refers to the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) published by the HKEPD and Electrical and Mechanical Services Department, and the guidance worksheets of World Resources Institute's GHG Protocol Tool for Mobile Combustion.

2 Data only covers offices of Hong Kong, Lishui, Longquan and Weihai. The calculation is based on the "How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEx.

3 Scope 2 represents energy indirect GHG emissions generated by the use of electricity purchased from power suppliers. The calculation is using 2017 Emission Factors for purchased electricity within Mainland China, published by Climate Change Info-Net.

4 Scope 3 represents other indirect GHG emissions caused by business air travel by employees only. The calculation refers to GHG Conversion Factors for Company Reporting published by the UK Government.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Resource Consumption	2017	2018	2019
Electricity (MWh)	122.14	1,523.36	1,995.68
Intensity (MWh/employee)	0.93	4.57	5.65
Energy (GJ)	439.70	5,484.10	7,184.44
Vehicle fuel (L)	14,183.50	39,283.32	59,036.32
Intensity (L/employee)	108.27	117.97	167.24
Energy (GJ)	464.96	1,287.79	1,935.34
Water[5] (m^3)	4,449.82	41,336.07	54,880.00
Intensity (m^3/employee)	33.97	124.13	163.33
Paper (Tonnes)	1.66	2.62	3.20
Intensity (Tonnes/employee)	0.01	0.01	0.01

For optimizing resource efficiency, we have one core principle – elimination of any unnecessary and excessive consumption of resources. We have adopted the 4R Principles – reduce, reuse, replace and recycle to avoid wastage. Employee participation has always been emphasized in addition to the Group's efforts. In order to imprint the conservation practices into our employee's mind, various resource saving signs, such as electricity, water and paper have been placed in conspicuous and relevant locations. Behaviour of staff, as well as the Group's consumption pattern have been highly supervised for further initiatives, including our Energy Saving Policy. Apart from holding a strong advocacy on maintenance rather than new replacement, we perform regular inspections on all our electrical appliances and water taps to prevent any leakage and extend their lifespan.

5 Hong Kong office is excluded as water consumption is under its property management and data is not available. In 2019, there was no issue in sourcing water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Electricity

- Replace lightings by natural sunlight whenever applicable
- Install energy-saving light bulbs with sound sensors
- Set all the electrical appliances to energy saving mode and switch off when they are not in use
- Impose a 26˚C cap on air-conditioning in summer

Water

- Install water taps with automatic sensors
- Scale down water pressure and amount of the taps

Office Equipment

- Promote e-platform for internal infomation circulation
- Encourage the use of recylced paper and double-sided printing
- Procure equipment that is refillable and energy saving with low environmental impacts

Waste Management

Notwithstanding a relatively trivial generation of domestic waste, we have introduced detailed procedures for waste segregation to eradicate any unnecessary disposal as stated in our Waste Separation Management Policy. Various waste bins with prominent colour labels are placed in designated areas to ensure their easy accessibility and smooth waste sorting. Fully acknowledged the potential repercussions of hazardous waste to human health and natural environment, prior inspection and approval are demanded for replacement or disposal.

Waste Disposal	2019
Effluents[6] (m^3)	7,267.48
Intensity (m^3/employee)	83.64
Hazardous[7] Waste (Tonnes)	0.011
Intensity (Tonnes/employee)	0.00033
Non-hazardous waste[8] (Tonnes)	0.62
Intensity (Tonnes/employee)	0.04

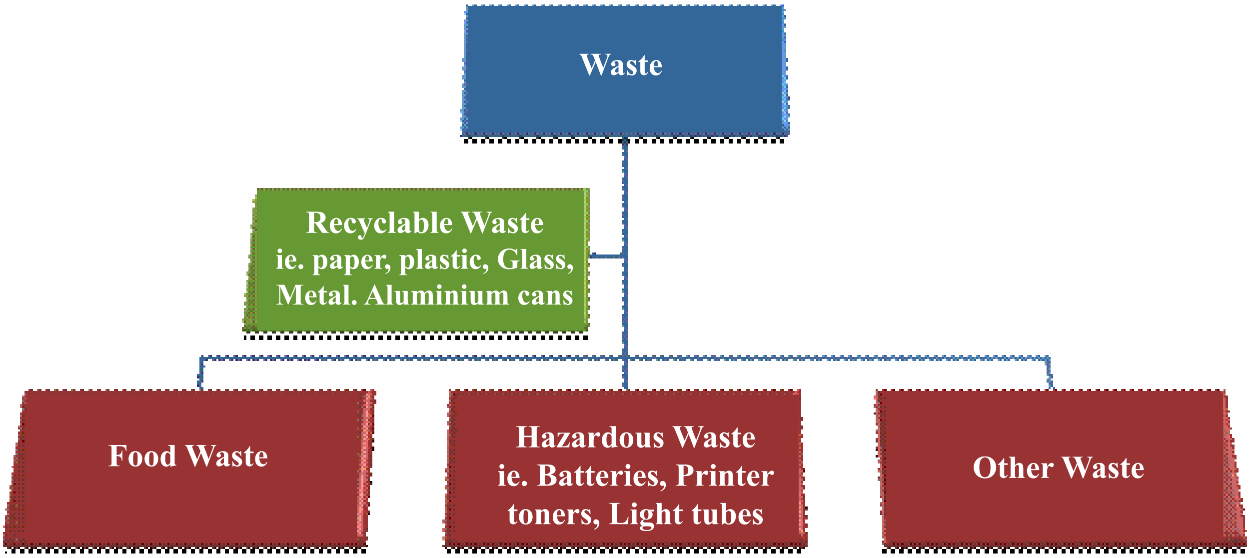
6 Only Lishui and Weihai offices are covered in wastewater discharge data. We will improve the data collection methodology in the future.

7 Only Nanan and Weihai offices are covered in hazardous waste disposal data. Ink cartridge is the major type of hazardous waste.

8 Only Weihai office is covered in non-hazardous waste disposal data. Waste paper and domestic waste are the major types of non-hazardous waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste separation is far from enough without proper waste handling. Apart from appointing licensed waste collectors, we assign an administrator to monitor and manage the process from waste sorting, collection, storage to disposal. To raise our employees' environmental awareness and promote an integration of waste sorting into their office life, we offer educational supports on the waste segregation process. Disciplinary actions may be taken as a deterrent for contamination of separated waste.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environment and Natural Resources

The alarming trend of climate change lately has brought us unprecedented concern on environmental stewardship. The Group stays proactive in managing emerging environmental risks and advancing our performance in pursuit of long-term and sustainable operation. Internal green office guidelines have been established to cultivate habits of our employee to conserve natural resources. Special attention has been paid on pollutants and GHG emission, energy and water usage, and waste disposal. Corrective measures will be implemented once our environmental performance is found unsatisfactory in periodic audits. Root cause(s) will also be examined whenever applicable to relieve and avoid the condition.

As an office-based enterprise, we fulfil our commitment on natural resources by prudent selection of green office equipment. We solely procure products with green lifecycle, from design, production, usage to disposal. Efficiency of energy and resources, emission of pollutants, recycling readiness, and product health and safety in both production and operational stage are marked as our fundamental criteria. All our electrical appliances are either with energy efficiency labels or with certifications recognized by environmental organizations. Besides, office equipment is procured based on the National Green Procurement List, in which recyclable materials and equipment operating in renewable energy are highly favoured. In addition, procurement depends only on actual storage rather than economical purpose to minimize wastage of our precious and scarce resources.

Community Engagement

There is an indivisible linkage between our achievement and the support of our community. To show our gratitude towards the society, we are dedicated to facilitating societal growth. Similar to other issues of our corporate responsibility management, we commence by promoting internally and spreading to our community gradually. In order to nurture empathy among our employees which stems from immense love they have acquired, the Group never hesitate to offer help to employees who are in need. Further, employees are fostered to engage in the society proactively, providing helping hands within our community. In addition to cultivating supporting practices of our people, the Group has shown support to various charitable events and government calls in accordance with our Community Involvement Policy, introducing new company or even industry norms.

The Group delivers special care to the elderly and children living in poverty, and focuses on areas of education, science, art and culture, community health and wellness, environmental protection and public facilities construction. During the Reporting Period, we organized visits to the underprivileged in rural areas, and offered financial support to diverse charitable events. We will continuously invest more resources in public welfare and raise public awareness so as to put our idea of corporate social responsibility into action.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Figure 1 Visit to Linxia

Figure 2 Donation for Scholarship

PRUDENCE

Being a financial institution which is dedicated to offering financial prudence to its clients, the Group believes a talented financial management team is the prerequisite of its professional services; therefore, it advocates a prudent standard on employee management. The Group not only abides by relevant laws and regulations, but also strives to provide a platform for unleashing potentials and promoting exploration of its employees.

Employment Conditions

We place tremendous effort into recruiting and retaining innovative and responsible talents. A broad range of responsible employment practices beyond the regulatory minimum are in place for motivating our staff, including a competitive remuneration packages which is performance-based. Working performance of our staff is assessed biannually through staff appraisal review, apart from making adjustments in salary, position and training fund, bonus and service awards are granted for appreciation of employees' contribution. All employees are entitled to marriage leave, breastfeeding leave and compassionate leave on top of the statutory annual leave, sick leave, maternity and paternity leave. Both Hong Kong and Chinese employees are secured with mandatory provident fund and social welfare scheme respectively. Besides, staff is not encouraged to work overtime beyond our fixed working hour, and it requires a prior approval from the management and the staff is compensated.

At Differ, fairness and anti-discrimination are our core workplace values. We treat our people with full dignity and respect. The Group strives to conduct fair recruitment and promotion by solely scrutinizing candidates' competency, qualification and experience. There is zero tolerance on any kind of discriminatory behaviour at Differ, on the basis of but not limited to gender, religion, race, socioeconomic status, marital status, pregnancy, disability, sexual orientation, and political inclination. Differ is also committed to providing equal opportunities for all employees in all aspects of their work, from recruitment to performance evaluation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group was not aware of any material breaches of relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

Healthy and Safe Workplace

The Group endeavours to maintain a safe and healthy workplace both physically and mentally to our greatest asset – our people. As the Group is principally office-based, a hygienic and tidy working area can effectively eliminate safety incidents; thus we endorse a set of safety and hygienic procedures and standards. We also equip our workers, especially for those who are exposed to potential safety risks, with essential safety equipment and training to ensure they are well notified about the hazards and preventive measures, while reminders are attached on machines that pose safety risks. In addition, we often raise our employees' awareness on general office safety issues, including fire hazards by regular fire drills and training about the evacuation routes and locations of fire extinguishers.

The Group always encourages our people to achieve a work-life balance, and it has organized diversified recreational and relationship bonding activities ranging from birthday party and orientation party to festive dinner during the Year. Employees are also engaged in regular exercise and have built up strong bonds with their co-workers through various team sports activities. Besides, quality break is valued; therefore, reading is promoted at Differ for enriching our employees' emotional health.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards in Hong Kong and Mainland China.

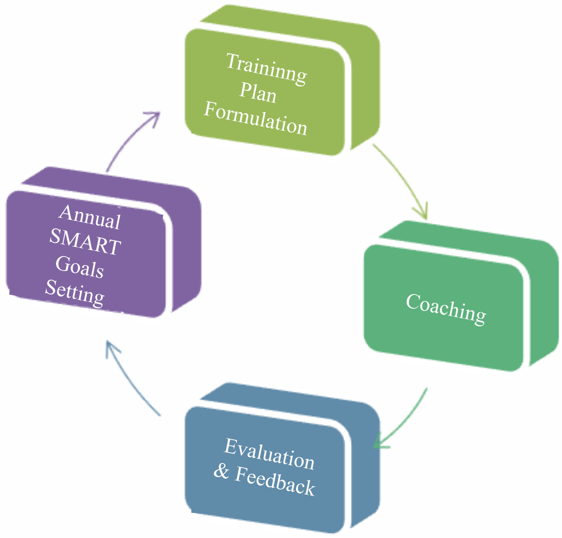
Figure 3 Chinese New Year Celebration

Figure 4 Crossdressing Birthday Party

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

Professional competency and development of our employee serve pivotal roles in our substantial business growth. We establish a thorough training plan aiming at upgrading our employee's knowledge and skills to meet the industry and our growing demands.



Ambition is what drives our steady pace towards a sustainable financial institution. Our annual training plan is therefore commenced by setting performance targets through discussions with supervisors and evaluation of last year progress. The goals must be "SMART" – specific, measurable, attainable, relevant and time-bound. Training needs are then identified and analyzed for arranging supportive training resources, including internal and external vocational coaching. To stay abreast of the industrial advancement, we often invite experts in financial industry for sharing their experience and the latest market trends. In 2019, a broad spectrum of training programmes have been organized according to both corporate operational and employee development needs including technical skills, personal development, team management and legal updates. Besides, in order to foster proactive learning and enhancement in our workplace, we offer additional learning materials in both physical and e-versions, such as reference books and training videos. Therefore, employees are able to study anytime and formulate their own study plan that suits their career path most. The training plan is evaluated annually on its effectiveness and quality to ensure it unleashes potentials of our employees in full strength.

Figure 5 Training and Bonding Camp for the Management

The Group places strong emphasis on nurturing management elites for sustainable business operation in addition to the general training plan. We have established a training funding scheme for sponsoring distinguished staff for external training. We conduct regular evaluation on training effectiveness in the form of written examination, work performance observation, and self-assessment in a fair and transparent manner for spotting talents. Funds are granted correlated to their work performance; their training profiles are one of the significant indicators for their career ladders. Staff can also receive regular feedback from their immediate supervisors along their working and learning journey.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Labour Standard

Being committed to protecting labour rights, the employment of child and forced labour is strictly prohibited within the Group by standardizing our recruitment process. The Group abides by relevant labour laws and national regulations, including Provisions on the Prohibition of Using Child Labor. The commitment is also extended to our supply chain management for safeguarding workers' rights.

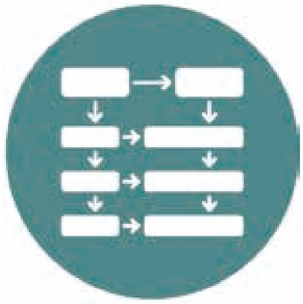
Standardized recruitment process is in place to eliminate hiring of child labour. Identity of employee is stringently verified before they are on board. Background records are meticulously examined to ensure their accuracy and legitimacy. Furthermore, there is zero tolerance on both physical and mental abuse, including violence, humiliation, detention, and threats. If there are any suspicious cases, employees are encouraged to report to the management team verbally or in written form anonymously; prompt investigation and remediation will be taken.

Apart from the whistleblowing system for handling employees' complaints, the Group appreciates the opinions from the labour union for our continuous improvement. All our employees are entitled to freedom of association, so that they are granted rights to establish and join labour unions freely. We are committed to taking prompt response and we are open to negotiation for shielding our workers' rights.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to preventing child and forced labour.

TRAILBLAZING

Supply Chain Management

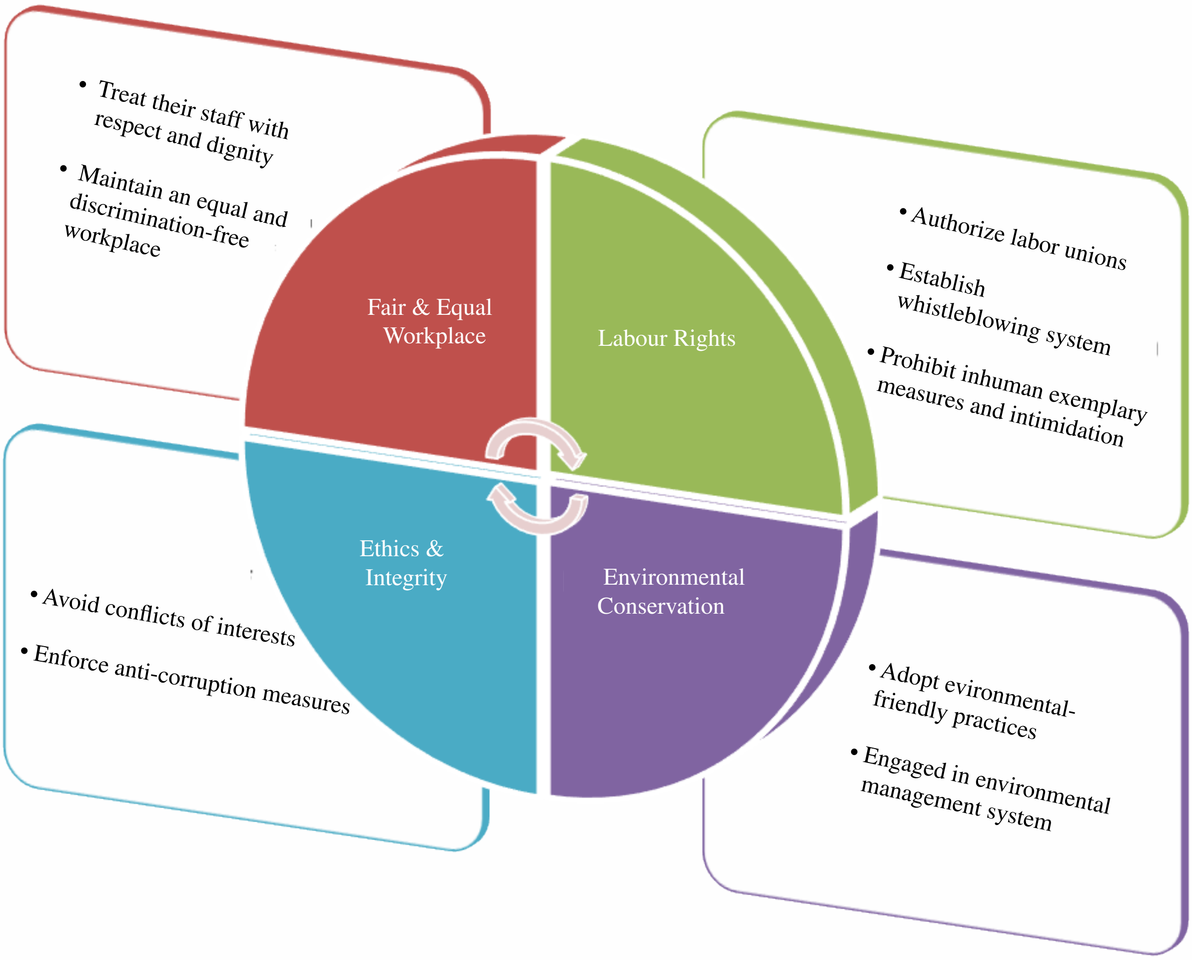


The Group, upholding a vision of being a leading capital management company, believes it should be a trailblazer to extend its corporate social responsibility and environmental stewardship to its supply chain upon internal operational governance.

A socially and environmentally sustainable development cannot be achieved by one single corporation, but a joint collaboration with its associates. Therefore, the Group has endorsed a comprehensive selection standard for its potential suppliers, assessing their contribution on environmental conservation, labour rights protection and ethical operation. To nurture a mutual engagement in social responsibility of financial industry, the Group takes its leading role to establish the Supplier and Customer Code of Conduct. This guides our suppliers and clients on fulfilling their social obligation, and they are expected to adhere to it throughout our business cooperation. The Group also offers appropriate support and training where necessary and conducts regular inspection for further facilitating its implementation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

According to the Code of Conduct, our suppliers should promote a sustainable community in addition to full legal compliance. They are advised to offer a fair and equal workplace where labour rights are safeguarded, operate with ethics and integrity, and conserve the environment.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Leading Quality Services

As a leading financial institution, we always stay adventurous and innovative to provide professional services that exceeds the market standard. The Group endeavours to keep inventing and revamping our capital management plans and financial products to fulfil our clients' ever-changing demands timely, including enhancing our service standard and expanding its coverage. Therefore, we always encourage and reward market driving ideas from our employees. Our internal quality committee, which is comprised of a team of experts in finance, legal matters, management, research and government policies, reviews and advances our quality policies and procedures regularly to optimize our customer-centric services. In 2019, one of our innovative ideas on investor relations management has gained us the Investor Relations Innovation Award from International Roadshow Centre, recognizing our creativity and enthusiasm towards outstanding services.

During the Reporting Period, the Group was not aware of any material breaches of laws and regulations relating to health and safety, advertising, labelling, privacy matters, and intellectual property rights of products and services in Hong Kong and Mainland China.

Customer Satisfaction

The Group truly recognizes customer as our greatest and precious asset; thus, we see strengthening client bonding and uplifting customer's loyalty as our primary tasks. Customer's demands and information are frequently compiled through visits and questionnaires and analyzed for delivering the best-tailored and the most up-to-date services. In addition, we have published thorough procedures on handling customer enquiries and complaints with our greatest patience. Prompt actions will be taken to investigate the cases and remedial action plans will be carried out where necessary. Root cause(s) will also be analyzed to prevent similar cases from reoccurrence.

Customer Privacy

The Group is dedicated to building mutual trust with our customers at all times. Understanding how indispensable privacy means to our clients, we always identify it as an issue of critical concern. Stringent rules and procedures on collecting, using, transferring, storing and disclosing customers' valuable information have been established. Only information that is relevant and necessary for providing value-added services and enhancing customers' experience is collected. Those information is treated in a secure and confidential manner that only authorized personnel are granted rights to access, process and erase. Disclosure of such information is also restricted without clients' prior consent.

Intellectual Property Rights

Innovation is what paves our way to an outstanding capital management company; thus we value intellectual property rights. The Intellectual Property Management Measures are in place for the research and development process, throughout which intellectual properties are constantly tracked and recorded. Permission is required for all the copying, using and transferring. In addition, all employees and suppliers are demanded to sign the non-disclosure agreement and supervision is conducted to avoid any infringement of intellectual property rights. Besides, training and promotional campaigns are carried out for raising our employees' awareness on respecting and protecting business secrets. Violation of the company policy is subject to dismissal or other disciplinary actions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HKEx ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect A: Environment		
A1 Emissions	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.	GRATITUDE – Air and Greenhouse Gas Emissions
KPI A1.1	The types of emissions and respective emissions data.	GRATITUDE – Air and Greenhouse Gas Emissions
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	GRATITUDE – Air and Greenhouse Gas Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	GRATITUDE – Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	GRATITUDE – Waste Management
KPI A1.5	Description of measures to mitigate emissions and results achieved.	GRATITUDE – Air and Greenhouse Gas Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	GRATITUDE – Waste Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
A2 Use of Resources	Policies on efficient use of resources including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	GRATITUDE – Resource Management
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	GRATITUDE – Resource Management
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	GRATITUDE – Resource Management
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	GRATITUDE – Resource Management
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	GRATITUDE – Resource Management
KPI A2.5	Total packaging material used for finished products (in tonnes), and, if applicable, with reference to per unit produced.	Our operation does not involve the use of raw and packaging materials
A3 The Environment and Natural Resources	Policies on minimising the issuer’s significant impact on the environment and natural resources.	GRATITUDE – The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	GRATITUDE – The Environment and Natural Resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect B: Social		
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	PRUDENCE – Employment Conditions
B2 Health and Safety	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	PRUDENCE – Healthy and Safe Workplace
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	PRUDENCE – Development and Training
B4 Labour Standards	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	PRUDNECE – Labour Standard
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	TRAILBLAZING – Supply Chain Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	TRAILBLAZING – Leading Quality Services
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	INTEGRITY
B8 Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	GRATITUDE – Community Engagement

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF DIFFER GROUP HOLDING COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Differ Group Holding Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 68 to 214, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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.

INDEPENDENT AUDITOR'S REPORT

Impairment assessment on finance lease, loan and account receivables

Refer to notes 5, 20 and 48 to the consolidated financial statements.

As at 31 December 2019, the Group had finance lease, loan and account receivables amounting to RMB966,475,000, and the Group was exposed to credit risk thereof. The Group has applied HKFRS 9 Financial Instruments and assessed impairment for these receivables based on expected credit losses ("ECL") model. In determining the impairment losses on finance lease, loan and account receivables, the management assessed historical default rates, the values of the collaterals as well as those relevant forward-looking information such as the expected future cash flows and forward-looking macroeconomic factors which involve estimation and significant judgement.

Due to the significance of finance lease, loan and account receivables (representing 16% of total assets) to the consolidated financial statements as a whole and the use of judgement and estimates by management in assessing the recoverability of finance lease, loan and account receivables, we considered this as a key audit matter.

Our responses:

Our key procedures in relation to the management's impairment assessment on finance lease, loan and account receivables included:

– Checking, on a sample basis, the ageing profile of the finance lease, loan and account receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts;

– Inquiring of management for the status of each of the material finance lease, loan and account receivables past due as at year end date and corroborating explanations from management with supporting evidence, such as understanding on-going business relationship with the customers based on trade or transaction records, checking historical and subsequent settlement records and other correspondence with the customers;

– Performing public search of credit profile of selected customers, considering the credit profiles of the debtors, guarantors and the collaterals (if any), as well as external evidence and factors, to assess whether management's assessment of ECL was appropriate;

– Assessing management's forecast of future repayments and current financial conditions of the debtors, based on historical experience and value of collaterals (if any) etc; and

– Evaluating the appropriateness and reasonableness of methodology, parameters and assumptions used in the measurement of ECL such as criteria for judging significant increases in credit risk, definition of credit-impaired financial asset, key data inputs and forward-looking information.

INDEPENDENT AUDITOR'S REPORT

Valuation of investment properties

Refer to notes 5 and 16 to the consolidated financial statements.

The Group has investment properties of RMB747,800,000 as at 31 December 2019 and a fair value gain of RMB72,362,000 was accounted for under "change in fair value of investment properties" in the consolidated statement of comprehensive income during the year.

Due to the existence of significant judgements and estimates of the assumptions involved in the property valuations, we considered this is a key audit matter.

Management of the Company engaged independent external valuers to determine the valuation of the Group's investment properties. The significant judgements and estimates involved in the valuation mainly include:

– Completed investment properties: the valuation was arrived at using income approach by considering the capitalised income derived from the existing tenancies of the properties or, where appropriate, using market approach by reference to market evidence of transaction prices for similar properties, taking into account differences such as age, location and individual factors.

– Investment properties under construction: the valuation was arrived at using residual approach by establishing the market value of properties as if completed as at the date of valuation with appropriate deduction of potential cost of development and the developer's anticipated profit.

Our responses:

Our key procedures in relation to the valuation of the investment properties included:

– Assessing the independence, competence and relevant experience of the independent external valuers engaged by the Group;

– Assessing appropriateness of the methodologies applied and the reasonableness of the key assumptions based on our knowledge of the property industry, research evidence of estimated selling prices with reference to comparable market transactions for similar properties and comparing the estimated developer's cost to historical records, focusing in particular on material properties where the growth in capital values was significantly higher or lower than our expectations based on available market information; and

– Checking the accuracy of the rental data provided by the Group to the independent external valuers by agreeing them on a sample basis to the Group's records.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Income from financial related services	7	**144,634**	129,462
Income from assets management business	7	**777,613**	715,038
Income from trading of commodities	7	**1,329,594**	–
Other income	7	**53,686**	35,832
Costs of property sold		**(539,075)**	(466,131)
Costs of trading of commodities		**(1,328,264)**	–
Gain on disposal of subsidiaries	40	**72,888**	31,947
Employee benefit expenses		**(59,949)**	(39,706)
Depreciation and amortisation expenses		**(16,692)**	(4,355)
Operating lease expenses		**–**	(7,629)
Short-term lease expenses		**(1,195)**	–
Equity-settled share-based payments		**(1,624)**	(3,729)
Other expenses		**(97,739)**	(52,947)
Share of results of an associate		**124**	(7,076)
Share of results of a joint venture		**11,088**	–
Gain on disposal of investment properties		**61,874**	–
Gain on bargain purchase arising from acquisition of a subsidiary		**–**	40,072
Change in fair value of investment properties		**72,362**	56,495
Change in fair value of other financial assets		**(863)**	6,750
Finance costs	10	**(43,353)**	(35,505)
Profit before income tax	8	**435,109**	398,518
Income tax expense	11	**(98,978)**	(108,091)
Profit for the year		**336,131**	290,427

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods			
– Exchange differences on translating foreign operation		**(6,543)**	(13,440)
– Net change in debt investments measured at fair value through other comprehensive income		**8,000**	(4,518)
– Transfer to profit or loss upon disposal of debt investments measured at fair value through other comprehensive income		**(2,300)**	–
Item that will not be reclassified to profit or loss in subsequent periods			
– Surplus on revaluation of land and buildings		**–**	16,829
		(843)	(1,129)
Total comprehensive income for the year		**335,288**	289,298
Profit for the year attributable to:			
Owners of the Company		**335,503**	255,728
Non-controlling interests		**628**	34,699
		336,131	290,427
Total comprehensive income attributable to:			
Owners of the Company		**334,444**	254,599
Non-controlling interests		**844**	34,699
		335,288	289,298
Earnings per share	13		
– Basic (RMB cents)		**5.32**	5.38
– Diluted (RMB cents)		**5.32**	5.35

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**As at 31 December 2019 RMB'000**	As at 31 December 2018 RMB'000 (Restated)	As at 1 January 2018 RMB'000 (Restated)
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	14	**173,133**	19,178	19,853
Prepaid land lease	15	**–**	–	6,105
Investment properties	16	**747,800**	600,200	321,000
Interest in an associate	17	**15,653**	15,529	20,499
Interest in a joint venture	18	**15,678**	–	–
Restricted bank deposits	19	**–**	–	10,000
Finance lease, loan and account receivables	20	**98,558**	180,899	275,120
Goodwill	21	**33,400**	33,400	33,400
Other financial assets	22	**95,000**	97,900	136,100
Prepayments, deposits and other receivables	23	**319,060**	83,680	83,038
		1,498,282	1,030,786	905,115
Current assets				
Inventories of properties	24	**3,064,836**	2,219,124	2,032,907
Other inventories		**513**	385	–
Finance lease, loan and account receivables	20	**867,917**	919,602	1,007,850
Prepayments, deposits and other receivables	23	**228,080**	779,046	541,466
Contract assets		**3,624**	–	–
Other financial assets	22	**44,738**	3,619	84,519
Tax receivables		**28,485**	17,000	18,156
Restricted bank deposits	19	**38,714**	39,869	17,752
Cash and bank balances – general accounts	25	**139,770**	85,895	60,837
Cash and bank balances – held on behalf of customers	26	**22,959**	23,775	–
		4,439,636	4,088,315	3,763,487
Assets classified as held-for-sale	44	**–**	452,989	–
		4,439,636	4,541,304	3,763,487
Current liabilities				
Accounts and bills payable	27	**493,756**	473,616	198,104
Accruals, other payables, deposits received and deferred income	28	**633,022**	685,552	421,082
Contract liabilities	29	**1,351,221**	1,079,832	1,046,079
Lease liabilities	30	**14,896**	–	–
Provision for taxation		**153,719**	79,519	37,932
Bank and other borrowings	31	**493,375**	296,038	253,503
Corporate bonds	32	**51,175**	18,270	41,725
		3,191,164	2,632,827	1,998,425

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000 (Restated)	As at 1 January 2018 RMB'000 (Restated)
Liabilities related to assets classified as held-for-sale	44	**–**	140,602	–
		3,191,164	2,773,429	1,998,425
Net current assets		**1,248,472**	1,767,875	1,765,062
Total assets less current liabilities		**2,746,754**	2,798,661	2,670,177
Non-current liabilities				
Deposits received	28	**7,507**	83,497	31,025
Lease liabilities	30	**89,699**	–	–
Bank and other borrowings	31	**689,910**	675,229	697,497
Corporate bonds	32	**248,310**	257,955	225,199
Promissory note		**–**	–	120,000
Deferred tax liabilities	34	**120,077**	122,641	102,888
		1,155,503	1,139,322	1,176,609
Net assets		**1,591,251**	1,659,339	1,493,568
EQUITY				
Share capital	35	**12,832**	10,585	8,292
Reserves	36	**1,574,321**	1,618,908	1,362,281
Equity attributable to owners of the Company		**1,587,153**	1,629,493	1,370,573
Non-controlling interests	39	**4,098**	29,846	122,995
Total equity		**1,591,251**	1,659,339	1,493,568

On behalf of the directors

Hong Mingxian

Director

Ng Chi Chung

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000 *(Note 36)*	Merger and other reserves RMB'000 *(Note 36)*	Statutory reserve RMB'000 *(Note 36)*	Financial assets revaluation reserve RMB'000 *(Note 36)*	Assets revaluation reserve RMB'000	Convertible bonds equity reserve RMB'000 *(Note 33)*	Translation reserve RMB'000	Share options reserve RMB'000 *(Note 36)*	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2017, as previously reported	8,292	356,029	261,502	60,948	3,600	–	–	(4,535)	20,455	601,198	1,307,489	64,106	1,371,595
Adjustments for acquisition of subsidiaries under common control	–	–	51,001	–	–	–	–	(1)	–	16,470	67,470	58,889	126,359
Impact on initial application of HKFRS 9	–	–	–	–	3,218	–	–	–	–	(7,604)	(4,386)	–	(4,386)
At 1 January 2018, as restated	8,292	356,029	312,503	60,948	6,818	–	–	(4,536)	20,455	610,064	1,370,573	122,995	1,493,568
Profit for the year	–	–	–	–	–	–	–	–	–	255,728	255,728	34,699	290,427
Other comprehensive income for the year	–	–	–	–	(4,518)	16,829	–	(13,440)	–	–	(1,129)	–	(1,129)
Total comprehensive income for the year	–	–	–	–	(4,518)	16,829	–	(13,440)	–	255,728	254,599	34,699	289,298
Issue of ordinary shares by placing	1,251	264,020	–	–	–	–	–	–	–	–	265,271	–	265,271
Issue of shares in respect of conversion of convertible bonds	870	200,651	–	–	–	–	(19,783)	–	–	–	181,738	–	181,738
Acquisition of subsidiaries under common control	172	41,845	(476,930)	–	–	–	–	–	–	–	(434,913)	–	(434,913)
Transfer to statutory reserve	–	–	–	53,217	–	–	–	–	–	(53,217)	–	–	–
Recognition of equity component of convertible bonds	–	–	–	–	–	–	19,783	–	–	–	19,783	–	19,783
Recognition of equity-settled share-based compensation	–	–	–	–	–	–	–	–	3,729	–	3,729	–	3,729
Capital contribution	–	–	49,000	–	–	–	–	–	–	–	49,000	–	49,000
Capital injection of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	32,254	32,254
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	178	178
Arising from acquisition of additional interests in subsidiaries	–	–	(80,287)	–	–	–	–	–	–	–	(80,287)	(158,713)	(239,000)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(1,567)	(1,567)
At 31 December 2018, as restated	10,585	862,545	(195,714)	114,165	2,300	16,829	–	(17,976)	24,184	812,575	1,629,493	29,846	1,659,339

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000 *(Note 36)*	Merger and other reserves RMB'000 *(Note 36)*	Statutory reserve RMB'000 *(Note 36)*	Financial assets revaluation reserve RMB'000 *(Note 36)*	Assets revaluation reserve RMB'000	Translation reserve RMB'000	Share options reserve RMB'000 *(Note 36)*	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2018, as previously reported	10,585	862,545	(205,249)	114,165	2,300	16,829	(17,973)	24,184	804,600	1,611,986	29,846	1,641,832
Adjustments for acquisition of subsidiaries under common control	–	–	9,535	–	–	–	(3)	–	7,975	17,507	–	17,507
At 1 January 2019, as restated	10,585	862,545	(195,714)	114,165	2,300	16,829	(17,976)	24,184	812,575	1,629,493	29,846	1,659,339
Profit for the year	–	–	–	–	–	–	–	–	335,503	335,503	628	336,131
Other comprehensive income for the year	–	–	–	–	5,700	(16,829)	(6,759)	–	16,829	(1,059)	216	(843)
Total comprehensive income for the year	–	–	–	–	5,700	(16,829)	(6,759)	–	352,332	334,444	844	335,288
Acquisition of subsidiaries under common control	2,247	442,615	(444,862)	–	–	–	–	–	–	–	–	–
Transfer to statutory reserve	–	–	–	38,738	–	–	–	–	(38,738)	–	–	–
Recognition of equity-settled share-based compensation	–	–	–	–	–	–	–	1,624	–	1,624	–	1,624
Arising from acquisition of additional interests in subsidiaries	–	–	(378,408)	–	–	–	–	–	–	(378,408)	(26,592)	(405,000)
At 31 December 2019	12,832	1,305,160	(1,018,984)	152,903	8,000	–	(24,735)	25,808	1,126,169	1,587,153	4,098	1,591,251

* Retained profits included amount of approximately RMB25,023,000 as at 31 December 2019 (2018: RMB25,064,000) which was set aside in accordance with the relevant rules governing the financial guarantee business in the People's Republic of China (the "PRC") as reserve for non-matured obligation and guarantee indemnity reserve and was not distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Cash flows from operating activities			
Profit before income tax		**435,109**	398,518
Adjustments for:			
Bank and other interest income	7	**(12,683)**	(352)
Interests expenses	10	**43,353**	35,505
Depreciation of property, plant and equipment	8	**16,692**	4,322
Amortisation of prepaid land lease	8	**–**	33
Share of results of associates		**(124)**	7,076
Share of results of a joint venture		**(11,088)**	–
Change in fair value of investment properties		**(72,362)**	(56,495)
Equity-settled share-based payments	8	**1,624**	3,729
Gain on disposal of property, plant and equipment	8	**(118)**	(422)
Gain on disposal of investment properties		**(61,874)**	–
Write off of property, plant and equipment	8	**641**	27
Change in fair value of other financial assets		**863**	(6,750)
Loss on disposal of debt investments measured at fair value through other comprehensive income		**(2,300)**	–
Provision for impairment loss on finance lease, loan and account receivables and other receivables	8	**5,794**	5,758
Reversal of impairment loss on finance lease, loan and account receivables	7	**(5,979)**	(19,719)
Gain on disposal of subsidiaries		**(72,888)**	(31,947)
Gain on bargain purchase arising from acquisition of a subsidiary		**–**	(40,072)
Gain on disposal of an associate	7	**(3,056)**	–
Operating profit before working capital changes		**261,604**	299,211
(Increase)/decrease in other inventories		**(128)**	204
Increase in inventories of properties		**(804,423)**	(192,053)
Decrease in finance lease, loan and account receivables, net of deferred income		**140,842**	196,128
Decrease/(increase) in prepayments, deposits and other receivables		**583,151**	(201,365)
Increase in contract assets		**(3,624)**	–
Decrease/(increase) in restricted bank deposits		**1,155**	(12,117)
Decrease/(increase) in cash and bank balances – held on behalf of customers		**816**	(23,775)
Increase in accounts and bills payable		**44,153**	278,688
(Decrease)/increase in accruals, other payables and deposits received		**(287,147)**	49,250
Increase in contract liabilities		**332,458**	33,753
Cash generated from operations		**268,857**	427,924
Interest received		**12,683**	352
Income tax paid		**(38,796)**	(45,986)
Net cash generated from operating activities		**242,744**	382,290

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(135,947)**	(13,348)
Proceeds from disposal of property, plant and equipment		**213**	1,218
Purchase of investment properties		**(226,694)**	(102,653)
Proceeds from disposal of investment properties		**222,095**	–
Disposal/(acquisition) of an associate		**9,450**	(3,500)
Investments in other financial assets		**(91,242)**	(20,379)
Proceeds from disposal of other financial assets		**43,030**	97,773
Consideration paid for acquiring subsidiaries under common control		**–**	(188,074)
Acquisition of additional interest of subsidiaries	41	**(289,676)**	(190,000)
Acquisition of subsidiaries, net of cash acquired	42	**–**	2,783
Acquisition of asset through acquisition of a subsidiary	43	**–**	(1,916)
Disposal of subsidiaries, net of cash disposal of	40	**38,190**	38,982
Net cash used in investing activities		**(430,581)**	(379,114)
Cash flows from financing activities			
Proceeds from issue of corporate bonds		**35,600**	40,977
Proceeds from bank and other borrowings		**446,369**	268,444
Repayments of bank and other borrowings		**(238,032)**	(352,278)
Repayments of corporate bonds		**(18,690)**	(43,587)
Repayment of promissory note		**–**	(120,000)
Repayments of lease liabilities		**(2,705)**	–
Proceed from issue of new shares under placing		**–**	265,271
Sale and leaseback arrangement		**70,844**	–
Capital injection from non-controlling shareholder		**–**	30,000
Interest paid		**(53,947)**	(68,290)
Net cash generated from financing activities		**239,439**	20,537
Net increase in cash and cash equivalents		**51,602**	23,713
Cash and cash equivalents at beginning of the year		**88,519**	60,837
Effect of foreign exchange rates, net		**(351)**	3,969
Cash and cash equivalents at end of the year		**139,770**	88,519
Analysis of balances of cash and cash equivalents			
Cash and bank balances	25	**139,770**	88,519
Less: included in the assets classified as held-for-sale		**–**	(2,624)
Cash and cash equivalents as stated in the consolidated statement of cash flows and consolidated statement of financial statement		**139,770**	85,895

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. CORPORATE INFORMATION

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

The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company and its subsidiaries (the "Group") is located at 33/F, Differ Fortune Centre, No. 503 Gaolin Middle Road, Huli District, Xiamen City, Fujian Province, the PRC.

The principal activity of the Company is investment holding and provision of consultancy services. The principal activities of the Company's subsidiaries are set out in note 38 to the financial statements.

The financial statements for the year ended 31 December 2019 were approved and authorised by the board of directors on 31 March 2020.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination

On 7 November 2018, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement with Ms. Shi Hongjiao ("Ms. Shi") to acquire the entire issued share capital of Prime Thrive Investments Limited ("Prime Thrive") (the "Acquisition") at the fair value of consideration of RMB444,862,000. Since the Group was under the control and managed by Mr. Hong Mingxian ("Mr. Hong"), the substantive shareholder of the Company, and Prime Thrive was under the control and managed by Mr. Hong via Ms. Shi through a trust arrangement, the Acquisition is considered as a combination of businesses under common control. The consideration for the Acquisition was settled by 1,033,000,000 shares of the Company at price of HK$0.495 per share. The principal activities of Prime Thrive and its subsidiaries are property development in the PRC.

The Acquisition was completed on 23 January 2019. Upon the completion of the Acquisition, Prime Thrive became a wholly owned subsidiary of the Company. As the Acquisition was regarded as business combination under common control, the Acquisition has been accounted for based on the principles of merger accounting as set out in Accounting Guideline 5, Merger Accounting for Common Control Combinations ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

In accordance with AG 5, the comparative amounts of the financial statements of the Group have been restated to include the financial statement items of Prime Thrive and its subsidiaries. The effect of the Acquisitions on and, hence, the items so restated in the comparative financial statements are summarised below:

Effect on consolidated statement of comprehensive income for the year ended 31 December 2018

	As previously reported	**Effect of Acquisition**	**Combination adjustments**	**As restated**
	RMB'000	RMB'000	RMB'000	RMB'000
Income from financial related services	136,771	–	(7,309)	129,462
Income from assets management business	715,038	–	–	715,038
Other income	35,805	27	–	35,832
Costs of property sold	(466,131)	–	–	(466,131)
Gain on disposal of subsidiaries	31,947	–	–	31,947
Employee benefit expenses	(39,547)	(159)	–	(39,706)
Depreciation and amortisation expenses	(4,349)	(6)	–	(4,355)
Operating lease expenses	(7,629)	–	–	(7,629)
Equity-settled share-based payments	(3,729)	–	–	(3,729)
Other expenses	(51,545)	(1,402)	–	(52,947)
Share of results of associates	(7,076)	–	–	(7,076)
Gain on bargain purchase arising from acquisition of a subsidiary	40,072	–	–	40,072
Change in fair value of investment properties	56,495	–	–	56,495
Change in fair value of other financial assets	6,750	–	–	6,750
Finance costs	(35,505)	–	–	(35,505)
Profit before income tax	407,367	(1,540)	(7,309)	398,518
Income tax expense	(108,091)	–	–	(108,091)
Profit for the year	299,276	(1,540)	(7,309)	290,427

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of comprehensive income for the year ended 31 December 2018 – continued

	As previously reported RMB'000	Effect of Acquisition RMB'000	Combination adjustments RMB'000	As restated RMB'000
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
– Exchange differences on translating foreign operation	(13,438)	(2)	–	(13,440)
– Net change in debt investments measured at fair value through other comprehensive income	(4,518)	–	–	(4,518)
Item that will not be reclassified to profit or loss in subsequent periods				
– Surplus on revaluation of land and buildings	16,829	–	–	16,829
	(1,127)	(2)	–	(1,129)
Total comprehensive income for the year	298,149	(1,542)	(7,309)	289,298
Profit for the year attributable to:				
Owners of the Company	264,223	(1,186)	(7,309)	255,728
Non-controlling interests	35,053	(354)	–	34,699
	299,276	(1,540)	(7,309)	290,427
Total comprehensive income attributable to:				
Owners of the Company	263,096	(1,188)	(7,309)	254,599
Non-controlling interests	35,053	(354)	–	34,699
	298,149	(1,542)	(7,309)	289,298

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of financial position as at 31 December 2018

	As previously reported RMB'000	Effect of Acquisition RMB'000	Combination adjustments RMB'000	As restated RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	19,178	–	–	19,178
Investment properties	600,200	–	–	600,200
Interest in an associate	15,529	–	–	15,529
Finance lease, loan and account receivables	180,899	–	–	180,899
Goodwill	33,400	–	–	33,400
Other financial assets	97,900	–	–	97,900
Prepayments, deposits and other receivables	83,680	–	–	83,680
	1,030,786	–	–	1,030,786
Current assets				
Inventories of properties	800,367	1,408,865	9,892	2,219,124
Other inventories	385	–	–	385
Finance lease, loan and account receivables	919,602	–	–	919,602
Prepayments, deposits and other receivables	775,651	3,395	–	779,046
Other financial assets	3,619	–	–	3,619
Tax receivables	15,240	1,760	–	17,000
Restricted bank deposits	39,847	22	–	39,869
Cash and bank balances – general accounts	85,656	239	–	85,895
Cash and bank balances – held on behalf of customers	23,775	–	–	23,775
	2,664,142	1,414,281	9,892	4,088,315
Assets classified as held-for-sale	452,989	–	–	452,989
	3,117,131	1,414,281	9,892	4,541,304

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of financial position as at 31 December 2018 – continued

	As previously reported RMB'000	Effect of Acquisition RMB'000	Combination adjustments RMB'000	As restated RMB'000
Current liabilities				
Accounts and bills payable	417,764	55,852	–	473,616
Accrued, other payables, deposits received and deferred income	178,005	507,986	(439)	685,552
Contract liabilities	884,527	195,305	–	1,079,832
Provision for taxation	79,519	–	–	79,519
Bank and other borrowings	193,090	102,948	–	296,038
Corporate bonds	18,270	–	–	18,270
	1,771,175	862,091	(439)	2,632,827
Liabilities related to assets classified as held-for-sale	140,602	–	–	140,602
	1,911,777	862,091	(439)	2,773,429
Net current assets	1,205,354	552,190	10,331	1,767,875
Total assets less current liabilities	2,236,140	552,190	10,331	2,798,661
Non-current liabilities				
Deposits received	83,497	–	–	83,497
Bank and other borrowings	142,630	532,599	–	675,229
Corporate bonds	257,955	–	–	257,955
Deferred tax liabilities	110,226	988	11,427	122,641
	594,308	533,587	11,427	1,139,322
Net assets	1,641,832	18,603	(1,096)	1,659,339
EQUITY				
Share capital	10,585	–	–	10,585
Reserves	1,601,401	18,603	(1,096)	1,618,908
Equity attributable to owners of the Company	1,611,986	18,603	(1,096)	1,629,493
Non-controlling interests	29,846	–	–	29,846
Total equity	1,641,832	18,603	(1,096)	1,659,339

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of financial position as at 1 January 2018

	As previously reported as at 1 January 2018 RMB'000 (after consider the impact on initial application of HKFRS 9 and HKFRS 15)	**Effect of Acquisition** RMB'000	**Combination adjustments** RMB'000	**As restated as at 1 January 2018** RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	19,847	6	–	19,853
Prepaid land lease	6,105	–	–	6,105
Investment properties	321,000	–	–	321,000
Interest in an associate	20,499	–	–	20,499
Restricted bank deposits	10,000	–	–	10,000
Finance lease, loan and account receivables	275,120	–	–	275,120
Goodwill	33,400	–	–	33,400
Other financial assets	136,100	–	–	136,100
Prepayments, deposits and other receivables	83,038	–	–	83,038
	905,109	6	–	905,115
Current assets				
Inventories of properties	669,263	1,346,004	17,640	2,032,907
Finance lease, loan and account receivables	1,007,850	–	–	1,007,850
Prepayments, deposits and other receivables	540,890	576	–	541,466
Other financial assets	84,519	–	–	84,519
Tax receivables	16,396	1,760	–	18,156
Restricted bank deposits	17,729	23	–	17,752
Cash and bank balances – general accounts	60,537	300	–	60,837
	2,397,184	1,348,663	17,640	3,763,487

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of financial position as at 1 January 2018 – continued

	As previously reported as at 1 January 2018 RMB'000 (after consider the impact on initial application of HKFRS 9 and HKFRS 15)	**Effect of Acquisition** RMB'000	**Combination adjustments** RMB'000	**As restated as at 1 January 2018** RMB'000
Current liabilities				
Accounts and bills payable	141,710	56,394	–	198,104
Accruals, other payables, deposits received and deferred income	96,027	325,055	–	421,082
Contract liabilities	908,242	137,837	–	1,046,079
Provision for taxation	37,932	–	–	37,932
Bank and other borrowings	180,801	72,702	–	253,503
Corporate bonds	41,725	–	–	41,725
	1,406,437	591,988	–	1,998,425
Net current assets	990,747	756,675	17,640	1,765,062
Total assets less current liabilities	1,895,856	756,681	17,640	2,670,177
Non-current liabilities				
Deposits received	31,025	–	–	31,025
Bank and other borrowings	61,950	635,547	–	697,497
Corporate bonds	225,199	–	–	225,199
Promissory note	120,000	–	–	120,000
Deferred tax liabilities	90,473	988	11,427	102,888
	528,647	636,535	11,427	1,176,609
Net assets	1,367,209	120,146	6,213	1,493,568
EQUITY				
Share capital	8,292	–	–	8,292
Reserves	1,294,811	61,257	6,213	1,362,281
Equity attributable to owners of the Company	1,303,103	61,257	6,213	1,370,573
Non-controlling interests	64,106	58,889	–	122,995
Total equity	1,367,209	120,146	6,213	1,493,568

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of cash flows for the year ended 31 December 2018

	As previously reported RMB'000	**Effect of Acquisition** RMB'000	**Combination adjustments** RMB'000	**As restated** RMB'000
Cash flows from operating activities				
Profit/(loss) before income tax	407,367	(1,540)	(7,309)	398,518
Adjustments for:				
Bank interest income	(350)	(2)	–	(352)
Interest expenses	35,505	–	–	35,505
Depreciation of property, plant and equipment	4,316	6	–	4,322
Amortisation of prepaid land lease	33	–	–	33
Share of results of associates	7,076	–	–	7,076
Change in fair value of investment properties	(56,495)	–	–	(56,495)
Equity-settled share-based payment	3,729	–	–	3,729
Gain on disposal of property, plant and equipment	(422)	–	–	(422)
Written off of property, plant and equipment	27	–	–	27
Change in fair value of other financial assets	(6,750)	–	–	(6,750)
Provision for impairment loss on finance lease, loan and account receivables and other receivables	5,758	–	–	5,758
Reversal of impairment loss on finance lease, loan and account receivables	(19,719)	–	–	(19,719)
Gain on disposal of subsidiaries	(31,947)	–	–	(31,947)
Gain on bargain purchase arising from acquisition of a subsidiary	(40,072)	–	–	(40,072)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of cash flows for the year ended 31 December 2018 – continued

	As previously reported RMB'000	Effect of Acquisition RMB'000	Combination adjustments RMB'000	As restated RMB'000
Operating profit/(loss) before working capital changes	308,056	(1,536)	(7,309)	299,211
Decrease in other inventories	204	–	–	204
(Increase)/decrease in inventories of properties	(184,985)	(14,377)	7,309	(192,053)
Decrease in finance lease, loan and account receivables, net of deferred income	196,128	–	–	196,128
Increase in prepayments, deposits and other receivables	(198,545)	(2,820)	–	(201,365)
(Increase)/decrease in restricted bank deposits	(12,118)	1	–	(12,117)
Increase in cash and bank balances–held on behalf of customers	(23,775)	–	–	(23,775)
Increase/(decrease) in accounts and bill payables	288,068	(9,380)	–	278,688
(Decrease)/increase in accruals, other payables and deposits received	(35,977)	85,227	–	49,250
(Decrease)/increase in contract liabilities	(23,715)	57,468	–	33,753
Cash generated from operations	313,341	114,583	–	427,924
Interests received	350	2	–	352
Income tax paid	(45,986)	–	–	(45,986)
Net cash from operating activities	267,705	114,585	–	382,290

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of cash flows for the year ended 31 December 2018 – continued

	As previously reported RMB'000	Effect of Acquisition RMB'000	As restated RMB'000
Cash flows from investing activities			
Acquisition of property, plant and equipment	(13,348)	–	(13,348)
Proceeds from disposal of property, plant and equipment	1,218	–	1,218
Acquisition of investment properties	(102,653)	–	(102,653)
Acquisition of an associate	(3,500)	–	(3,500)
Investments in other financial assets	(20,379)	–	(20,379)
Proceeds from disposal of other financial assets	97,773	–	97,773
Consideration paid for acquiring subsidiaries under common control	(188,074)	–	(188,074)
Acquisition of additional interest of subsidiaries	(190,000)	–	(190,000)
Acquisition of subsidiaries, net of cash acquired	2,783	–	2,783
Acquisition of asset through acquisition of a subsidiary	(1,916)	–	(1,916)
Disposal of subsidiaries, net of cash disposal of	38,982	–	38,982
Net cash used in investing activities	(379,114)	–	(379,114)
Cash flows from financing activities			
Proceeds from issue of corporate bonds	40,977	–	40,977
Proceeds from bank and other borrowings	268,444	–	268,444
Repayments of bank and other borrowings	(277,278)	(75,000)	(352,278)
Repayments of corporate bonds	(43,587)	–	(43,587)
Repayment of promissory note	(120,000)	–	(120,000)
Proceed from issue of new shares under placing	265,271	–	265,271
Capital injection from non-controlling shareholder	30,000	–	30,000
Interests paid	(28,644)	(39,646)	(68,290)
Net cash generated from/(used in) financing activities	135,183	(114,646)	20,537

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2. BASIS OF PREPARATION – continued

2.1 Common control combination – continued

Effect on consolidated statement of cash flows for the year ended 31 December 2018 – continued

	As previously reported RMB'000	Effect of Acquisition RMB'000	As restated RMB'000
Net increase/(decrease) in cash and cash equivalents	23,774	(61)	23,713
Cash and cash equivalents at beginning of the year	60,537	300	60,837
Effect of foreign exchange rates, net	3,969	–	3,969
Cash and cash equivalents at end of the year	88,280	239	88,519
Analysis of balances of cash and cash equivalents			
Cash and bank balances	88,280	239	88,519
Less: included in the assets classified as held for sale	(2,624)	–	(2,624)
Cash and cash equivalents as stated in the consolidated statement of cash flows and consolidated statement of financial position	85,656	239	85,895

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ADOPTION OF HKFRSs

3.1 Adoption of new/revised HKFRSs

In the current year, the Group has applied for the first time the following new or revised HKFRSs issued by the HKICPA, which are relevant to and effective for the annual period beginning on 1 January 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs

Except for the impact of the adoption of the new or revised HKFRSs that have been summarised in below, the other new or revised HKFRSs has no material impact on the Group's accounting policies.

HKFRS 16 – Leases ("HKFRS 16")

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), 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. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17.

For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (i) to (iv) of this note.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ADOPTION OF HKFRSs – continued

3.1 Adoption of new/revised HKFRSs – continued

HKFRS 16 – continued

(i) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

(ii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise leases which are short-term leases. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ADOPTION OF HKFRSs – continued

3.1 Adoption of new/revised HKFRSs – continued

HKFRS 16 – continued

(ii) Accounting as a lessee – continued

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group's leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ADOPTION OF HKFRSs – continued

3.1 Adoption of new/revised HKFRSs – continued

HKFRS 16 – continued

(ii) Accounting as a lessee – continued

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) re-measuring the carrying amount to reflect any reassessment or lease modification.

(iii) Accounting as a lessor

The Group has leased out its investment property to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ADOPTION OF HKFRSs – continued

3.1 Adoption of new/revised HKFRSs – continued

HKFRS 16 – continued

(iv) Transition

The Group has applied HKFRS 16 using the modified retrospective approach. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

Right-of-use assets related to interests in leasehold land where the interest in the land is held for development of inventories of properties are included in the same line item as inventories of properties as that within which the corresponding assets.

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Operating lease commitment as at 31 December 2018	35,555
Less: short term leases for which lease terms end on or before 31 December 2019	(1,819)
Gross lease liabilities as at 1 January 2019	33,736
Less: future interest expenses	(4,702)
Lease liabilities as at 1 January 2019	29,034

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 9.09%.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

3. ADOPTION OF HKFRSs – continued

3.1 Adoption of new/revised HKFRSs – continued

HKFRS 16 – continued

(iv) Transition – continued

The following tables summarised the impact of transition to HKFRS 16 on the consolidated statement of financial position as of 1 January 2019:

	RMB'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	29,034
Lease liabilities (non-current)	25,354
Lease liabilities (current)	3,680

The Group has applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application and accounted for those leases as short-term leases. In addition, the Group has also applied the practical expedients that HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17.

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

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

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 Effective for annual periods beginning on or after 1 January 2020

2 No mandatory effective date yet determined but available for adoption

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The adoption of the new and revised HKFRSs have been issued but are not yet effective are unlikely to have significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

Business combination

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.1 Basis of consolidation – continued

Business combination – continued

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

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

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

Merger accounting to business combination involving entities under common control

The Group use merger accounting to account for the business combination of entities and businesses under common control in accordance with AG 5. The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The assets and liabilities of the combining entities or businesses are combined using the carrying book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the consideration at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.2 Subsidiaries

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

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

4.3 Associates

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.4 Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;

- The legal form of joint arrangements structured through a separate vehicle;

- The contractual terms of the joint arrangement agreement; and

- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interest in a joint venture in the same manner as interest in an associate (i.e. using the equity method – see note 4.3)

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.5 Goodwill

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

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

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4.6), and whenever there is an indication that the unit may be impaired.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.6 Impairment of assets (other than financial assets)

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

- property, plant and equipment; and

- investments in subsidiaries, an associate and a joint venture.

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

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

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see note 4.5), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.7 Property, plant and equipment

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

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

Buildings	20 years
Leasehold improvement	The shorter of the lease terms and 5 years
Motor vehicles	4 to 5 years
Furniture, fixtures and office equipment	3 to 5 years
Right-of-use assets	The shorter of asset's expected useful lives and lease terms

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

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

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

Construction-in-progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.8 Prepaid land lease

Accounting policies applied until 31 December 2018

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

4.9 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 statement of 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 statement of comprehensive income in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property as a revalued asset at the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as asset revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Leasing

(A) Accounting policies applied from 1 January 2019

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise leases which are short-term leases. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use assets that meet the definition of an investment property, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use assets that meets the definition of an investment property, they are carried at fair value.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at depreciated cost. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Leasing – continued

(A) Accounting policies applied from 1 January 2019 – continued

Right-of-use asset – continued

Right-of-use assets related to leasehold interests where the interest in the land is held as inventories of properties are included in the same line item as inventories of properties as that within the corresponding assets.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Leasing – continued

(A) Accounting policies applied from 1 January 2019 – continued

Accounting as a lessor

The Group has leased out its investment properties to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

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

When the Group is an intermediate lessor, the subleases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

(B) Accounting policies applied until 31 December 2018

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

Finance lease as lessor

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 Leasing – continued

(B) Accounting policies applied until 31 December 2018 – continued

Operating lease as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

Operating lease charges as the lessee

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

4.11 Inventories of properties

Completed properties and properties under development are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy and other directly attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

4.12 Share capital

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.13 Employee benefits

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

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

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

4.14 Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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 market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 Financial Instruments – continued

(i) Financial assets – continued

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, 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 FVOCI, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 Financial Instruments – continued

(i) Financial assets – continued

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, financial assets measured at amortised cost and financial guarantee contract. The ECL are measured on either of the following bases: (1) 12 months ECL: these are the ECL that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for account receivables using HKFRS 9 simplified approach and has calculated ECL based on lifetime ECL. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL are based on the 12 months ECL. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 Financial Instruments – continued

(ii) Impairment loss on financial assets – continued

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 Financial Instruments – continued

(iii) Financial liabilities – continued

Financial liabilities at amortised cost

Financial liabilities at amortised cost including accounts and bills payable, accruals, other payables and deposits received, lease liabilities, bank and other borrowings and corporate bonds are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds equity reserve will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 Financial Instruments – continued

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in note 4.14(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.15 Cash and cash equivalents

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

4.16 Provisions and contingent liabilities

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.17 Accounting for income tax

Income tax comprises current tax and deferred tax.

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.17 Accounting for income tax – continued

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

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

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

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

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

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

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

   (i) the same taxable entity; or

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.18 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or 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, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

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 amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.18 Revenue recognition – continued

(a) Services income

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

Financial consultancy service income is recognised when services are rendered.

Supply chain agency service income is recognised point in time as those services are rendered. Invoices for supply chain agency service income are issued once performance recognition fulfilled.

(b) Sales of properties

The Group develops and sells residential and commercial properties. Revenue is recognised when control over the property has been transferred to the customer.

The properties have generally no alternative use for the Group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at a point in time when the legal title has passed to the customer.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

(c) Financial securities service income

Financial securities service income on dealings in securities contracts are recognised as revenue on the transactions dates when the relevant contract notes are executed.

(d) Interest income

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 assets.

(e) Rental income

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant leases.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.18 Revenue recognition – continued

(f) Income from provision of asset management solutions

Income from provision of asset management solutions is recognised point in time as those services are rendered.

(g) Income from disposal of distressed financial assets

The disposal of distressed assets is recognised on a contract by contract transfer of control approach over a single point in time.

(h) Security trading income

Security trading income includes net gain/loss on financial assets at fair value through profit or loss including realised gains/losses which are recognised on trade dates; and unrealised fair value gains/losses which are recognised in the period in which they arise.

(i) Sales of goods

Income from sales of goods is recognise at a point in time when the control of goods have been passed to customers.

(j) Management fee income

Management fee income are recognised when services are rendered.

Contract assets and liabilities

Contract asset is recognised when the Group has the right to consideration under the contracts with customer from the sales or services but not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the output method then the Group recognises a contract liability for the difference.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.19 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.20 Government grants

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

4.21 Foreign currencies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.21 Foreign currencies – continued

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

4.22 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.22 Related parties – continued

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

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

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

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

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

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

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

4.23 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.24 Share-based payments

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

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

4.25 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.25 Non-current assets held for sale and disposal groups – continued

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and

- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements

Principal versus agent consideration

The Group engaged in sourcing and merchandising businesses. In assessing whether the Group is acting as a principal or an agent in provision of sourcing and merchandising businesses, the management assesses if the Group obtained control of goods before they are transferred to customers. The Group is a principal if it controls the promised goods before transferring it to the customer and revenue is recognised on a gross basis. The Group is an agent if it offers the services in sourcing, financing and negotiation on behalf of its customers with the suppliers and revenue is recognised on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Critical judgements – continued

Sale and leaseback arrangement

The Group determines whether the sale and leaseback arrangement in the property development and investment businesses constitutes a sale of the Group in accordance with HKFRS 15. The directors assessed the transfer of control by considering the customers have the ability to direct the use of and obtain substantially all of the remaining benefits from the properties after the handover procedures are completed under the arrangement. Significant judgement is required in determining whether the control of the properties are passed to customers under the terms of the relevant sale and leaseback contracts.

Key sources of estimation uncertainty

Impairment of financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Key sources of estimation uncertainty – continued

Income taxes

The Group is mainly subject to income taxes in jurisdictions in Hong Kong and the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred income tax provisions in the period in which such determination is made.

The Group is subject to land appreciation tax ("LAT") in the PRC. However, the implementation and settlement of these taxes varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its land appreciation taxes calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related taxes. The Group recognises these land appreciation taxes based on management's best estimates according to the understanding of the tax rules, by using a single best estimate of the most likely outcome approach. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and deferred tax provisions in the periods in which such taxes have been finalised with local tax authorities.

Fair value of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of comprehensive income.

Net realisable value of inventories of properties

Included in the consolidated statement of financial position at 31 December 2019 is inventories of properties with an aggregate carrying amount of RMB3,064,836,000 (2018: RMB2,219,124,000). Management assessed the recoverability of the amount based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying inventories of properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, allowance for inventories of properties may result.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

6. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Company's executive directors for the purposes of resource allocation and assessment of segment performance. The Company's executive directors have identified the reportable segments of the Group as follows:

(1) Financial services – provision of guarantee, express loan, consultancy, supply chain agency services, finance lease services, financial securities services and asset management (investments in distressed assets, equities and management of funds) in the PRC and Hong Kong;

(2) Property development and investment – property development projects and property investment activities in the PRC; and

(3) Trading of commodities – trading of commodities in the PRC.

During the year ended 31 December 2019, property development and investment became a reportable segment as a result of the growing importance of the property development and investment business to the total revenue and assets and liabilities of the Group. Comparatives in the segment information as presented in this note are re-presented accordingly to conform to current year's presentation.

In addition, the Group has commenced trading of commodities, which has been identified as a reportable segment as a result of its importance to the total revenue of the Group.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents revenue from external customers and inter-segment revenue. Segment results include the Group's share of results from the Group's associate and joint venture but exclude gain on disposal of subsidiaries, equity-settled shared-based payments and unallocated corporate expenses. Corporate expenses are expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Sales between segments are carried out in accordance with terms agreed by the parties involved.

Segment assets include all assets with the exception of cash and bank balances that are managed on a group basis.

Segment liabilities include all liabilities with the exception of corporate liabilities such as accruals and other payables, other borrowings and corporate bonds that are managed on a group basis.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

6. SEGMENT INFORMATION – continued

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2019

	Financial services RMB'000	Property development and investment RMB'000	Trading of commodities RMB'000	Total RMB'000
Segment revenue				
Revenue from external customers	**156,645**	**765,602**	**1,329,594**	**2,251,841**
Segment results	**149,902**	**294,187**	**365**	**444,454**
Gain on disposal of subsidiaries				**26,718**
Equity-settled share-based payment				**(1,624)**
Unallocated corporate expenses				**(34,439)**
Profit before income tax				**435,109**

For the year ended 31 December 2018

	Financial services RMB'000 (Re-presented)	**Property development and investment** RMB'000 (Re-presented)	**Total** RMB'000 (Re-presented) (Restated)
Revenue from external customers	150,775	693,725	844,500
Inter-segment revenue	7,311	–	7,311
Segment revenue	158,086	693,725	851,811
Segment results	162,096	243,869	405,965
Gain on disposal of subsidiaries			31,947
Equity-settled share-based payments			(3,729)
Unallocated corporate expenses			(35,665)
Profit before income tax			398,518

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

6. SEGMENT INFORMATION – continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	2019 RMB'000	2018 RMB'000 (Re-presented) (Restated)
Segment assets		
Financial services	**1,738,454**	2,349,357
Property development and investment	**4,139,701**	3,194,060
Trading of commodities	**11,994**	–
Total segment assets	**5,890,149**	5,543,417
Unallocated		
– Cash and bank balances	**47,769**	28,673
Total assets	**5,937,918**	5,572,090
Segment liabilities		
Financial services	**289,209**	497,068
Property development and investment	**3,322,874**	3,000,892
Trading of commodities	**60,387**	–
Total segment liabilities	**3,672,470**	3,497,960
Unallocated		
– Accruals and other payables	**9,475**	9,632
– Other borrowings	**365,237**	128,934
– Corporate bonds	**299,485**	276,225
Total liabilities	**4,346,667**	3,912,751

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

6. SEGMENT INFORMATION – continued

Other segment information

For the year ended 31 December 2019

	Financial services RMB'000	Property development and investment RMB'000	Trading of commodities RMB'000	Total RMB'000
Other information:				
Additions to non-current assets (other than financial assets)	11,287	366,471	–	377,758
Depreciation of property, plant and equipment	(11,788)	(4,696)	(208)	(16,692)
Share of results of an associate	124	–	–	124
Share of results of a joint venture	–	11,088	–	11,088
Gain on disposal of property, plant and equipment	51	67	–	118
Gain on disposal of subsidiaries	46,170	–	–	46,170
(Loss)/gain on disposal of investment properties	(5,708)	67,582	–	61,874
Change in fair value change of investment properties	(1,000)	73,362	–	72,362
Change in fair value of other financial assets	(863)	–	–	(863)
Provision of impairment loss on finance lease, loan and account receivables and other receivables	(5,794)	–	–	(5,794)
Reversal of impairment loss on finance lease, loan and account receivables	5,979	–	–	5,979
Bank and other interest income	11,860	197	626	12,683
Finance costs	(4,523)	(10,390)	(366)	(15,279)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

6. SEGMENT INFORMATION – continued

Other segment information – continued

For the year ended 31 December 2018

	Financial services RMB'000 (Re-presented)	**Property development and investment** RMB'000 (Re-presented)	**Total** RMB'000 (Re-presented) (Restated)
Other information:			
Additions to non-current assets (other than financial assets)	98,812	106,741	205,553
Depreciation of property, plant and equipment	(2,899)	(1,423)	(4,322)
Amortisation of prepaid land lease	(33)	–	(33)
Share of results of an associate	(7,076)	–	(7,076)
Gain on disposal of property, plant and equipment	50	372	422
Gain on bargain purchase arising from acquisition of a subsidiary	40,072	–	40,072
Change in fair value change of investment properties	8,148	48,347	56,495
Change in fair value of other financial assets	6,750	–	6,750
Provision of impairment loss on finance lease, loan and account receivables and other receivables	(5,758)	–	(5,758)
Reversal of impairment loss on finance lease, loan and account receivables	19,719	–	19,719
Bank and other interest income	171	181	352
Finance costs	(5,553)	–	(5,553)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

6. SEGMENT INFORMATION – continued

Other segment information – continued

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

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

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

	2019 **RMB'000**	2018 RMB'000
Customer A *(Note)*	**271,439**	–

Note: This is a customer from trading of commodities segment (2018: no revenue from a customer contributing over 10% of the total revenue of the Group).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

7. REVENUE AND OTHER INCOME

Disaggregation of the Group's revenue from major products or service lines:

	2019 RMB'000	2018 RMB'000 (Restated)
Income from financial related services		
Revenue from contracts with customers within the scope of HKFRS 15		
Income from financial consultancy services	**36,887**	3,414
Income from supply chain agency services	**158**	3,625
Income from financial securities services	**3,223**	269
Revenue from other sources		
Income from guarantee services	**11,311**	12,102
Interest income from:		
– Entrusted loans	**17,533**	54,797
– Money lending	**51,342**	21,645
– Finance lease services	**24,180**	33,610
	144,634	129,462

	2019 RMB'000	2018 RMB'000
Income from assets management business		
Revenue from contracts with customers within the scope of HKFRS 15		
Income from provision of asset management solutions	**–**	3,302
Income from sales of properties	**764,913**	693,725
Revenue from other sources		
Income from disposal/execution of distressed financial assets	**7,500**	11,809
Finance income	**–**	2,961
Rental income and sublease rental income	**4,967**	3,241
Management fee income	**233**	–
	777,613	715,038

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

7. REVENUE AND OTHER INCOME – continued

	2019 RMB'000	2018 RMB'000
Income from trading of commodities		
Revenue from contracts with customers within the scope of HKFRS 15		
Income from trading of commodities	**1,329,594**	–

	2019 RMB'000	2018 RMB'000 (Restated)
Timing of revenue recognition within the scope HKFRS 15		
At a point in time	**2,097,888**	700,921
Transferred over time	**36,887**	3,414
	2,134,775	704,335

	2019 RMB'000	2018 RMB'000 (Restated)
Other income		
Bank and other interest income	**12,683**	352
Gain on disposal of property, plant and equipment	**118**	422
Government grants*	**501**	10,656
Reversal of impairment loss on finance lease, loan and account receivables	**5,979**	19,719
Income from security trading	**96**	687
Sales of electronic devices	**16,429**	3,359
Gain from disposal of an associate	**3,056**	–
Others	**14,824**	637
	53,686	35,832

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

8. PROFIT BEFORE INCOME TAX

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

	2019 **RMB'000**	2018 RMB'000 (Restated)
Auditor's remuneration		
– audit service	**1,433**	1,305
– non-audit service	**267**	957
	1,700	2,262
Cost of inventories recognised as expenses	**1,838,131**	466,131
Depreciation of property, plant and equipment	**16,890**	4,434
Less: Amounts capitalised on inventories of properties	**(198)**	(112)
	16,692	4,322
Amortisation of prepaid land lease	**–**	33
Impairment loss on finance lease, loan and account receivables and other receivables	**5,794**	5,758
Reversal of impairment loss on finance lease, loan and account receivables	**(5,979)**	(19,719)
Equity-settled share-based payments	**1,624**	3,729
Write off of property, plant and equipment	**641**	27
Direct operating expenses arising from investment property that did not generate rental income during the year	**2,341**	8,338
Employee's costs (including directors' remuneration *(note 9)*)		
– Salaries and allowances	**49,783**	34,134
– Pension scheme contributions – Defined contribution plans	**4,623**	1,591
– Other benefits	**5,543**	3,981
	59,949	39,706
Net foreign exchange loss	**1,809**	2,210
Operating lease charges in respect of properties	**–**	7,629
Gain on disposal of property, plant and equipment	**(118)**	(422)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
Year ended 31 December 2019					
Executive directors:					
Mr. Hong	–	668	16	314	998
Mr. Ng Chi Chung ("Mr. Ng")	–	534	16	314	864
Mr. Cai Huatan ("Mr. Cai")[2]	–	67	3	–	70
	–	1,269	35	628	1,932
Non-executive directors:					
Mr. Cai Jianfeng[1]	14	53	3	–	70
Mr. Wu Qinghan	85	–	–	–	85
Mr. Cai[2]	64	–	–	–	64
	163	53	3	–	219
Independent non-executive directors:					
Mr. Chan Sing Nun	85	–	–	–	85
Mr. Lam Kit Lam	85	–	–	–	85
Mr. Zeng Haisheng[3]	79	–	–	–	79
Mr. Chen Naike[4]	6	–	–	–	6
	255	–	–	–	255
Total	418	1,322	38	628	2,406

1 Resigned with effect from 28 February 2019

2 Redesignated from an executive director to a non-executive director with effect from 28 February 2019

3 Resigned with effect from 4 December 2019

4 Appointed with effect from 4 December 2019

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

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

(a) Directors' remuneration – continued

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
Year ended 31 December 2018					
Executive directors:					
Mr. Cai	–	265	19	–	284
Mr. Hong	–	662	21	513	1,196
Mr. Ng	–	526	21	513	1,060
	–	1,453	61	1,026	2,540
Non-executive directors:					
Mr. Cai Jianfeng	84	313	16	–	413
Mr. Wu Qinghan	84	–	–	–	84
	168	313	16	–	497
Independent non-executive directors:					
Mr. Chan Sing Nun	84	–	–	–	84
Mr. Lam Kit Lam	84	–	–	–	84
Mr. Zeng Haisheng	84	–	–	–	84
	252	–	–	–	252
Total	420	1,766	77	1,026	3,289

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

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

(b) Five highest paid individuals

The five highest paid individuals of the Group included two directors (2018: two) for the year ended 31 December 2019 whose emoluments are reflected in note 9(a).

The analysis of the emolument of the five highest paid individuals for the years ended 31 December 2019 and 2018 are set out below:

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,961**	3,687
Pension scheme contributions	**80**	100
Equity-settled share options compensation	**1,111**	1,816
	5,152	5,603

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

	Number of individuals	
	2019	2018
HK$500,001 to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**1**	1
	5	5

(c) During the years ended 31 December 2019 and 2018, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

10. FINANCE COSTS

	2019 RMB'000	2018 RMB'000 (Restated)
Interest on bank and other borrowings	**65,596**	64,583
Interest on corporate bonds	**17,687**	15,575
Interest on promissory note	**–**	2,084
Interest on lease liabilities	**5,743**	–
	89,026	82,242
Less: amount capitalised on properties held under development	**(45,673)**	(46,737)
	43,353	35,505

11. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
Hong Kong Profits Tax	**207**	77
PRC		
– Enterprise income tax ("EIT")	**82,802**	76,220
– LAT	**18,122**	11,446
– Withholding tax	**411**	595
	101,542	88,338
Deferred tax *(note 34)*	**(2,564)**	19,753
	98,978	108,091

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

EIT arising from subsidiaries operated in the PRC for the year was calculated at 25% (2018: 25%) of the estimated assessable profits during the year, except for subsidiaries established and operated in Ganzhou, which are beneficial from a preferential tax policy from the local tax authorities and are entitled to a reduced tax rate of 15% for five years from 2016 to 2020.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

11. INCOME TAX EXPENSE – continued

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including cost of land value, borrowing costs, business tax and all property development expenditures. The tax is incurred upon transfer of property ownership. There are certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items (as defined in the relevant PRC tax laws). Sales of commercial properties are not eligible for such an exemption.

Withholding tax was calculated at 7% (2018: 7%) of the interest paid by PRC entities to a non-PRC holding company during the year.

Hong Kong Profits Tax has been provided in accordance with two-tiered profits tax rate regime, the first HK$2,000,000 of assessable profits of qualifying corporation is taxed at 8.25% and the assessable profits above HK$2,000,000 are taxed at 16.5% for the year ended 31 December 2019 (2018: flat rate of 16.5%).

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

	2019	2018
	RMB'000	RMB'000
		(Restated)
Profit before income tax	**435,109**	398,518
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	**106,448**	97,561
Tax effect of income not taxable for tax purpose	**(41,893)**	(23,346)
Tax effect of expenses not deductible for tax purpose	**10,535**	17,620
Tax effect of tax losses not recognised	**10,267**	7,396
Utilisation of tax losses previously not recognised	**(381)**	(320)
Provision for LAT	**18,122**	11,446
Tax effect on EIT of LAT payable	**(4,531)**	(2,861)
Withholding tax for interest paid by PRC subsidiaries	**411**	595
Income tax expense	**98,978**	108,091

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

12. DIVIDENDS

No dividend has been declared by the Company during the year (2018: nil).

13. EARNINGS PER SHARE

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

	2019 **RMB'000**	2018 RMB'000 (Restated)
Profit for the year attributable to owners of the Company	**335,503**	255,728

	2019 **Number of shares ('000)**	2018 Number of shares ('000)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,301,125**	4,749,414
Effect of dilutive earnings per share:		
– Convertible bonds	**–**	31,233
Weighted average number of ordinary shares for the purpose of dilutive earning per share	**6,301,125**	4,780,647
Basic earnings per share (RMB cents)	**5.32**	5.38
Dilutive earnings per share (RMB cents) *(Note)*	**5.32**	5.35

Note:

The computations of diluted earnings per share for the years ended 31 December 2019 and 2018 do not assume the exercise of the Company's outstanding share options as the exercise price of the Company's share options was higher than the average market price for shares.

The diluted earnings per share presented for the year ended 31 December 2018 are the impact of the convertible bonds outstanding during the year that have a diluted effect on the basic earnings per share presented for the year.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Construction -in-progress RMB'000	Other properties leased for own use *(note 30)* RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:							
At 1 January 2018 (restated)	9,484	9,292	–	–	4,456	5,647	28,879
Additions	–	6,673	–	–	2,508	4,167	13,348
Acquisition of subsidiaries	–	141	–	–	158	157	456
Disposal of subsidiaries	–	(1,493)	–	–	(52)	(8)	(1,553)
Disposals	–	–	–	–	(1,172)	–	(1,172)
Transfer to investment properties *(note 16)*	(9,484)	(1,669)	–	–	–	–	(11,153)
Written off	–	–	–	–	–	(27)	(27)
Classified as assets held-for-sale	–	–	–	–	(1,540)	(190)	(1,730)
Exchange realignment	–	25	–	–	23	2	50
As at 31 December 2018 (restated)	–	12,969	–	–	4,381	9,748	27,098
Initial application of HKFRS 16 *(note)*	**–**	**–**	**–**	**29,034**	**–**	**–**	**29,034**
Additions	**–**	**3,700**	**127,125**	**6,352**	**1,273**	**3,849**	**142,299**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**(40)**	**(123)**	**(163)**
Disposals	**–**	**–**	**–**	**–**	**(456)**	**–**	**(456)**
Written off	**–**	**(593)**	**–**	**–**	**–**	**(89)**	**(682)**
Exchange realignment	**–**	**14**	**–**	**242**	**12**	**14**	**282**
At 31 December 2019	**–**	**16,090**	**127,125**	**35,628**	**5,170**	**13,399**	**197,412**

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

14. PROPERTY, PLANT AND EQUIPMENT – continued

	Buildings RMB'000	Leasehold improvement RMB'000	Construction -in-progress RMB'000	Other properties leased for own use *(note 30)* RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Accumulated depreciation:							
At 1 January 2018 (restated)	2,699	1,362	–	–	1,277	3,688	9,026
Charge for the year	36	2,334	–	–	1,079	985	4,434
Write back on disposals	–	–	–	–	(376)	–	(376)
Disposal of subsidiaries	–	(116)	–	–	(2)	(1)	(119)
Classified as asset held-for-sale	–	–	–	–	(1,382)	(138)	(1,520)
Transfer to investment properties *(note 16)*	(2,735)	(819)	–	–	–	–	(3,554)
Exchange realignment	–	24	–	–	4	1	29
As at 31 December 2018 and at 1 January 2019 (restated)	**–**	**2,785**	**–**	**–**	**600**	**4,535**	**7,920**
Charge for the year	**–**	**3,516**	**–**	**10,184**	**1,328**	**1,862**	**16,890**
Write back on disposals	**–**	**–**	**–**	**–**	**(361)**	**–**	**(361)**
Write back on written off	**–**	**–**	**–**	**–**	**–**	**(41)**	**(41)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**(38)**	**(117)**	**(155)**
Exchange realignment	**–**	**11**	**–**	**–**	**5**	**10**	**26**
At 31 December 2019	**–**	**6,312**	**–**	**10,184**	**1,534**	**6,249**	**24,279**
Net carrying amount:							
At 31 December 2019	**–**	**9,778**	**127,125**	**25,444**	**3,636**	**7,150**	**173,133**
At 31 December 2018 (restated)	–	10,184	–	–	3,781	5,213	19,178

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

15. PREPAID LAND LEASE

	2019 RMB'000	2018 RMB'000
At 1 January	**–**	6,105
Amortisation	**–**	(33)
Transferred to investment properties *(note 16)*	**–**	(6,072)
At 31 December	**–**	–

16. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
At 1 January	**600,200**	321,000
Additions	**235,459**	192,205
Transferred from property, plant and equipment *(note 14)*	**–**	16,953
Transferred from prepaid land lease *(note 15)*	**–**	13,547
Disposals	**(160,221)**	–
Change in fair value	**72,362**	56,495
At 31 December	**747,800**	600,200

All of the Group's leasehold interest in land and buildings held to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model.

During the year ended 31 December 2018, property, plant and equipment with the carrying value of approximately RMB7,599,000 (note 14) and prepaid land lease with the carrying value of approximately RMB6,072,000 (note 15) were transferred to investment properties with aggregate revaluation gain of property, plant and equipment and prepaid land lease of approximately RMB16,829,000 was credited to assets revaluation reserve as these properties were under operating lease agreements with third parties during the year to generate rental income.

Among the balances of additions during the year ended 31 December 2018, investment properties of RMB89,552,000 was acquired through acquisition of assets through acquisition of a subsidiary (note 43).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

16. INVESTMENT PROPERTIES – continued

The fair values of the investment properties of the Group in the PRC were assessed by APAC Appraisal and Consulting Limited, Savills Valuation and Professional Service Limited and Vincorn Consulting and Appraisal Limited. All of them are independent qualified professional valuers, members of the Hong Kong Institute of Surveyors and have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

For the completed properties, the fair values are determined by applying the combination of market approach and income approach by reference to the comparable sales evidences as available on the relevant market and, where appropriate, valued the properties on the basis of capitalisation of the rental income as shown on the tenancy agreements and assumed that the Group sells the properties on the open market without the benefit or burden of a deferred term contract, joint venture, management agreement or any similar arrangement, which would serve to affect the value of the properties.

For investment properties under construction, the fair value as at 31 December 2019 is estimated using a residual approach by making reference to estimated property value as if completed at valuation date with appropriate deduction on construction costs, marketing, professional fees, contingency, finance charges, and other relevant costs, and the anticipated developer's profits. The fair value as at 31 December 2018 is estimated using a direct comparison approach by making reference to comparable sales transactions as available in the market and have also taken into account the cost that will be expended to complete the development to reflect the quality of the completed development while appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject properties.

The fair value of investment properties is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	2019 **RMB'000**	2018 RMB'000
Opening balance (level 3 recurring fair value)	**600,200**	321,000
Additions	**235,459**	192,205
Reclassifications	**–**	30,500
Disposals	**(160,221)**	–
Fair value gain on investment properties	**72,362**	56,495
Closing balance (level 3 recurring fair value)	**747,800**	600,200

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

16. INVESTMENT PROPERTIES – continued

The following table shows the significant unobservable inputs used in the valuation model:

Properties	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Range of unobservable inputs 2019	2018
Commercial offices, the PRC	3	Direct comparison and income approach	Term yield	The higher the term yield, the lower the fair value	**N/A**	5.0%
			Expected vacancy rate	The higher the expected vacancy rate, the lower the fair value	**N/A**	0%
			Reversionary rate	The higher the reversionary rate, the lower the fair value	**N/A**	5.5%
Commercial buildings, the PRC	3	Direct comparison and income approach	Term yield	The higher the term yield, the lower the fair value	**3.0%**	3.0%
			Expected vacancy rate	The higher the expected vacancy rate, the lower the fair value	**0%**	0%
			Reversionary rate	The higher the reversionary rate, the lower the fair value	**3.5%**	3.5%
Property units, the PRC	3	Direct comparison and income approach	Term yield	The higher the term yield, the lower the fair value	**6.5% – 10.4%**	N/A
			Expected vacancy rate	The higher the expected vacancy rate, the lower the fair value	**10% –56.3%**	N/A
			Reversionary rate	The higher the reversionary rate, the lower the fair value	**7% – 10.4%**	N/A

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

16. INVESTMENT PROPERTIES – continued

The following table shows the significant unobservable inputs used in the valuation model:

Properties	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Range of unobservable inputs 2019	2018
Property units under construction, the PRC	3	Direct comparison approach	(Discount)/premium on quality of the properties	The higher the discount, the lower the fair value; the higher the premium, the higher the fair value	**N/A**	(8)% – 29%
Property units under construction, the PRC	3	Residual approach	Budgeted retail unit value (RMB/s.q.m)	The higher the budgeted retail unit value, the higher the fair value	**RMB9,879 to RMB10,021**	N/A
			Budgeted unit outstanding construction cost (RMB/s.q.m)	The higher the budgeted unit outstanding construction cost, the lower the fair value	**RMB4,271 to RMB6,980**	N/A
			Anticipated developer's profit margin	The higher the anticipated developer's profit margin, the lower the fair value	**15%**	N/A

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

As at 31 December 2019, the carrying amount of investment properties approximately RMB401,000,000 were pledged to secure bank borrowings (note 31).

As at 31 December 2018, the carrying amount of investment properties approximately RMB128,200,000 were pledged to secure bills payable (note 27).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

17. INTEREST IN AN ASSOCIATE

	2019 **RMB'000**	2018 RMB'000
Shares of net assets	**15,653**	15,529

Details of the Group's associate are as follows:

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

^ English name is for identification only.

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

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

	2019 **RMB'000**	2018 RMB'000
As at 31 December		
Current assets	**114,908**	114,550
Non-current assets	**19**	47
Current liabilities	**(36,664)**	(36,952)
Net assets	**78,263**	77,645

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

17. INTEREST IN AN ASSOCIATE – continued

The total registered capital of the associate is RMB100,000,000. As at 31 December 2019, the unpaid registered capital receivable from other shareholders of the associate was RMB5,460,000 (2018: RMB5,460,000).

	2019	2018
	RMB'000	RMB'000
Year ended 31 December		
Revenue	**163**	11,850
Profit/(loss) from operation and total comprehensive income	**618**	(35,380)

18. INTEREST IN A JOINT VENTURE

	2019	2018
	RMB'000	RMB'000
Shares of net assets	**15,678**	–

Details of the Group's joint venture are as follows:

Name	**Place of incorporation, operation and principal activity**	**Percentage of ownership interests/voting rights/profit share**
威海融璟房地產開發有限公司 (Weihai Rong Jing Property Development Limited ^) ("Weihai Property")	PRC, property development in the PRC	51%

^ English name is for identification only.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

18. INTEREST IN A JOINT VENTURE – continued

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

In January 2019, the Group received a notification (the "Notification") from Shandong Lid Liquidation Affairs Limited (the "Administrator"), a limited liability company established in the PRC, being appointed by the court as the Administrator of Weihai Property and responsible for the reorganisation of Weihai Property, the court has formally approval a wholly-owned subsidiary of the Company and Zhangzhou Fuyi Investment Co., Limited ("Zhangzhou Fuyi") to be the reforming parties to the restructuring plan in respect of Weihai Property in accordance with the Corporate Bankruptcy Law of the PRC under the supervision of the Administrator. Pursuant to the Notification, the Group and Zhangzhou Fuyi would acquire 51% and 49% of the equity interest in Weihai Property respectively with nil consideration. The acquisition is completed on 18 January 2019. The financial effect arising from the acquisition of Weihai Property was summarised as follow:

	As at 18 January 2019 RMB'000
Consideration	–
Total identifiable net assets at acquisition date	23,722
Group's share of net assets	12,098
Gain on bargain purchase	12,098

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

18. INTEREST IN A JOINT VENTURE – continued

Summarised financial information, in relation to the joint venture extracted from its management account is presented below:

	2019 **RMB'000**	2018 RMB'000
As at 31 December		
Current assets	**418,328**	–
Non-current assets	**373**	–
Current liabilities	**(267,073)**	–
Non-current liabilities	**(120,887)**	–
Net assets	**30,741**	–

	2019 **RMB'000**	2018 RMB'000
Year ended 31 December		
Revenue	**–**	–
Loss from operation and total comprehensive income	**1,981**	–

	2019 **RMB'000**	2018 RMB'000
Reconciliation to the Group's interest in a joint venture		
Portion of the Group's ownership	**51%**	–
Group's share of net assets of the joint venture	**15,678**	–

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

19. RESTRICTED BANK DEPOSITS

Restricted bank deposits have maturity within one year as at 31 December 2019 and 2018. Such deposits have been pledged to certain banks as securities for the Group's facilities of providing financial guarantee services as detailed in note 51(b), sourcing services to customers and construction of properties. The effective interest rates of the Group's restricted bank deposits as at 31 December 2019 ranged from 0.3% to 1.3% (2018: 0.3% to 2.3%) per annum. As at 31 December 2019, approximately RMB92,000 (2018: RMB3,080,000) of the balances were utilised for guarantee contracts entered.

As at 31 December 2019 and 2018, the Group's restricted bank deposits were denominated in RMB and kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

As at 31 December 2019, the carrying amount of restricted bank deposit approximately RMB10,000,000 (2018: nil) is pledged to secure the bills payable (note 27).

20. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Non-current assets		
Entrusted loan receivables	**–**	2,254
Finance lease receivables	**98,558**	178,645
	98,558	180,899
Current assets		
Entrusted loan receivables	**869**	149,925
Finance lease receivables	**157,138**	111,472
Loan receivables	**613,152**	561,466
Receivables from guarantee customers	**28,788**	35,901
Account receivables	**67,970**	60,838
	867,917	919,602

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

20. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

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

	2019		2018	
	Minimum lease payments RMB'000	**Present value RMB'000**	Minimum lease payments RMB'000	Present value RMB'000
Not later than one year	**164,756**	**157,138**	132,456	111,472
Later than one year and not later than five years	**109,269**	**81,505**	173,437	144,592
More than five years	**17,681**	**17,053**	36,567	34,053
	291,706	**255,696**	342,460	290,117
Unearned finance income	**(36,010)**	**–**	(52,343)	–
Present value of minimum lease payments	**255,696**	**255,696**	290,117	290,117

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

20. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

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

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

	2019 **% per month**	2018 % per month
Entrusted loan receivables	**1.0 to 1.4**	1.0 to 1.4
Finance lease receivables	**0.5 to 1.5**	0.5 to 1.3
Loan receivables	**0.3 to 5.5**	0.5 to 3.6

The Group has certain concentration risk on finance lease, loan and account receivables as it has five (2018: six) customers with outstanding balances of approximately RMB721,772,000 (2018: RMB873,120,000) as at 31 December 2019.

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

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

	2019 **RMB'000**	2018 RMB'000
0 to 30 days	**467,345**	247,113
31 to 90 days	**7,776**	10,827
91 to 180 days	**100,000**	379,544
Over 180 days	**362,566**	427,116
	937,687	1,064,600

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

20. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

Ageing analysis of the Group's finance lease, loan and account receivables, excluding receivables from guarantee customers, prepared based on due date, net of impairment loss, is as follows:

	2019	2018
	RMB'000	RMB'000
Not yet past due	**832,915**	985,623
Past due 0 to 30 days	**20,778**	23,747
Past due 31 to 90 days	**348**	30,200
Past due 91 to 180 days	**505**	2,499
Over 180 days	**83,141**	22,531
	937,687	1,064,600

At 31 December 2019, finance lease, loan and account receivables of RMB832,915,000 (2018: RMB985,623,000) which were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables from guarantee customers were excluded from ageing analysis as they were debts settled by the Group on behalf of its guarantee customers which were past due to their original creditors according to relevant loan/guarantee agreements but no exact due date to the Group.

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

	RMB'000
Balance at 31 December 2017 under HKAS 39	22,898
Impact on initial application of HKFRS 9	15,934
Adjusted balance at 1 January 2018	38,832
Impairment loss recognised	5,119
Reversal of impairment loss	(19,719)
Balance at 31 December 2018	24,232
Impairment loss recognised	5,533
Reversal of impairment loss	(5,979)
Balance at 31 December 2019	**23,786**

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

20. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

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

	2019 **RMB'000**	2018 RMB'000
Real estate	**811,235**	481,238
Movable property	**78,259**	117,839
Property rights	**1,073,483**	535,223
Others	**9,000**	49,000
	1,971,977	1,183,300

As at 31 December 2019 and 2018, the finance lease receivables in respect of certain machineries, fishing vessels, properties, motor vehicles and other assets are effectively secured by the underlying assets, as the rights to the machineries, fishing vessels, properties, motor vehicles and other assets would be reverted to the Group in the event of default payment, and the deposits received from finance lease customers amounted to approximately RMB118,915,000 (2018: RMB120,655,000) (note 28).

During the years, the Group did not dispose of any of its finance lease, loan and account receivables to independent third party.

As at 31 December 2019, finance lease receivables of RMB17,055,000 (2018: RMB34,200,000) were pledged to secure bank borrowings (note 31).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

21. GOODWILL

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

For the purposes of the goodwill impairment test, its recoverable amount was determined based on a value-in-use calculation, covering a detailed 5-year budget plan plus an extrapolated cash flow projection by applying a long term estimated growth rate of zero subsequent to this 5-year plan, with a pre-tax discount rate of 10.3% (2018: 10.3%).

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

The directors concluded that the cash-generating unit demonstrates sufficient cash flows that justify the carrying value of the goodwill and hence no impairment of goodwill is necessary as at 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

22. OTHER FINANCIAL ASSETS

	2019 RMB'000	2018 RMB'000
Non-current:		
Financial assets measured at FVTPL *(note(c))*		
– Unlisted equity securities *(note (a))*	**34,000**	33,000
– Distressed assets *(note (b))*	**60,000**	59,900
– Fund investment	**1,000**	5,000
	95,000	97,900
Current:		
Financial assets measured at FVTPL *(note (c))*		
– Equity securities listed in Hong Kong	**11,738**	379
Financial assets measured at FVOCI *(note (c))*		
– Distressed assets *(note (b))*	**33,000**	3,240
	44,738	3,619
	139,738	101,519

Notes:

(a) The balance represented shares in an unlisted PRC company. The Group has classified the shares as FVTPL as the Group considers these investments were not held for long term strategic purpose.

(b) The distressed assets represented equity and debt instruments which there is no public market for investments.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

22. OTHER FINANCIAL ASSETS – continued

Notes: – continued

(c) Fair value measurement of financial assets

The fair value of the other financial assets of approximately RMB11,738,000 and RMB128,000,000 as at 31 December 2019 are at level 1 and level 3 (2018: RMB379,000 and RMB101,140,000) recurring fair value measurement respectively. There were no transfers into or out of level 1 and 3 during the years.

	2019	2018
	RMB'000	RMB'000
Level 1 recurring fair value		
Equity securities listed in Hong Kong	**11,738**	379
	11,738	379
Level 3 recurring fair value		
Financial assets measured at FVTPL	**95,000**	97,900
Financial assets measured at FVOCI	**33,000**	3,240
	128,000	101,140

The movements during the year in the balance of these financial assets at level 3 fair value measurements are as follows:

	2019	2018
	RMB'000	RMB'000
Opening balance (level 3 recurring fair value)	**101,140**	53,600
Impact on initial application of HKFRS 9:		
Reclassification of financial assets	**–**	155,471
Remeasurement of financial assets now measured at FVTPL	**–**	4,730
Remeasurement of financial assets now measured at FVTOCI	**–**	6,818
Adjusted opening balance	**101,140**	220,619
Additions	**42,140**	20,000
Disposals	**(5,990)**	(97,773)
Disposal of subsidiaries	**(17,140)**	(38,938)
Transferred to interests in associates	**–**	(5,000)
Fair value (loss)/gain recognised in profit or loss	**(150)**	6,750
Fair value gain/(loss) recognised in other comprehensive income	**8,000**	(4,518)
	128,000	101,140

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

22. OTHER FINANCIAL ASSETS – continued

Notes: – continued

(c) Fair value measurement of financial assets – continued

The Group's financial assets carried at fair value at 31 December 2019 and 2018 arrived at on the basis of valuations carried out on those dates by independent qualified professional valuers not connected to the Group. The valuation techniques used in determining the fair value measurement of level 3 financial instruments is arrived with discount cash flow approach and market approach with details as follows. There has been no change in the valuation technique used in the prior year.

	Fair value as at 31 December		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input(s) to fair value
	2019 RMB'000	2018 RMB'000				
Financial assets	**94,000**	68,140	Level 3	Discounted cash flow with future cash flow that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected recoverable amounts • Expected recovery date • Discount rates that correspond to the expected risk level	• The higher the recoverable amounts, the higher the fair value • The earlier the recovery date, the higher the fair value. • The higher the discount rates, the lower the fair value.
Financial assets	**34,000**	33,000	Level 3	Market approach	• Marketability discount	• The higher the marketability discount, the lower the fair value

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 **RMB'000**	2018 RMB'000 (Restated)
Non-current assets		
Amounts paid for properties acquired for asset management business	**83,680**	83,680
Other receivables	**235,380**	–
	319,060	83,680
Current assets		
Prepaid expenses	**80,161**	12,081
Deposits paid	**9,284**	6,233
Amounts paid for land and properties acquired for asset management business	**–**	630,444
Other receivables	**138,635**	130,288
	228,080	779,046

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

The below table reconciled the impairment loss allowance of Group's other receivables for the year:

	2019 **RMB'000**	2018 RMB'000
At 1 January	**639**	–
Impairment loss recognised	**261**	639
Balance at 31 December	**900**	639

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

24. INVENTORIES OF PROPERTIES

	2019	2018
	RMB'000	RMB'000
		(Restated)
Properties held for development	**194,946**	–
Properties held under development	**1,214,651**	2,130,613
Properties held for sale	**1,655,239**	88,511
	3,064,836	2,219,124

Properties held under development comprises leasehold interests in land are located in the PRC and have lease terms expiring from 40 to 70 years (2018: 40 to 70 years).

As at 31 December 2019, properties held under development amounted to approximately RMB392,617,000 (2018: RMB1,927,896,000 (restated)) are expected to be recovered within 12 months.

Upon completion of construction works, properties held under development will be transferred to properties held for sale. During the year ended 31 December 2019, carrying amount of RMB2,076,595,000 was transferred from properties held under development to properties held for sale (2018: RMB554,642,000).

Right-of-use assets related to interests in leasehold land where the interest in the land is held for development of inventories are included in the same line item as inventories of properties as that within which the corresponding assets.

As at 31 December 2019, properties held for sale of RMB1,318,523,000 (2018: properties held under development of RMB1,139,194,000) were pledged to secure bank borrowings (note 31).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

25. CASH AND BANK BALANCES – GENERAL ACCOUNTS

	2019	2018
	RMB'000	RMB'000
		(Restated)
Cash and bank balances	**139,770**	88,519
Less: included in assets classified as held for sale *(note 44)*	**–**	(2,624)
Cash and cash equivalents	**139,770**	85,895

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

As at 31 December 2019, the Group has cash and bank balances denominated in RMB amounting to approximately RMB77,948,000 (2018: RMB44,955,000 (restated)) kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

26. CASH AND BANK BALANCES – HELD ON BEHALF OF CUSTOMERS

Cash at banks held on behalf of customers are segregated bank accounts which only maintain clients' monies in the course of the conduct of the regulated activities. The Group classified the clients' monies as cash and bank balances – held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding payable to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

27. ACCOUNTS AND BILLS PAYABLE

	2019 RMB'000	2018 RMB'000 (Restated)
Accounts payable from property development	**452,847**	387,432
Accounts payable from financial services		
– clearing house	**791**	1,109
– cash client	**29,988**	22,683
Bills payable *(Note)*	**10,130**	62,392
	493,756	473,616

Note:

As at 31 December 2019, the bills payable is secured by pledged deposits with carrying amount of RMB10,000,000 (note 19).

As at 31 December 2018, the bills payable is secured by investment properties with carrying amount of approximately RMB128,200,000 (note 16).

Included in accounts and bills payables are creditors with the following ageing analysis, based on invoice dates, as of the end of reporting period:

	2019 RMB'000	2018 RMB'000 (Restated)
Less than 1 month	**455,652**	366,872
1 to 3 months	**10,772**	6,238
More than 3 months but less than 12 months	**20,742**	56,421
More than 12 months	**6,590**	44,085
	493,756	473,616

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

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

	2019 RMB'000	2018 RMB'000 (Restated)
Current liabilities		
Accruals, other payables and deposits received	**457,680**	503,604
Business and other tax payables	**51,856**	16,017
Deposits received from finance lease customers *(note 20)*	**111,408**	37,158
Amounts due to related parties	**4,840**	45
Amount due to a director	**–**	67,860
Amount due to non-controlling interest	**–**	60,000
Deferred income *(Note)*	**7,238**	868
	633,022	685,552
Non-current liabilities		
Deposits received from finance lease customers *(note 20)*	**7,507**	83,497

Note: Deferred income represents the financial guarantee service income received in advance from the customers.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

29. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities:

	2019 **RMB'000**	2018 RMB'000 (Restated)
Contract liabilities related to property sales	**1,351,221**	1,079,832

The Group receives payment from customers based on billing schedule as established in contracts. Payments are usually received in advance of the performance under the contracts which are from sales of property.

Revenue is recognised when the customers obtains control of the completed properties.

	2019 **RMB'000**	2018 RMB'000
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	**764,913**	693,725

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

30. LEASES

The Group leases a number of properties in the jurisdictions from which it operates. The leases typically run for a period of 8 months - 5 years. The lease payment are fixed over the lease term. For those leases of properties with lease terms of 12 months or less, the Group applies the "short term lease" recognition exemptions for these leases.

Right-of-use assets

The analysis of the carrying amount of right-of-use assets by underlying asset is as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Other properties leased for own use	**25,444**	29,034
Investment properties for sublease	**7,900**	–
Leasehold land under inventories of properties	**1,063,632**	194,625
Leasehold land under investment properties	**330,933**	145,582
Leasehold land under construction-in-progress	**115,023**	–
	1,542,932	369,241

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 2 to 3 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes variable lease payments.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

30. LEASES – continued

Lease liabilities

The future lease payments are due as follows:

	At 31 December 2019		At 1 January 2019	
	Minimum lease payments RMB'000	Present value RMB'000	Minimum lease payments RMB'000 *(Note)*	Present value RMB'000 *(Note)*
Not later than one year	**16,582**	**14,896**	5,869	3,680
Later than one year and not later than two years	**11,235**	**10,223**	13,775	12,386
Later than two years and not later than five years	**99,872**	**79,476**	14,092	12,968
	127,689	**104,595**	33,736	29,034
Future interest expenses	**(23,094)**	**–**	(4,702)	–
	104,595	**104,595**	29,034	29,034

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

The present value of future lease payments are analysed as:

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Current liabilities	**14,896**	3,680
Non-current liabilities	**89,699**	25,354
	104,595	29,034

The Group had total cash outflow for leases of RMB2,705,000 during the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

30. LEASES – continued

The followings are the amounts recognise in profit or loss:

	2019 **RMB'000**	2018 RMB'000
Depreciation expense of other properties leased for own use	**10,184**	–
Interest on lease liabilities *(note 10)*	**5,743**	–
Expenses relating to short-term leases	**1,195**	–
Operating lease charges in respect of properties	**–**	7,629
Gain arising from sale and leaseback transactions	**93,144**	–

31. BANK AND OTHER BORROWINGS

	2019 **RMB'000**	2018 RMB'000 (Restated)
Secured Borrowings		
Bank borrowings	**678,538**	700,768
Other borrowings	**372,849**	141,565
Guarantee note	**131,898**	128,934
	1,183,285	971,267
Carrying amount repayable:		
Within one year	**493,375**	296,038
More than one year, but not exceeding two years	**360,198**	286,064
More than two years, but not exceeding five years	**269,712**	324,165
More than five years	**60,000**	65,000
	1,183,285	971,267

The Group has variable interest-rate bank and other borrowings which carry interest ranging from 4.8% to 8.0% per annum (2018: 4.4% to 12.0%).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

31. BANK AND OTHER BORROWINGS – continued

As at 31 December 2019, the bank borrowings are secured by followings:

(i) approximately RMB12,000,000 (2018: RMB24,000,000) were secured by finance lease receivables with carrying amount of RMB17,055,000 (2018: RMB34,200,000), which were also guaranteed by Mr. Hong and Ms. Shi;

(ii) approximately RMB57,690,000 (2018: nil) were guaranteed by Mr. Hong, Ms. Shi and a subsidiary of the Company;

(iii) approximately RMB603,821,000 were secured by properties held for sale with carrying amount of RMB1,318,523,000, investment properties with carrying amount of RMB401,000,000 and properties held by customers, in which approximately RMB453,822,000 were also guaranteed by Mr. Hong (2018 (restated): approximately RMB635,547,000 were secured by properties under development with carrying amount of RMB1,139,194,000); and

(iv) approximately RMB5,027,000 (2018: RMB3,271,000) were guaranteed by a director of a subsidiary.

As at 31 December 2018, secured bank borrowings amounted to RMB37,950,000 were secured by charges over leased assets from the Group's finance lease business.

As at 31 December 2019, other borrowings are secured by followings:

(i) approximately RMB139,510,000 (2018: RMB139,510,000) were secured by charged of 510,000 shares of a subsidiary of the Company; and

(ii) approximately RMB233,339,000 were secured by personal guarantee from Mr. Hong.

As at 31 December 2018, other borrowings of approximately RMB2,055,000 were guaranteed by a director of a subsidiary of the Company.

As at 31 December 2019, secured guarantee note with carrying amount of approximately RMB131,898,000 (2018: RMB128,934,000) are secured by charges of 850,000,000 (2018: 750,000,000) shares of the Company by Expert Corporate Limited ("Expert Corporate") and also guaranteed by Mr. Hong and Mr. Ng.

Mr. Hong is the chairman of the Company and sole shareholder of Expert Corporate, the substantial shareholder of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

32. CORPORATE BONDS

	2019 RMB'000	2018 RMB'000
Corporate bonds	**299,485**	276,225
Carrying amount repayable:		
Within one year	**51,175**	18,270
More than one year, but not exceeding two years	**76,852**	26,535
More than two years, but not exceeding five years	**98,601**	125,280
More than five years	**72,857**	106,140
	299,485	276,225

During the year ended 31 December 2019, the Company issued Hong Kong Dollar ("HK$") denominated corporate bonds with principal amount of HK$40,000,000 (equivalent to RMB35,600,000) (2018: HK$47,100,000 (equivalent to RMB40,977,000)) and repaid corporate bonds of principal amount of HK$21,000,000 (equivalent to RMB18,690,000) (2018: HK$50,100,000 (equivalent to RMB43,587,000)).

The corporate bonds bear interests from 0.5% to 9.0% (2018: 5.0% to 9.0%) per annum. The interests of the corporate bonds are payable quarterly to annually (2018: quarterly to annually) in arrears every year. The corporate bonds will mature on the second to eighth anniversary (2018: second to eighth anniversary) from the issue dates.

Among the balances, corporate bonds of HK$144,600,000 (2018: HK$217,700,000) were secured and detailed as follows:

Corporate bonds with carrying amount of HK$143,600,000 (equivalent to RMB127,804,000) (2018: HK$195,700,000 (equivalent to RMB170,259,000)) are guaranteed by Mr. Hong, and corporate bonds with carrying amount of HK$1,000,000 (equivalent to RMB890,000) are guaranteed by Ms. Shi (2018: HK$22,000,000 (equivalent to RMB19,140,000)).

As at 31 December 2019, the Group did not fulfil the requirements to maintain certain financial position ratio as specified in the bond agreements and the bondholders are contractually entitled to request for immediate repayment of the outstanding loan amounts. In this connection, outstanding corporate bonds with total carrying amount of HK$27,000,000 (equivalent to RMB24,030,000) were presented as current liabilities at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

33. CONVERTIBLE BONDS

On 13 August 2018, the Company issued certain zero coupon convertible bonds (the "0% Convertible Bonds") with a principal amount of approximately HK$240,000,000 in connection with the acquisition of Karhoe Company Limited (note 42). The bonds are convertible at the option of the bondholders into ordinary shares of the Company at an initial conversion price of HK$0.60 between the periods from 13 August 2018 to 12 February 2020.

The 0% Convertible Bonds have been split into the liability and equity component with the movements as follows:

	Liability component RMB'000	**Equity component** RMB'000	**Total** RMB'000
Issuance during the year	181,738	19,783	201,521
Conversion into ordinary shares	(181,738)	(19,783)	(201,521)
At 31 December 2018	–	–	–

The fair value of the liability component was estimated by an independent professional valuer at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the equity component was estimated by the same valuer firm by binomial model.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

34. DEFERRED TAX LIABILITIES

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using principle taxation rate of 25% for the year (2018: 25%). The following are the major deferred tax liabilities recognised by the Group and the movements thereon during the year.

	Revaluation of investment properties	Fair value adjustment on properties held for development arising from acquisition of subsidiaries	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2018 (restated)	56,164	46,724	102,888
Acquisition of subsidiary	–	9,122	9,122
Transfer to liabilities related to assets classified as held-for-sale	–	(9,122)	(9,122)
Charged to profit or loss *(note 11)*	19,753	–	19,753
At 31 December 2018 and 1 January 2019 (restated)	**75,917**	**46,724**	**122,641**
Charged/ (credited) to profit or loss *(note 11)*	3,087	(5,651)	(2,564)
At 31 December 2019	**79,004**	**41,073**	**120,077**

As at 31 December 2019, the aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised are approximately RMB1,155,727,000 (2018: RMB1,100,155,000). No deferred tax liabilities was recognised because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

The Group had unrecognised deferred tax assets arising from tax losses of approximately RMB75,702,000 (2018: RMB55,465,000(restated)) as at 31 December 2019. Tax losses of RMB62,909,000 (2018: RMB44,651,000(restated)) are available, within a maximum period of five years in the PRC, for offsetting against future taxable profits of the relevant entities in the Group in which the losses arose. The remaining tax losses of RMB12,793,000 (2018: RMB10,814,000(restated)) may be carried forward indefinitely. Deferred tax assets have not been recognised for such losses at the reporting date due to the unpredictability of future profit streams in the relevant subsidiaries in the PRC and/or Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

35. SHARE CAPITAL

	Number of ordinary shares '000	Nominal value of share capital HK$'000	Equivalent nominal value of share capital RMB'000
Authorised:			
Ordinary share of HK$0.0025 each			
At 31 December 2018, 1 January 2019 and 31 December 2019	20,000,000	50,000	39,000
Issued and fully paid:			
At 1 January 2018	4,236,008	10,590	8,292
Issue of new share for acquisition of subsidiaries under common control *(note a)*	84,000	210	172
Issue of ordinary shares by placing *(note b)*	610,378	1,526	1,251
Issue of ordinary shares in respect of conversion of convertible bonds *(note c)*	400,000	1,000	870
At 31 December 2018 and 1 January 2019	5,330,386	13,326	10,585
Issue of new share for acquisition of subsidiaries under common control *(note d)*	1,033,000	2,582	2,247
At 31 December 2019	**6,363,386**	**15,908**	**12,832**

The movements in share capital of the Company were as follows:

(a) An aggregate of 84,000,000 new ordinary shares of the Company of HK$0.0025 each were issued as consideration shares at a price of HK$0.61 per share on 23 January 2018 in relation to acquisition of Differ Cultural Tourism Development Company Limited.

(b) In connection with the placing, an aggregate of 610,378,000 new ordinary shares of the Company of HK$0.0025 each were issued at a price of HK$0.53 per share on 29 June 2018.

(c) On 16 August 2018 and 14 September 2018, 50,000,000 and 350,000,000 shares were issued at HK$0.582 per share in respect of conversion of convertible bonds respectively.

(d) An aggregate of 1,033,000,000 new ordinary shares of the Company of HK$0.0025 each were issued as consideration shares at a price of HK$0.495 per share on 23 January 2019 in relation to acquisition of Prime Thrive.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

36. RESERVES

Group

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

Share premium

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

Merger and other reserves

As at 31 December 2019 and 2018, the merger reserve of the Group arose as a result of (a) the reorganisation ("Reorganisation") carried amount by the Group to rationalise the Group's structure in preparation for the listing of the Company's share and other business combination under common control; (b) gains/losses arising from changes in Group's interests in subsidiaries that do not result in a loss of control; and (c) the capital contributions by the ultimate controlling shareholder.

Statutory reserve

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

Financial assets revaluation reserve

It represents fair value reserve comprises the cumulative net change in the fair value of financial instruments designated at FVOCI that are held at the end of the reporting period.

Share options reserve

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

36. RESERVES – continued

Company

	Share premium	Contributed surplus *(Note)*	Translation reserve	Convertible bonds equity reserve	Share option reserve	Accumulated (losses)/ profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	356,029	355,920	6,039	–	20,455	(977)	737,466
Profit for the year	–	–	–	–	–	9,713	9,713
Other comprehensive income for the year	–	–	13,985	–	–	–	13,985
Total comprehensive income for the year	–	–	13,985	–	–	9,713	23,698
Issue of ordinary shares by placing	264,020	–	–	–	–	–	264,020
Issue of share in respect of conversion of convertible bonds	200,651	–	–	(19,783)	–	–	180,868
Acquisition of subsidiaries under common control	41,845	–	–	–	–	–	41,845
Recognition of equity-settled share-based compensation	–	–	–	–	3,729	–	3,729
Recognition of equity component of convertible bonds	–	–	–	19,783	–	–	19,783
At 31 December 2018 and 1 January 2019	**862,545**	**355,920**	**20,024**	**–**	**24,184**	**8,736**	**1,271,409**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(268,296)**	**(268,296)**
Other comprehensive income for the year	**–**	**–**	**11,171**	**–**	**–**	**–**	**11,171**
Total comprehensive income for the year	**–**	**–**	**11,171**	**–**	**–**	**(268,296)**	**(257,125)**
Acquisition of subsidiaries under common control	**442,615**	**–**	**–**	**–**	**–**	**–**	**442,615**
Recognition of equity-settled share-based compensation	**–**	**–**	**–**	**–**	**1,624**	**–**	**1,624**
At 31 December 2019	**1,305,160**	**355,920**	**31,195**	**–**	**25,808**	**(259,560)**	**1,458,523**

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

37. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	**2019 RMB'000**	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	38	**1,424,254**	859,491
Current assets			
Other financial assets		**11,738**	379
Prepayments and other receivables		**40,000**	19,179
Amounts due from subsidiaries		**789,074**	1,024,648
Cash and bank balances		**47,769**	28,673
		888,581	1,072,879
Current liabilities			
Accruals and other payables		**9,475**	9,632
Amounts due to subsidiaries		**167,283**	235,585
Other borrowings		**131,898**	–
Corporate bonds		**51,175**	18,270
		359,831	263,487
Net current assets		**528,750**	809,392
Total assets less current liabilities		**1,953,004**	1,668,883
Non-current liabilities			
Corporate bonds		**248,310**	257,955
Other borrowings		**233,339**	128,934
		481,649	386,889
Net assets		**1,471,355**	1,281,994
EQUITY			
Equity attributable to owners of the Company			
Share capital	35	**12,832**	10,585
Reserves	36	**1,458,523**	1,271,409
Total equity		**1,471,355**	1,281,994

On behalf of the Board

Hong Mingxian	**Ng Chi Chung**
Director	*Director*

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2019 are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
Differ Financial and Securities Limited (鼎豐金融證券有限公司)	HK	HK$15,176,000 (2018: HK$12,000,000)	–	100%	Provision of financial services
Differ Asset Management Company Limited (鼎豐資產管理有限公司)	HK	HK$1,000,000 (2018: HK$500,000)	–	100%	Provision of financial services
Differ Asset Development Limited (鼎豐資產發展有限公司)	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Differ Asset Group Limited (鼎豐資產集團有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100%	Investment holding
廈門市鼎豐股權投資有限公司 (Xiamen Differ Capital Investment Company Limited^)(i)	PRC	Registered capital of HK$500,000,000	–	100%	Investment holding
廈門文軼貿易有限公司 (Xiamen Wen Yi Trading Company Limited^)(ii)	PRC	Registered capital of RMB10,000,000	–	100%	Provision of assets management services
贛州市問鼎資產管理有限公司 (Ganzhou Wen Ding Asset Management Company Limited^)(ii)	PRC	Registered capital of RMB500,000,000	–	100%	Provision of assets management services
廈門市鼎豐資產管理有限公司 (Xiamen Differ Asset Management Company Limited^)(ii)	PRC	Registered capital of RMB500,000,000	–	100%	Provision of assets management services

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
廈門市鼎豐貸投資咨詢有限公司 (Xiamen Differ Dai Investment Consulting Company Limited^)(ii)	PRC	Registered capital of HK$500,000,000	–	100%	Provision of express loan services
Differ Cultural and Creative Investment Company Limited (鼎豐文創投資有限公司)	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Differ Cultural and Creative Development Company Limited (鼎豐文創發展有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100%	Dormant
Differ Company Limited	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Jiashi Financial Limited (嘉實金融有限公司)	BVI	100 ordinary shares of US$1 each	–	100%	Dormant
Prime Thrive Investments Limited (盛榮投資有限公司)	BVI	1 ordinary share of US$1	100%	–	Investment holding
Bai Rong Development Limited (佰融發展有限公司)	HK	10,000 ordinary shares of HK$1 each	–	100%	Dormant
贛州市豪晟投資管理有限公司# (Ganzhou Hao Sheng Investment Management Company Limited^)(ii)	PRC	Registered capital of RMB50,000,000	–	100%	Provision of express loan and assets management services

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
Jiashi International Financial Limited 嘉實國際金融有限公司	BVI	101 ordinary shares of US$1 each	100%	–	Investment holding
Jiashi Leasing Group Company Limited (嘉實租賃集團有限公司)	HK	HK$156,000,000	–	100%	Investment holding
嘉實(廈門)融資租賃有限公司 (Jiashi (Xiamen) Finance Lease Limited^)(i)	PRC	US$35,000,000	–	100%	Provision of finance lease services
贛州市嘉恒商務咨詢有限公司 (Ganzhou Jia Heng Business Consulting Company Limited^)(ii)	PRC	RMB4,990,000	–	100%	Provision of financial consultancy services
Differ Supply Chain Development Group Limited (鼎豐供應鏈發展集團有限公司)	BVI	100 ordinary shares of US$1 each	–	100%	Investment holding
廈門鼎豐供應鏈發展有限公司 (Xiamen Differ Supply Chain Development Company Limited^)(ii)	PRC	Registered capital of RMB100,000,000	–	100%	Provision of agency services of sale and exportation of enforced inventories and trading commodity
贛州嘉創供應鏈管理有限公司# (Ganzhou Jia Chuang Supply Chain Management Company Limited^) (ii)	PRC	Registered capital of RMB50,000,000	–	100%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
泉州鼎豐供應鏈管理有限公司 (Quanzhou Differ Supply Chain Management Company Limited^)(ii)	PRC	Registered capital of RMB50,000,000	–	100%	Provision of agency services of sale and exportation of enforced inventories and trading commodity
廈門倫輝貿易有限公司 (Xiamen Lun Hui Trading Company Limited^)(ii)	PRC	Registered capital of RMB20,010,000	–	100%	Property holding
Differ Halo Limited	BVI	1,000 ordinary shares of HK$1.00 each	–	51%	Investment holding
Affinity Finance Limited (友誠財務有限公司)	HK	2 ordinary shares of HK$1.00 each	–	51%	Provision of express loan services
景寧鼎豐供應鏈管理有限公司# (Jingning Differ Supply Chain Management Company Limited^)(ii) (Formerly known as 龍泉鼎豐供應鏈管理有限公司(Longquan Differ Supply Chain Management Company Limited)	PRC	Registered capital of RMB50,000,000	–	100%	Provision of agency services of sale and exportation of enforced inventories
Differ Cultural Tourism Development Company Limited (鼎豐文旅發展有限公司)	BVI	1 Ordinary share of US$1	100%	–	Investment holding
Differ Cultural Tours Limited (鼎豐文化旅遊有限公司)	Cayman Islands	100 Ordinary shares of HK$0.01 each	–	100%	Investment holding
Cultural Tours Limited (文旅有限公司)	BVI	100 Ordinary shares of US$1 each	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
Differ Property Services Company Limited (鼎豐物業服務有限公司)	HK	1,000 Ordinary shares of HK$1 each	–	100%	Provision of property management services
廈門市鼎豐物業服務有限公司 (Property Services Company Limited^)(i)	PRC	Registered capital of RMB20,000,000	–	100%	Provision of property management services
廈門問鼎商業運營管理有限公司 (Xiamen Wen Ding Business Operation Management Company Limited^)(i)	PRC	Registered capital of RMB50,000,000	–	100%	Provision of property management services
Differ Cultural Tourism Group Company Limited (Formerly named Differ Cultural Tours Group Company Limited (鼎豐文旅集團有限公司))	HK	1,000 Ordinary shares of HK$1 each	–	100%	Investment holding
廈門鼎豐文化旅遊集團有限公司 (Xiamen Differ Cultural Tourism Group Company Limited^)(i)	PRC	Registered capital of RMB300,000,000 (2018: RMB200,000,000)	–	100%	Investment holding
南安鼎豐置業有限公司 (Nanan Differ Property Company Limited^)(ii)	PRC	Registered capital of RMB1,000,000	–	100%	Property development
景寧鼎豐置業有限公司 (Jingning Differ Real Estate Limited^)(ii)	PRC	Registered capital of RMB20,000,000	–	100%	Property development
麗水市富豐文化旅遊有限公司 (Lishui Fu Feng Cultural Tours Company Limited^)(ii)	PRC	Registered capital of RMB50,000,000	–	100%	Property development and investment

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
衢州鼎豐文化旅遊開發有限公司 (Quzhou Differ Cultural Tourism Development Company Limited^)(ii)	PRC	Registered capital of RMB100,000,000	–	100%	Dormant
廈門禾潤信商務咨詢有限公司# (Xiamen He Run Xin Business Consulting Company Limited^) (ii)	PRC	Registered capital of RMB1,000,000	–	100%	Dormant
龍泉市鼎豐文化旅遊有限公司 (Longquan Differ Cultural Tourism Company Limited^)(ii)	PRC	Registered capital of RMB100,000,000	–	100% (2018: 70%)	Investment holding
龍泉鼎豐酒店有限公司 (Longquan Differ Hotel Company Limited^)(ii)	PRC	Registered capital of RMB100,000,000	–	100% (2018: 70%)	Provision of hotel and tourism services and property development
鼎豐商業管理有限公司 (Differ Commercial Management Company Limited)	HK	1,000 Ordinary shares of HK$1 each	–	100%	Investment holding
Cyut Shing Company Limited (茁晟有限公司) (Formerly known as Chun Sing Company Limited (駿晟有限公司))	BVI	100 Ordinary shares of US$1 each	–	100%	Investment holding
Cyut Sing Company Limited (茁昇有限公司)	HK	1,000 Ordinary shares of HK$1 each	–	100%	Investment holding
廈門市茁昇商務咨詢有限公司 (Xiamen Zhuo Sheng Business Consulting Company Limited^)(i)	PRC	Registered capital of RMB10,000,000	–	100%	Provision of business consultancy services and investment holding

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

38. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest Directly	Attributable equity interest Indirectly	Principal activities
景寧外舍古鎮旅遊投資發展有限公司 (Jingning Outdoor Residence Tour Investment Development Company Limited^)(ii)	PRC	Registered capital of RMB100,001,300	–	100%	Property development
Halo World Limited (華通世界有限公司)	HK	10,000 ordinary shares of HK$1.00 each	–	51%	Sales and trading
景寧外舍凱震房地產開發有限公司 (Jingning Outdoor Kaizhen Property Development Limited^)(ii)	PRC	Registered capital of RMB5,000,000	–	100%	Dormant
Differ Supply Chain HK Limited (鼎豐供應鏈有限公司)	HK	1,000 ordinary shares of HK$1 each	–	100%	Provision of agency services of sale and exportation of enforced inventories

^ The English names are for identification only

These companies are newly incorporated by the Group this year

(i) Registered as wholly-foreign owned enterprises under the PRC law

(ii) Registered as a limited liability company under the PRC law

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

39. NON-CONTROLLING INTERESTS

During the year ended 31 December 2018, the Group completed the acquisition of 30% equity interest in Jingning Differ Real Estate Limited ("Jingning") and Lishui Fu Feng Cultural Tours Limited ("Lishui") from the non-controlling interests (the "NCI") as detailed in note 41(b), which both became wholly-owned subsidiaries after the acquisitions.

During the year ended 31 December 2018, Niutou Mountain (Xiamen) Differ Cultural Industry Limited ("Niutou Mountain"), a 51% owned subsidiary of the Company was disposed of as detailed in note 40, the Group had no interest in Niutou Mountain as at 31 December 2018.

During the year ended 31 December 2018, the Group acquired 51% equity interests in Differ Halo Limited and its subsidiaries (the "Differ Halo Group") as detailed in note 42(iii).

During the year ended 31 December 2018, there were NCI arising from interest in Jingning Outdoor Residence Tour Investment Development Company Limited ("Residence Tour") and its subsidiaries ("Residence Tour Group"), a 51% owned subsidiary of the Company. After the acquisition of additional interests in subsidiaries from the NCI as detailed in note 41(c), there was no NCI in Residence Tour as at 31 December 2018.

During the year ended 31 December 2018, the Group disposed of its 30% equity interest in Longquan Differ Cultural Toursim Company Limited and its subsidiaries ("Longquan Group") to independent third parties at consideration of RMB30,000,000, after the fulfilment of certain conditions as mentioned in a cooperation agreement ("Cooperation Agreement") entered into between the Group and these parties when establishing Longquan Group. The Group in fact holds the 30% equity interest in Longquan Group for these parties subject to the condition in the Cooperation Agreement. Upon the completion of the disposal, the Group's hold 70% equity interests in Longquan Group. During the year ended 31 December 2019, the Group completed the acquisition of 30% equity interest in Longquan Group from NCI as detailed in note 41(a), the Group had no NCI in Longquan Group as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

39. NON-CONTROLLING INTERESTS – continued

Summarised financial information in relation to the NCI of the Group, before intra-group eliminations, is presented below:

Summarised statement of financial position

	Differ Halo Group		Longquan Group	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Percentage of equity interest held by NCI	**49%**	49%	**–**	30%
Current				
Assets	**83,566**	77,934	**–**	1,041,916
Liabilities	**(73,796)**	(74,021)	**–**	(943,344)
	9,770	3,913	**–**	98,572
Non-current				
Assets	**4,629**	215	**–**	1,005
Liabilities	**(6,036)**	(4,183)	**–**	–
	(1,407)	(3,968)	**–**	1,005
Net assets/(liabilities)	**8,363**	(55)	**–**	99,577
Carrying amount of NCI	**4,098**	(27)	**–**	29,873

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

39. NON-CONTROLLING INTERESTS – continued

Summarised statement of comprehensive income

For the year ended 31 December 2019

	Differ Halo Group RMB'000	Longquan Group RMB'000
Percentage of equity interest held by NCI	**49%**	**30%**
Revenue	**17,098**	**–**
Profit/(loss) for the year and total comprehensive income for the year	**8,437**	**(10,968)**
Profit/(loss) allocated to NCI	**4,134**	**(3,290)**

For the year ended 31 December 2018

	Differ Halo Group RMB'000	Longquan Group RMB'000	Jingning RMB'000	Lishui RMB'000	Niutou Mountain RMB'000	Residence Tour Group RMB'000 (Restated)
Percentage of equity interest held by NCI	49%	30%	30%	30%	49%	49%
Revenue	3,660	–	352,781	–	–	–
(Loss)/profit for the year and total comprehensive income for the year	(415)	(422)	78,247	41,985	(1,401)	(724)
(Loss)/profit allocated to NCI	(203)	(126)	23,474	12,595	(687)	(354)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

39. NON-CONTROLLING INTERESTS – continued

Summarised statement of cash flows

For the year ended 31 December 2019

	Differ Halo Group RMB'000	Longquan Group RMB'000
Net cash generated from operating activities	**13,036**	**22,335**
Net cash used in investing activities	**(4,550)**	**(311)**
Net cash used in financing activities	**(7,259)**	**(144)**
Net increase in cash and cash equivalents	**1,227**	**21,880**

For the year ended 31 December 2018

	Differ Halo Group RMB'000	Longquan Group RMB'000	Jingning RMB'000	Lishui RMB'000	Niutou Mountain RMB'000	Residence Tour Group RMB'000 (Restated)
Net cash (used in)/generated from operating activities	(6,138)	(98,846)	285	(329,510)	(2,805)	(10,141)
Net cash (used in)/generated from investing activities	–	(230)	(278)	320,625	(1,553)	2
Net cash generated from financing activities	6,996	100,000	–	–	4,600	10,245
Net increase/(decrease) in cash and cash equivalents	858	924	7	(8,885)	242	106

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

40. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2019

On 24 December 2019, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interest in Differ Development Limited and its subsidiaries ("Differ Development") at consideration of RMB40,000,000. The principal business of the Differ Development is engaged in provision of asset management services in the PRC. The disposal was completed on 27 December 2019 and the Group recognised a gain on disposal of Differ Development of approximately RMB26,718,000.

On 25 June 2019, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interest in Karhoe Company Limited and its subsidiaries ("Karhoe Group") at consideration of RMB279,380,000. The principal business of the Karhoe Company Limited is engaged in property development in the PRC. The disposal was completed on 30 June 2019 and the Group recognised a gain on disposal of Karhoe Group of approximately RMB46,170,000.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

40. DISPOSAL OF SUBSIDIARIES – continued

For the year ended 31 December 2019 – continued

The net assets of the disposal groups at the dates of disposal were as follows:

	Differ Development RMB'000	Karhoe Group RMB'000
Property, plant and equipment	8	210
Other financial assets	17,140	–
Prepayments, deposits and other receivables	249	25,595
Inventories of properties	–	488,082
Cash and bank balance	16	5,794
Accounts payable	–	(60,080)
Accruals and other payables	(4,100)	(85,357)
Contract liabilities	–	(131,912)
Provision for taxation	(31)	–
Deferred tax liabilities	–	(9,122)
	13,282	233,210
Gain on disposal of subsidiaries included in profit for the year in the consolidated statement of comprehensive income	26,718	46,170
Total consideration	40,000	279,380
Satisfied by:		
Cash	40,000	279,380
Net cash inflow arising on disposal:		
Cash consideration received	–	44,000
Cash and bank balances disposed of	(16)	(5,794)
	(16)	38,206

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

40. DISPOSAL OF SUBSIDIARIES – continued

For the year ended 31 December 2018

On 7 December 2018, the Group entered into a sale and purchase agreement with an independent third party to dispose of 51% equity interest in Niutou Mountain at consideration of RMB2,346,000. The principal business of the Niutou Mountain is engaged in provision of catering services in the PRC. The disposal was completed on 7 December 2018 and the Group recognised a gain on disposal of Niutou Mountain of approximately RMB715,000.

On 29 December 2018, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interest in 鼎豐網絡發展有限公司 (Differ Network Development Limited^) and its subsidiaries ("Differ Network Group") at consideration of RMB37,000,000. The principal business of the Differ Network Group is providing assets management services in the PRC. The disposal was completed on 31 December 2018 and the Group recognised a gain on disposal of Differ Network Group of approximately RMB31,232,000.

^ The English names are for identification only.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

40. DISPOSAL OF SUBSIDIARIES – continued

For the year ended 31 December 2018 – continued

The net assets of the disposal groups at the dates of disposal were as follows:

	Niutou Mountain	**Differ Network Group**
	RMB'000	RMB'000
Property, plant and equipment	1,434	–
Other financial assets	–	38,938
Other receivables	1,912	82
Tax receivables	152	–
Cash and bank balances	242	122
Accruals and other payables	(542)	(33,289)
Provision for taxation	–	(85)
Non-controlling interests	(1,567)	–
	1,631	5,768
Gain on disposal of subsidiaries included in profit for the year in the consolidated statement of comprehensive income	715	31,232
Total consideration	2,346	37,000
Satisfied by:		
Cash	2,346	37,000
Cash consideration	2,346	37,000
Cash and bank balances disposed of	(242)	(122)
	2,104	36,878

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

41. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

(a) During the year ended 31 December 2019, the Group acquired 100% equity interests of Chun Sing Company Limited at cash consideration of RMB405,000,000, which indirectly hold 30% equity interests of Longquan Group. Prior the acquisition, the Group indirectly hold 70% of Longquan Group. Upon completion of the acquisition, the Group's effective interests in Longquan Group were changed from 70% to 100%.

The consideration in relation to acquisition of RMB115,324,000 was not yet settled as at 31 December 2019 and was included in other payables.

(b) During the year ended 31 December 2018, the Group entered into a sale and purchase agreement with a non-controlling interest equity holder to acquire 30% equity shares of Jingning and Lishui at cash consideration of RMB190,000,000. These subsidiaries are principally engaged in property development in the PRC. Upon completion of the acquisition on 18 September 2018, the Group's effective interests in Jingning and Lishui were changed from 70% to 100%.

(c) During the year ended 31 December 2018, the Group entered into a sale and purchase agreement with a non-controlling equity holder to further acquire of 48% equity share of Residence Tour at a consideration of RMB48,000,000. On the same date, the Group further acquired 1% equity share of Residence Tour via Mr. Hong Weihua, an independent third party, through a trust arrangement at a consideration of RMB1,000,000. Upon the completion of the acquisition, the Group's effective interests in the Residence Tour were changed from 51% to 100%.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

42. BUSINESS ACQUISITION

(i) On 8 January 2018, the Group completed an acquisition of 100% equity interests in 泉州鼎豐供應鏈管理有限公司(Quanzhou Differ Supply Chain Management Limited) ("Quanzhou Supply Chain") at consideration of RMB1,000,000. The acquisition consideration was settled in cash. The acquisition was made as the directors believe that it would enable the Group to broaden and expedite the development of the Group's assets management segment.

(ii) On 27 July 2018, the Group completed an acquisition of 100% equity interests in Karhoe Group at the total consideration of RMB201,632,000. The acquisition consideration was satisfied by: (a) the issue of 0% Convertible Bonds of the Company with principal amount of approximately HK$240,000,000 (equivalent to appropriate RMB201,521,000); and (b) the balance of RMB111,000 in cash. The acquisition was made as the directors believe that it would enable the Group to broaden and expedite the development of the Group's assets management segment.

(iii) On 30 November 2018, the Group completed an acquisition of 51% equity interests in Differ Halo Limited at the total consideration of HK$208,000. The acquisition consideration was settled in cash. The acquisition was made as the directors believe that it would enable the Group to broaden and expedite the development of the Group's financial service segment.

The fair value of identifiable assets and liabilities of the Quanzhou Supply Chain, Differ Halo Group and Karhoe Group and as at the respective acquisition dates were:

	Quanzhou Supply Chain RMB'000	**Differ Halo Group** RMB'000	**Karhoe Group** RMB'000
Property, plant and equipment	24	222	210
Inventories of properties	–	–	367,000
Other inventories	–	589	–
Loan receivables	–	4,796	–
Other receivables	1,043	55,855	4,833
Cash and bank balances	22	358	3,514
Accounts payable	–	(34)	(24,019)
Other payables	(89)	(54,994)	(20,003)
Contract liabilities	–	–	(30,709)
Amounts due to shareholders	–	(2,574)	–
Bank and other borrowings	–	(3,534)	(50,000)
Provision for taxation	–	(324)	–
Deferred tax liabilities	–	–	(9,122)
	1,000	360	241,704

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

42. BUSINESS ACQUISITION – continued

	Quanzhou Supply Chain RMB'000	Differ Halo Group RMB'000	Karhoe Group RMB'000
Net cash (outflow)/inflow arising from the acquisition was calculated as follows:			
Cash consideration	(1,000)	–	(111)
Cash and bank balances acquired	22	358	3,514
	(978)	358	3,403

As at 31 December 2018, the consideration in relation to the acquisition of Differ Halo Limited of HK$208,000 (equivalent to appropriate RMB182,000) was not yet settled and was included in other payables.

The excesses of fair values of considerations over the fair value of the net assets acquired are accounted for as gain on bargain purchase and are calculated as below:

	Quanzhou Supply Chain RMB'000	Differ Halo Group RMB'000	Karhoe Group RMB'000
Fair value of total consideration transferred	1,000	182	201,632
Net assets acquired	(1,000)	(360)	(241,704)
Less: Non-controlling interests	–	178	–
Gain on bargain purchase	–	–	(40,072)

The revenue in the consolidated statement of comprehensive income for the year ended 31 December 2018 contributed by Quanzhou Supply Chain, Differ Halo Group and Karhoe Group were approximately RMB41,000, RMB302,000 and nil respectively.

Had Quanzhou Supply Chain, Differ Halo Group and Karhoe Group been consolidated from 1 January 2018, the consolidated statement of comprehensive income for the year ended 31 December 2018 would show pro-forma revenue of RMB851,507,000, RMB854,591,000 and RMB851,446,000 respectively and profit of RMB262,333,000, RMB264,860,000 and RMB256,697,000 for the year respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

43. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

In May 2018, the Group, through a wholly-owned subsidiary, entered into a provisional agreement with independent third parties (the "Seller") to acquire the entire interest in 廈門倫輝貿易有限公司 (Xiamen Lun Hui Trading Company Limited) (the "Xiamen Lun Hui"), a company principally holding an investment property in the PRC for property investment purposes, at a cash consideration of RMB2,000,000. By analysing the inputs, process and outputs of Xiamen Lun Hui, the acquisition did not constitute an acquisition of business and was accounted as acquisition of assets. The transaction was completed in May 2018 and Xiamen Lun Hui became a wholly-owned subsidiary of the Company accordingly.

The net assets acquired at the date of acquisition were as follows:

	RMB'000
Investment properties *(note 16)*	89,552
Cash and bank balances	84
Amount due to a shareholder	(44,886)
Other borrowings	(42,750)
Net assets acquired	2,000
Consideration	2,000
Satisfied by:	
Cash	2,000

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

44. ASSETS CLASSIFIED AS HELD-FOR-SALE/LIABILITIES RELATED TO ASSETS CLASSIFIED AS HELD-FOR-SALE

	Notes	2018 RMB'000
Assets classified as held-for-sale		
– Karhoe Group	(a)	446,595
– Interest in an associate classified as held-for-sale	(b)	6,394
		452,989
Liabilities related to assets classified as held-for-sale		
– Karhoe Group	(a)	140,602

(a) Karhoe Group

As disclosed in note 42(ii) to the financial statements, the Group completed the acquisition of 100% equity interests in Karhoe Group on 27 July 2018. On the same date, the assets and liabilities of Karhoe Group was presented as held-for-sale following the approval of the Group's management to disposal of Karhoe Group. As at 31 December 2018, Karhoe Group has the following assets and liabilities.

	2018 RMB'000
Assets of Karhoe Group classified as held-for-sale	
Properties, plant and equipment	210
Inventories of properties	420,881
Prepayments, deposits and other receivables	22,880
Cash and bank balances	2,624
	446,595
Liabilities of Karhoe Group classified as held-for-sale	
Accounts payable	36,067
Other payables	95,413
Deferred tax liabilities	9,122
	140,602

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

44. ASSETS CLASSIFIED AS HELD-FOR-SALE/LIABILITIES RELATED TO ASSETS CLASSIFIED AS HELD-FOR-SALE – continued

(b) Interest in an associate classified as held-for-sales

	2018 RMB'000
Interest in an associate	6,394

During the year ended 31 December 2018, the Group further acquired 10% equity interest in 廈門夏商食品有限公司 (Xiamen Xiashang Food Company Limited) ("Xiamen Xiashang") at consideration of RMB3,500,000. The Company was then hold 27% equity interest in Xiamen Xiashang and Xiamen Xiashang become an associate of the Company. On 26 December 2018, the Group entered into a sale and purchase agreement to disposal of its 27% equity interest in Xiamen Xiashang to an independent third party at consideration of RMB9,450,000. As such, Xiamen Xiashang was presented at assets classified as held-for-sale as at 31 December 2018.

45. COMMITMENTS

(i) Operating lease commitments

Group as lessee

At 31 December 2018, the future minimum lease payments under non-cancellable operating lease of the Group in respect of buildings at the reporting date are as follows:

	2018 RMB'000
Within one year	11,504
After one year but within two years	9,959
After two years but within five years	14,092
	35,555

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

45. COMMITMENTS – continued

(i) Operating lease commitments – continued

Group as lessor

Future minimum lease payments receivable under non-cancellable operating lease at the Group were as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**7,874**	3,685
After one year but within two years	**10,590**	4,663
After two years but within five years	**26,643**	9,933
Over five years	**29,015**	6,166
	74,122	24,447

Leases are negotiated for terms of 2 to 15 years (2018: 8 years).

(ii) As at 31 December 2019, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to its subsidiaries of RMB850,538,000 (2018: RMB1,293,028,000).

(iii) As at 31 December 2019, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to a joint venture of RMB20,910,000 (2018: nil).

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

	2019 RMB'000	2018 RMB'000 (Restated)
Contracted, but not provided for		
– Acquisition of prepaid land lease	**–**	566,606
– Investment properties under construction	**84,443**	20,032
– Property development	**799,365**	454,201
– Acquisition of property, plant and equipment	**49,161**	–

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

46. RELATED PARTY DISCLOSURES

(i) Compensation of key management personnel

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

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**6,266**	5,871
Pension scheme contributions	**97**	129
Equity-settled share-based payment	**1,298**	1,816
	7,661	7,816

(ii) Except as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material transaction with related party during the period:

Company Name	**Relationship**	**Type of transaction**	**2019** **RMB'000**	2018 RMB'000 (Restated)
Dragon Holdings Company Limited^ (龍之族控股有限公司)	Related company*	Guarantee service income	**–**	943

^ The English names are for identification only.

* Related companies are controlled by Mr. Hong.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

47. FINANCIAL INSTRUMENTS BY CATEGORY

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

	2019	2018
	RMB'000	RMB'000
		(Restated)
Financial assets		
Other financial assets		
– Financial assets at FVTPL	**106,738**	98,279
– Financial assets at FVOCI	**33,000**	3,240
At amortised costs		
– Finance lease, loan and account receivables	**966,475**	1,100,501
– Deposits and other receivables	**383,299**	136,521
– Restricted bank deposits	**38,714**	39,869
– Cash and bank balances	**162,729**	109,670
	1,690,955	1,488,080
Financial liabilities		
At amortised costs		
– Accounts and bills payable	**493,756**	473,616
– Accruals, other payables and deposits received	**581,435**	752,164
– Bank and other borrowings	**1,183,285**	971,267
– Corporate bonds	**299,485**	276,225
– Lease liabilities	**104,595**	–
	2,662,556	2,473,272

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

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

The interest rates of the above interest-bearing financial assets and financial liabilities of the Group are disclosed in notes 19, 25 and 31 respectively. The following table illustrates the sensitivity of profit after income tax for the year to a reasonably possible change in interest rates of 0.5%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's floating rate financial instruments held at the reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Interest rate risk – continued

	2019		2018	
	RMB'000	**RMB'000**	RMB'000	RMB'000
			(Restated)	(Restated)
	+0.5%	**-0.5%**	+0.5%	-0.5%
(Decrease)/increase in profit after income tax for the year	**(1,888)**	**1,888**	(1,873)	1,873

Credit risk

The Group's credit risk is primarily attributable to its financial assets measured at amortised cost and financial assets measured at FVOCI. The Group's requires the review of individual outstanding amount regularly depending on individual circumstance or market condition.

The Group's impairment requirements are based on an ECL model. The Group applies general approach on measure ECL on finance lease, loan and account receivables, deposit and other receivables, restricted bank deposits and bank balances. Under the general approach, financial assets migrate through the following three stages based on the change in risk since initial recognition: Stage 1: 12-month ECL, Stage 2: Life time ECL- not credit-impaired and Stage 3: Lifetime ECL - credit-impaired.

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

All collaterals of finance lease, loan and account receivables were held directly by the Group except for distressed assets classified as other financial assets measured at FVOCI, collateral is held by the non-performing debts' original creditors. For entrusted loan receivables, the Group holds collateral of the customers through banks. In case of default, the banks would assist the Group to recover the loans. Based on the arrangements of the Group and the banks, the banks may apply to the court for enforcement of the loan agreements and sale of the collaterals.

At the reporting date, the Group's exposure under outstanding finance lease, loan and account receivables were secured by the collaterals and deposits received from finance lease customers as disclosed in notes 20 and 28.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

The Group also has investments in distressed assets classified as other financial assets measured at FVOCI which contain certain elements of credit risk. Depending on the status of the obligor of distressed asset, the Group may decide to pursue repayment from the obligor instead of disposing it to third party, credit risk arises in such situation. To minimize the credit risk of distressed assets, the Group selects counterparties with appropriate creditworthiness and repayment capacity. At the reporting date, the Group's maximum exposure in distressed assets equal to the carrying amount of these assets as disclosed in note 22.

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

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

	2019	2018
	RMB'000	RMB'000
Real estate	**–**	1,070
Inventories	**6,000**	11,000
Machinery	**–**	1,200
Motor vehicles	**–**	400
Property rights	**1,145,549**	957,800
	1,151,549	971,470

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

The following table provides information about the Group's exposure to credit risk and ECL for finance lease, loan and account receivables and other receivables as at 31 December 2019. The average expected loss rate is derived from the gross carrying amount and loss allowance as at 31 December 2019 after taken into accounting of the collaterals, historical default rate and forward looking information when determined the loss allowance. The assessment is performed debtors by debtors.

	Average expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
At 31 December 2019			
Account receivables	**0.86%**	**68,562**	**592**
Finance lease receivables	**0.48%**	**256,942**	**1,246**
Receivables from guarantee customers	**34.72%**	**44,099**	**15,311**
Entrusted loan receivables	**3.66%**	**902**	**33**
Loan receivables	**1.07%**	**619,756**	**6,604**
		990,261	**23,786**
Other receivables	**0.24%**	**374,915**	**900**
			24,686
At 31 December 2018			
Account receivables	3.30%	62,915	2,077
Finance lease receivables	0.23%	290,795	678
Receivables from guarantee customers	27.13%	49,251	13,350
Entrusted loan receivables	0.05%	152,254	75
Loan receivables (restated)	1.41%	569,518	8,052
		1,124,733	24,232
Other receivables (restated)	0.49%	130,927	639
			24,871

The changes of the ECL rate is mainly taken the following factors into account when assessing whether credit risk has increased significantly subsequently:

– an actual or expected significant deterioration in the macro-economic environment;

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Movement in the loss allowance account in respect of finance lease, loan and account receivables and other receivables during the year is as follows:

	RMB'000
Balance at 31 December 2017 under HKAS 39	22,898
Impact of initial application of HKFRS 9	15,934
Adjusted balance at 1 January 2018	38,832
Impairment losses recognised	
– finance lease, loan and account receivables	5,119
– other receivables	639
Reversal of impairment loss	
– finance lease, loan and account receivables	(19,719)
Balance at 31 December 2018	24,871
Impairment losses recognised	
– finance lease, loan and account receivables	5,533
– other receivables	261
Reversal of impairment loss	
– finance lease, loan and account receivables	(5,979)
Balance at 31 December 2019	**24,686**

The origination of new finance lease, loan and account receivables and other receivables net of those settled resulted in a decrease in loss allowance of RMB185,000 (2018: RMB13,961,000) during the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk

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

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

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019						
Accounts and bills payable	**493,756**	**493,756**	**493,756**	**–**	**–**	**–**
Accruals, other payables and deposits received	**581,435**	**581,435**	**573,928**	**–**	**7,507**	**–**
Bank and other borrowings	**1,183,285**	**1,329,385**	**560,587**	**403,586**	**300,742**	**64,470**
Corporate bonds	**299,485**	**361,303**	**70,551**	**91,473**	**117,463**	**81,816**
Lease liabilities	**104,595**	**127,689**	**16,582**	**11,235**	**99,872**	**–**
	2,662,556	**2,893,568**	**1,715,404**	**506,294**	**525,584**	**146,286**
Financial guarantees issued						
Maximum amount guaranteed	**–**	**1,456,042**	**1,456,042**	**–**	**–**	**–**
At 31 December 2018 (Restated)						
Accounts and bills payable	473,616	473,616	473,616	–	–	–
Accruals, other payables and deposits received	752,164	752,164	668,667	7,220	76,277	–
Bank and other borrowings	971,267	1,121,445	367,936	324,847	361,881	66,781
Corporate bonds	276,225	325,652	34,207	40,019	137,045	114,381
	2,473,272	2,672,877	1,544,426	372,086	575,203	181,162
Financial guarantees issued						
Maximum amount guaranteed	–	1,142,170	1,142,170	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Valuation risk

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

Legal title risk

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

Capital management

The Group's capital management objectives include:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Capital management – continued

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

The net debts-to-equity ratios at 31 December 2019 and 2018 were as follows:

	2019 **RMB'000**	2018 RMB'000 (Restated)
Bank and other borrowings	**1,183,285**	971,267
Corporate bonds	**299,485**	276,225
	1,482,770	1,247,492
Less: Cash and bank balances – general accounts	**(139,770)**	(85,895)
Net debts	**1,343,000**	1,161,597
Equity attributable to the owners of the Company	**1,587,153**	1,629,493
Net debts to equity ratio	**84.6%**	71.3%

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

49. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

Reconciliation of liabilities arising from financing activities

	Lease Liabilities RMB'000 *(note 30)*	Bank and other borrowings RMB'000 *(note 31)*	Corporate bonds RMB'000 *(note 32)*	Total RMB'000
At 1 January 2019	**29,034**	**971,267**	**276,225**	**1,276,526**
Changes from financing cash flow:				
Proceeds from bank and other borrowings	–	446,369	–	446,369
Proceeds from issue of corporate bonds	–	–	35,600	35,600
Repayments of bank and other borrowings	–	(238,032)	–	(238,032)
Repayments of corporate bonds	–	–	(18,690)	(18,690)
Repayments of lease liabilities	(2,705)	–	–	(2,705)
Sale and leaseback arrangement	70,844	–	–	70,844
Interest paid	–	(35,153)	(18,794)	(53,947)
Total changes from financing cash flows	68,139	173,184	(1,884)	239,439
Exchange adjustments	242	405	6,350	6,997
Other changes:				
Transaction cost	–	3,275	–	3,275
Capitalised borrowing costs	–	45,673	–	45,673
Interest expenses	5,743	19,923	17,687	43,353
Interest accrued	(4,915)	(30,442)	1,107	(34,250)
New leases	6,352	–	–	6,352
At 31 December 2019	**104,595**	**1,183,285**	**299,485**	**1,587,365**

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

49. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS – continued

	Promissory note RMB'000	Bank and other borrowings RMB'000 *(note 31)*	Corporate bonds RMB'000 *(note 32)*	Total RMB'000
At 1 January 2018 (restated)	120,000	951,000	266,924	1,337,924
Changes from financing cash flow:				
Proceeds from bank and other borrowings	–	268,444	–	268,444
Proceeds from issue of corporate bonds	–	–	40,977	40,977
Repayments of bank and other borrowings	–	(352,278)	–	(352,278)
Repayments of corporate bonds	–	–	(43,587)	(43,587)
Repayment of promissory note	(120,000)	–	–	(120,000)
Interest paid	(2,132)	(57,183)	(8,975)	(68,290)
Total changes from financing cash flows	(122,132)	(141,017)	(11,585)	(274,734)
Exchange adjustments	48	5,519	11,911	17,478
Other changes:				
Acquisition of subsidiaries	–	96,284	–	96,284
Transaction cost	–	2,298	–	2,298
Capitalised borrowing costs	–	46,737	–	46,737
Interest expenses	2,084	17,846	15,575	35,505
Interest accrued	–	(7,400)	(6,600)	(14,000)
At 31 December 2018	–	971,267	276,225	1,247,492

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. SHARE OPTION SCHEME

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

2019

		Number of share options						
Name or category of participants	**Date of grant**	**At 1 January 2019**	**Granted**	**Exercised**	**Forfeited**	**At 31 December 2019**	**Exercise period** *(Note)*	**Exercise price** HK$
Directors								
Mr. Hong	25 April 2016	6,400,000	–	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Mr. Ng	25 April 2016	6,400,000	–	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Employees (in aggregate)	25 April 2016	29,394,000	–	–	(5,058,000)	24,336,000	30 April 2017 to 30 April 2021	0.734
Total		**42,194,000**	**–**	**–**	**(5,058,000)**	**37,136,000**		

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. SHARE OPTION SCHEME – continued

2018

Name or category of participants	Date of grant	At 1 January 2018	Granted	Exercised	Forfeited	At 31 December 2018	Exercise period *(Note)*	Exercise price HK$
		Number of share options						
Directors								
Mr. Hong	25 April 2016	6,400,000	–	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Mr. Ng	25 April 2016	6,400,000	–	–	–	6,400,000	30 April 2017 to 30 April 2021	0.734
Employees (in aggregate)	25 April 2016	44,750,000	–	–	(15,356,000)	29,394,000	30 April 2017 to 30 April 2021	0.734
Total		57,550,000	–	–	(15,356,000)	42,194,000		

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

50. SHARE OPTION SCHEME – continued

Fair value per share option

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

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

	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January 2018	57,550,000	
Forfeited	(15,356,000)	0.734
Outstanding at 31 December 2018 and 1 January 2019	**42,194,000**	**0.734**
Forfeited	**(5,058,000)**	**0.734**
Outstanding at 31 December 2019	**37,136,000**	**0.734**

The share options outstanding at 31 December 2019 had exercise price of HK$0.734 (2018: HK$0.734) and a weighted average remaining contractual life of 0.98 year (2018: 1.71 year).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

51. CONTINGENT LIABILITIES

As at the reporting date, the Group has issued the following significant guarantees:

(a) The Group has arranged mortgage loan facility with certain banks for purchasers of property units and provided guarantees to banks to secure obligations of such purchasers of repayments. The outstanding guarantees amounted to approximately RMB1,127,810,000 (2018: RMB755,608,000) at the reporting date. The guarantees provided by the Group to the banks would be released upon (i) the satisfaction of mortgage loans by the purchasers of properties; or (ii) receiving the real estate owner certificates of the respective properties by the banks from the buyers as security for the mortgage loan facilities granted. No provision for the Group's obligation under the guarantees has been made as the directors considered that it was not probable that the repayments of the loans would be in default. The directors also considered that the fair value of the underlying properties is able to cover the outstanding mortgage loans generated by the Group in the event the buyer default payments to the banks. The Group has not recognised any income in respect of these guarantees as its fair value is considered to be minimal by the directors.

(b) The Group had given financial guarantee to banks for banking facilities granted to certain customers of the Group, of maximum amount of approximately RMB328,232,000 (2018 (restated): RMB386,562,000).

Assets pledged to secure the above banking facilities are disclosed in note 20 to the financial statements.

In the opinion of the directors, the financial impact arising from providing the above financial guarantee is insignificant and accordingly, they are not accounted for in these financial statements.

52. EVENT AFTER THE REPORTING DATE

The emergence and spread of novel Coronavirus in early January 2020 has affected business and economic activity in the PRC and beyond. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future but the estimate of its financial effect cannot be made at this stage.

The Group does not have other significant subsequent events.

PROPERTIES PORTFOLIO

PROPERTIES UNDER DEVELOPMENT/ FOR SALE AS AT 31 DECEMBER 2019

Property name	Address and lot no.	Stage of completion	Expected completion date	Type	Site area	Total or estimated gross floor area (GFA) at 31 December 2019 (sq.m.)	Group's interest (%)
Differ Sky Realm 鼎豐天境	Waishe District, Jingning She Autonomous County, Lishui, Zhejiang Province, PRC 中國浙江省麗水市景寧畲族自治縣外舍區	Phase 1 to 3: Completed Phase 4: Construction in progress	by the end of 2020	Residential/ Commercial	99,729[(i)]	107,499[(ii)]	100
Blocks 18 to 31 of Chu Zhou Fu Cheng 處州府城	Northwest side of the intersection of Dayou Street and Dayang Road, Lishui, Zhejiang Province, PRC 中國麗水市大猷街與大洋路交匯處西北側	Completed	Completed	Commercial	34,761	16,519[(ii)]	100
Differ Humane Mansion 鼎豐書香豪庭	Daying Village, Shuitou Town, Nanan, Fujian Province, PRC 中國福建省泉州南安市水頭鎮大盈村	Construction in progress	by the end of 2020	Residential/ Commercial	23,762	34,702[(iii)]	100
She People Ancient City 畲鄉古城	Northern side of Renmin North Road and the eastern side of Waishe Road, Waishe Zone, Jingning Town, Lishui City, Zhejiang Province, PRC 中國浙江省麗水市景寧縣城外舍社區人民北路以北及外舍路以東	Completed	Completed	Commercial	173,934	170,518[(ii)]	100
Differ One City 鼎豐壹城	South of Dongcha Road, East of Huan Cheng East Road and North of Longquanxi, Longquan City, Zhejiang Province, PRC 中國浙江省龍泉市東茶路以南環城東路以東龍泉溪以北	Construction in progress	by the end of 2022	Residential/ Commercial	145,688	420,153[(iii)]	100

Notes:

(i) This site area covers all phases of development.

(ii) This represents saleable GFA of unsold/undelivered completed units.

(iii) This represents estimated GFA (excluding hotel and shopping mall portion) under present planning.

PROPERTIES PORTFOLIO

PROPERTIES HELD FOR INVESTMENT AS AT 31 DECEMBER 2019

Property name	Address and lot no.	Type	Total or estimated GFA (sq.m.)	Lease term expiry date
Portion of the Blocks 1 to 17 of Chu Zhou Fu Cheng 處州府城	Northwest side of the intersection of Dayou Street and Dayang Road, Lishui, Zhejiang Province, PRC 中國麗水市大猷街與大洋路交匯處西北側	Commercial	30,800	29 October 2055
Differ One City (shopping mall under construction) 鼎豐壹城的在建商場	South of Dongcha Road and the East of Huan Cheng East Road, Longquanxi Chengdong District, Longquan City, Zhejiang Province, PRC 中國浙江省龍泉市東茶路以南環城東路以東	Commercial	85,574[i]	24 January 2060
Other properties	Units 201-1 to 201-9, No. 10 Hubin West Road, Siming District, Xiamen, Fujian Province, PRC 中國福建省廈門市思明區湖濱西路10號201-1至201-9單元	Commercial	4,620	1 April 2035

Notes:

(i) This represents estimated GFA under present planning.