ANNUAL REPORT 2020

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

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS:

Mr. CAI Huatan *(Honorary Chairman)*
Mr. WU Qinghan

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. CHAN Sing Nun
Mr. LAM Kit Lam
Mr. CHEN Naike

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				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income from financial related services	**185,077**	144,634	129,462	181,215	201,659
Income from assets management business	**709,115**	777,613	715,038	118,053	93,209
Income from trading of commodities	**5,196,314**	1,329,594	–	–	–
Other income	**79,122**	53,686	35,832	53,272	3,478
Costs of property sold	**(437,746)**	(539,075)	(466,131)	–	–
Costs of trading of commodities	**(5,190,210)**	(1,328,264)	–	–	–
Gain on disposals of subsidiaries	**109,241**	72,888	31,947	–	6,942
Gain on redemption of convertible bonds	**–**	–	–	8,770	–
Employee benefit expenses	**(69,765)**	(59,949)	(39,706)	(33,547)	(23,315)
Depreciation and amortisation expenses	**(19,781)**	(16,692)	(4,355)	(2,385)	(3,158)
Operating lease expenses	**–**	–	(7,629)	(3,003)	(2,601)
Short-term lease expenses	**(154)**	(1,195)	–	–	–
Equity-settled share-based payments	**(335)**	(1,624)	(3,729)	(8,335)	(12,120)
Other expenses	**(113,647)**	(97,739)	(52,947)	(53,133)	(53,063)
Share of results of associates	**128,420**	124	(7,076)	492	7
Share of results of joint ventures	**(13,619)**	11,088	–	10,910	14,192
Gain on disposal of investment properties	**2,988**	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	–
Change in fair value of investment properties	**23,344**	72,362	56,495	7,094	–
Change in fair value of other financial assets	**3,017**	(863)	6,750	–	–
Finance costs	**(88,610)**	(43,353)	(35,505)	(56,337)	(42,367)
Profit before income tax	**502,771**	435,109	398,518	226,887	196,891
Income tax expense	**(149,441)**	(98,978)	(108,091)	(47,975)	(50,639)
Profit for the year	**353,330**	336,131	290,427	178,912	146,252
Attributable to:					
Owners of the Company	**356,115**	335,503	255,728	173,562	144,283
Non-controlling interests	**(2,785)**	628	34,699	5,350	1,969
	353,330	336,131	290,427	178,912	146,252

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**8,148,490**	5,937,918	5,572,090	4,668,602	3,645,728
Total liabilities	**(5,800,170)**	(4,346,667)	(3,912,751)	(3,175,034)	(2,302,695)
Non-controlling interests	**(42,288)**	(4,098)	(29,846)	(122,995)	(165,605)
Equity attributable to owners of the Company	**2,306,032**	1,587,153	1,629,493	1,370,573	1,177,428

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of directors (the "Board"), I am pleased to present the remarkable annual results of Differ Group Holding Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 (the "Year").

BUSINESS REVIEW

During the Year, the Group witnessed an explosive growth and reported a record high turnover of approximately RMB6,090.5 million and profit attributable to owners of the Company surged by 6.1% to approximately RMB356.2 million.

The Group considers the asset management business as a key driver of business growth. For property development and investment, the Group mainly focuses on residential and commercial projects in PRC's second and third tier cities and the Group expects that the housing demand in these cities will remain robust while overall real estate sale volume will mildly increase in future. During the Year, the Group has increased the portfolio of land and properties in the PRC through acquisition of companies and by tenders, auctions and bids. The Group has recorded a decent financial results from sales of properties during the Year and the Group believes that the present portfolio of land and properties in the PRC will generate a considerable return in next few years. Meanwhile, the Group has disposed 51% equity interests of Fujian China Overseas Urban Development Co., Limited, which mainly hold the assets of property projects of Chu Zhou Fu Cheng (處州府城) and She People Ancient City (畲鄉古城) and recorded a substantial gain.

Other than developing asset management business, the Group has actively explored the business opportunities to broaden its income stream. The Group has actively expanded the commodity trading business. Trading of commodities is usually to be considered as a business with comparatively low gross profit rate. The gist for carrying out such business is to reap profit from the volume of trade. During the Year, the income from commodity trading business increased tremendously by 290.8% to approximately RMB5,196.3 million.

In the capital market, the Company has been selected as a constituent stock of the MSCI China Small Cap Index in late 2020. The Board believes that the Company's inclusion into such index of MSCI represents the capital market's recognition of the Company's value and performance. The Company will continue to seek and seize market opportunities and create multiple income streams in order to generate satisfactory returns to shareholders.

CHAIRMAN'S STATEMENT

PROSPECTS

The outbreak of coronavirus disease (COVID-19) has brought unprecedented challenges in 2020, and is expected to have a significant impact on China's economic development in 2021. Based on the current situation, the Group will adopt a prudent approach and closely monitor the financial position.

Going forward, the Group will continue to leverage its strengths and build on its core competencies. We will strive to become a leading integrated asset management and financial services provider in the PRC. By exploring collaboration opportunities with renowned institutions and state-owned companies, we are confident and capable of continuing to meet our stakeholders' expectations. Meanwhile, the Group is actively exploring and has already acquired some distressed asset projects with great potentials. As the 14th Five-year Plan further promotes urban renewal, the Group expects that there will be more projects with huge potentials to be discovered, injecting new impetus into our long-term development.

APPRECIATION

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

Mr. HONG Mingxian
Chairman

Hong Kong
29 March 2021

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

EXECUTIVE DIRECTORS

Mr. HONG Mingxian (洪明顯), aged 46, 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 48, 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 61, 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 57, 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 46, 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 46, 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).

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Mr. Chen Naike (陳乃科), aged 53, 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 48, 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 43, 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

During the year ended 31 December 2020, the turnover of the Group was mainly derived from the (i) provision of financial related services (including finance lease services, express loan services, consultancy services, guarantee services and security brokerage services), (ii) assets management business (including a) property development and investment and b) distressed assets, equities investment and fund management) and (iii) commodity trading business.

Effect of COVID-19 pandemic

COVID-19 pandemic has swept the world since the beginning of 2020, causing immeasurable losses to people and the economy around the world. With strong and effective joint prevention and control mechanism, the COVID-19 pandemic in the PRC is under control and economic activities are recovering, and the assets management and financial services industry continues to grow stably.

The major businesses of the Group were recovered in February 2020 and the work and production at the sales offices and construction sites have been fully resumed in April 2020. With the purpose of supporting customers to overcome difficulties, the Group offered one month rental concession to tenants in Chu Zhou Fu Cheng (處州府城).

Facing the difficult external environment, the Group has improved operating efficiency and minimized the impact of the COVID-19 pandemic through measures like, quality improvement and efficiency enhancement. For assets management business, in order to meet projects schedule and to obtain satisfactory annual results, the Group has secured properties construction schedules and flat delivery schedules and worked hard on getting back the recovery of sales performance in the second half of the year. As a result, for the year 2020, revenue from sales of properties remained generally stable as compared with that for the year 2019, while the contracted sales reached a record high of over RMB2.3 billion.

For financial related services business, there is increase in demand of express loan services from our customers due to the COVID-19 caused adverse effect on the economy and other business segments. As at 31 December 2020, the balance of finance lease, loan and account receivables is approximately RMB1.4 billion, representing an increase of approximately 50% as compared with year 2019.

In the second half of 2020, the Group proactively overcame the adverse impact of the COVID-19 pandemic, continued to strengthen cashflow control, and actively targeted the market opportunities. As at 31 December 2020, the Group maintained sufficient cash balance (including cash and bank balances and current restricted bank deposits) of approximately RMB421.2 million, representing an increase of 136.0% as compared with year 2019.

Long-term real estate mechanism of the PRC

In the year, the PRC imposed the "three red lines" real estate financial control policy on property developers against the high debt levels of property development companies and the high land prices. Under the "three red lines" policy, the developer's financial situation is assessed in three criteria. If the developer fail to meet one or more of the 'three red lines' criteria, their ability to increase its debts in the following year will be restricted accordingly.

The three red lines financial tests are:

1. Liability to asset ratio (exclude advance receipts) of less than 70%

2. Net gearing ratio (net debt to equity) of less than 100%

3. Cash to short-term debt ratio of more than 100%

The Directors have reviewed the Group's financial position which is fundamentally solid, with low gearing ratio and sufficient cash and bank balances and concluded that the property development business of the Group will be developed steadily in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The turnover increased from approximately RMB2,251.8 million for the year ended 31 December 2019 to approximately RMB6,090.5 million for the year ended 31 December 2020, representing an increase of approximately RMB3,838.7 million or 170.5%. The increase was attributable to the net effect of the following reasons:

(i) Financial related services

a.) Express loan services

The Group has provided money lending services and entrusted loan services to customers in the PRC and Hong Kong. Our customers are mainly small and medium enterprises. Our Group's express loan service income increase by 96.9% from approximately RMB68.9 million for the year ended 31 December 2019 to RMB135.6 million for the year ended 31 December 2020. The increase of express loan service income was mainly due to the increase of average loan receivables during the period.

b.) Finance lease services

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

Our Group's finance lease services income decreased by 17.0% from approximately RMB24.2 million for the year ended 31 December 2019 to RMB20.1 million for the year ended 31 December 2020. The decrease was mainly due to the Group's prudent and conservative strategy to develop this business.

c.) Guarantee services

We provided the financing guarantee services during the year ended 31 December 2020 and 2019. Our Group's guarantee service income slightly decreased by 2.4% from approximately RMB11.3 million for the year ended 31 December 2019 to approximately RMB11.0 million for the year ended 31 December 2020. 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.

d.) Financial consultancy services

The financial consultancy service income of our Group decreased from approximately RMB36.9 million for the year ended 31 December 2019 to RMB14.9 million for the year ended 31 December 2020. Our Group mainly provide financial and business solutions to various customers. The decrease of the demand of financial consultancy services which lead to decrease of our income from financial consultancy services.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) 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), She People Ancient City (畲鄉古城) and Chu Zhou Fu Cheng (處州府城), 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 4 of Differ Sky Realm (鼎豐天境) was completed on December 2020. Most of the Phase 4 and the remaining parts of other phases of Differ Sky Realm (鼎豐天境) were sold and the revenue from the Differ Sky Realm (鼎豐天境) for the year ended 31 December 2020 was approximately RMB575.0 million. 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 of She People Ancient City (畲鄉古城) was completed in December 2019 and part of which were delivered to the purchasers during the year ended 31 December 2020. The revenue from She People Ancient City (畲鄉古城) for the year ended 31 December 2020 was approximately RMB102.7 million. Furthermore, 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 of Chu Zhou Fu Cheng (處州府城) was completed in 2019 and part of which were recognised as revenue of approximately RMB7.0 million for the year ended 31 December 2020 in accordance with HKFRSs.

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 RMB24.4 million during the year ended 31 December 2020. Such income mainly represented the income from disposal of distressed financial assets, rental income and management fee income.

(iii) Commodity trading business

As mentioned in the 2019 annual report, 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 previous experiences of supply chain agency services give the Group an advantage in sourcing and procurement of various commodities. The Group further considered that the previous client base and network from supply chain agency services gave the Group an advantage in locating the buyers and sellers. Started from third quarter of 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 2020, the Group recorded the income from commodity trading business of approximately RMB5,196.3 million (2019: RMB1,329.6 million) and the relevant cost of trading of commodities and gross profits were approximately RMB5,190.2 million (2019: RMB1,328.3 million) and RMB6.1 million (2019: RMB1.3 million) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income

Other income increased from approximately RMB53.7 million for the year ended 31 December 2019 to approximately RMB79.1 million for the year ended 31 December 2020, representing an increase of approximately RMB25.4 million or 47.4%. Our Group's other income for the year ended 31 December 2020 mainly represented bank and other interest income, gain on re-measurement of pre-existing interest in a joint venture, sales of electronic devices and foreign exchange gain.

Costs of property sold

The Group recorded cost of property development of approximately RMB437.7 million for the year ended 31 December 2020 (2019: RMB539.1 million). It mainly represented the land costs, construction costs and other relevant costs for part of i) Differ Sky Realm (鼎豐天境), ii) She People Ancient City (畲鄉古城) and iii) Chu Zhou Fu Cheng (處州府城) projects.

Gain on disposal of subsidiaries

On 31 December 2020, the Group disposed 51% of the entire issued share capital of Fujian China Overseas Urban Development Co., Ltd* (福建中海外城市開發有限公司) ("Fujian China Overseas") (the "Disposal Company"), a wholly owned subsidiary of the Company for a total consideration of RMB438.6 million which consists of the cash consideration and the dividend entitlement (the "Disposal").

Fujian China Overseas and its subsidiaries (the "Disposal Group") is principally engaged in property development and management and commodity trading business. Major assets of the Disposal Group comprise two land use rights, which one is a commercial/cultural development called Chu Zhou Fu Cheng* (處州府城) and another is a commercial development called She People Ancient City* (畲鄉古城) and four subsidiaries engaged in commodity trading business in the PRC.

The purpose of the Disposal is to realise a profit from the disposed properties development and release funds to improve the Group's cash flow and financial position. After the Disposal, the Disposal Company will cease to be indirect wholly-owned subsidiary of the Company and will instead become an associate of the Company.

The Group recorded the gain on disposal of the Disposal Group of approximately RMB109.2 million in 2020.

Share of results of associates

For the year ended 31 December 2020, share of results of associates of approximately RMB128.4 million represented the net effect of (i) a gain on bargain purchase of approximately RMB135.1 million which arose mainly from the excess of the Group's interests in the fair value of the net identifiable assets of the Disposal Group over the fair value of the retained interest and (ii) share of losses of other associate of approximately RMB6.7 million.

Employee benefit expenses

The employee benefit expenses increased from approximately RMB59.9 million for the year ended 31 December 2019 to approximately RMB69.8 million for the year ended 31 December 2020, representing an increase of approximately RMB9.9 million or 16.4%. Our Group's employee benefit expenses mainly comprised staff salaries, directors' emoluments and other benefits.

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses

The other expenses increased from approximately RMB97.7 million for the year ended 31 December 2019 to approximately RMB113.6 million for the year ended 31 December 2020, representing an increase of approximately RMB15.9 million or 16.3%. Our Group's other expenses mainly comprised provision of impairment loss on receivables, impairment loss on goodwill, legal and professional fee, advertising expense, cost of electronic device sold, various office expenses and business tax and other taxes. Due to the decline prospects in financing lease business, the cash generating unit of finance leasing has been reduced to its recoverable amount of RMB19,896,000 and an impairment loss of goodwill of approximately RMB13,504,000 is recorded.

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

	2020 RMB'000	2019 RMB'000
Advertising expense	**13,191**	9,004
Bank charges	**529**	773
Business tax and other taxes	**15,928**	16,810
Cost of electronic device sold	**7,089**	11,070
Entertainment expense	**3,920**	3,813
Legal and professional fee	**12,813**	12,164
Impairment loss on goodwill	**13,504**	–
Motor vehicle expense	**1,013**	885
Office expense	**7,563**	7,046
Tele-communication fee	**989**	645
Travelling expense	**1,963**	1,980
Water and electricity	**2,286**	2,144
Provision of impairment loss on finance lease, loan and account receivables, amount due from an associate and other receivables	**19,550**	5,794
Exchange loss	**–**	1,809
Provision for compensation	**3,990**	11,322
Others	**9,319**	12,480
	113,647	97,739

Gain on disposal of investment properties

The Group recorded gain on disposal of investment properties of approximately RMB3.0 million for the year ended 31 December 2020 (2019: RMB61.9 million). 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 2020, the carrying amount of investment properties represents, i) parts of Differ One City (鼎豐壹城) project which are under construction for shopping mall and hold to earn rentals in future, ii) parts of Differ Fortune Plaza (鼎豐財富中心) and Differ Hua Cheng (鼎豐華城) project which are under construction for office and shopping mall respectively and hold to earn rentals in future and iii) an investment property in Xiamen which are held to earn rentals under operating lease. The fair value gain on the Group's investment properties of approximately RMB23.3 million (2019: RMB72.4 million) for the year ended 31 December 2020 are based on valuations of such properties and include parts of Chu Zhou Fu Cheng (處州府城) project, which are held for capital appreciation or held to earn rentals and 51% interest of which is disposed in 2020, 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 RMB356.1 million for the year ended 31 December 2020, representing an increase of approximately RMB20.6 million, or 6.1%, from approximately RMB335.5 million for the year ended 31 December 2019.

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

(a) On 11 February 2020, Xiamen Ding Feng Sheng Enterprise Management Co., Ltd (廈門鼎豐盛企業管理有限公司), an indirect 50% owned subsidiary of the Company (as the purchaser) and Shanghang County Natural Resources Bureau (上杭縣自然資源局) (as the vendor) entered into the land use rights grant contract in relation to the acquisition of the land plot. The consideration is RMB390,700,000 and the land plot is located in Lincheng Town, Shanghang County, Fujian Province, the PRC. The transaction was completed on 4 August 2020.

(b) On 18 June 2020, Differ Cultural Tours Limited (鼎豐文化旅遊有限公司), an indirect wholly-owned subsidiary of the Company (as the purchaser), entered into a conditional sale and purchase agreement with Mr. Cai Fangxiang (as the vendor) to acquire 49% equity interest in Weihai Zhongtian Real Estate Co., Ltd* (威海中天房地產有限公司) ("Weihai Zhongtian") (formerly known as Weihai Rong Jing Property Development Limited* (威海融璟房地產開發有限公司)) and 51% equity interest in Shanghang Fengda Real Estate Co., Ltd* (上杭豐達置業有限公司) ("Shanghang Fengda") and the debt of RMB95,164,200 in the aggregate consideration of RMB211,120,000 (the "Acquisition"). The consideration is settled by 580,000,000 shares of the Company at issue price of HK$0.40 per share. The principal business of Weihai Zhongtian is property development and the sale of construction material and the principal business of Shanghang Fengda is property development. The Acquisition was completed on 10 July 2020. Upon the completion of the Acquisition, Weihai Zhongtian became an indirect wholly-owned subsidiary of the Company and Shanghang Fengda became an indirect 51% owned subsidiary of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

(c) On 12 November 2020, China Overseas Urban Development Co., Ltd* ("China Overseas") (中海外城市開發有限公司) (as the purchaser), entered into the reorganisation agreement ("Reorganisation Agreement") with Xiamen Differ Cultural Tourism Group Co., Ltd.* ("Xiamen Differ") (廈門鼎豐文化旅遊集團有限公司) (as the vendor) and Differ Group (China) Co., Ltd.* ("Differ China") (鼎豐集團(中國)有限公司), both of which are indirect wholly-owned subsidiaries of the Company, pursuant to which the purchaser has agreed to acquire and the vendor has agreed to sell 51% of the entire issued share capital (the "Sale Shares") of the Disposal Company for the total consideration of RMB438,600,000 which consist of the cash consideration of RMB51,000,000 and dividend entitlement of RMB387,600,000. The Disposal Group are principally engaged in the property development and commodity trading business. The Disposal was completed on 31 December 2020 and the Sale Shares have been transferred to the nominee, Zhong Cheng Chuang Zhan City Construction Limited* (中城創展城市開發建設有限公司), of the purchaser. Upon the completion of the Disposal, the Disposal Group became the 49% associate of the Company.

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 2020.

OUTLOOK

It is anticipated that global economic uncertainties will persist in 2021 amid the outbreak of COVID-19. The Chinese Central government and local governments in different cities have introduced various temporary measures to contain the COVID-19 outbreak during 2020, which had a more or less direct impact of the progress of the construction, pre-sale and delivery of various property projects of the Group. The Group has adopted a prudent approach and closely monitor the financial position. The Board is optimistic about the asset management business and considers that the Chinese property market will bounce back in near future. During the period, the Group has acquired certain companies and land plots in Fujian and further acquired 49% of shares of the company which hold the land plots located in Shandong, the Group expects that the housing demand in these cities will remain robust while the overall real estate sale volume will mildly increase in near future. For distressed assets, the Group has a number of valuable alternative assets for execution or disposal and the Directors believe that these assets will generate remarkable returns in next few years.

This year is the first year of the 14th Five-year Plan. As the plan underlined the promotion of urban renewal and the coordinated development of cities and towns, it is expected that there are ample opportunities for the Group's property development business. Notably, projects with high return have sprung up in the market after the outbreak of the pandemic last year, which fosters the development of the Group's asset management business.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

The following information is disclosed in accordance with Chapter 13 of the Listing Rules.

The Reorganisation Agreement was entered into among China Overseas, Xiamen Differ and Differ China. Pursuant to the Reorganisation Agreement, Xiamen Differ and Differ China agreed the total amount owed from the Disposal Group to them are capped at RMB750,000,000 (the "Debts"). As at 31 December 2020, the outstanding principal amount was approximately RMB635.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The principal terms of Debts are as follows:

Loan cap:	Up to RMB750 million
Interest rate:	Interest-free for 2021 and 10% per annum from 1 January 2022 until full repayment
Loan period:	No fixed repayment date

In addition, Xiamen Differ and Differ China provide guarantee to the Disposal Group in respect of various bank loans amounting up to RMB542 million from several PRC commercial banks (the "Guarantee"). As at 31 December 2020, the outstanding bank loans was RMB467 million.

The principal terms of Guarantee are as follows:

Guarantors:	Xiamen Differ and Differ China
Guarantee cap:	Up to RMB542 million
Service fee:	3.1% per annum of the outstanding bank balance of the Guarantee
Guarantee period:	Up to 21 January 2026

A condensed consolidated statement of financial position of the Disposal Group as at 31 December 2020 is set out below:

	RMB'000
Current assets	2,792,099
Non-current assets	412,007
Current liabilities	(1,766,709)
Non-current liabilities	(638,679)
Net assets	798,718
Share capital	1,000
Reserves	406,346
Non-controlling interests	391,372
Total equity	798,718

As at 31 December 2020, the Group's attributable interest in the Disposal Group amounted to RMB391,372,000.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENT

The details of the commitment of the Group as at 31 December 2021 are set out in note 42 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.

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.

EVENT AFTER THE REPORTING DATE

On 12 March 2021, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with Fujian Liantai Real Estate Development Co., Ltd* (福建聯泰房地產開發有限公司), a non-controlling interest of the Group, to dispose 51% equity interest in Shanghang Fengda at consideration of RMB76,877,000. The principal activities of Shanghang Fengda are property development and investment. Upon the completion of disposal, Shanghang Fengda will no longer be a subsidiary of the Company.

Other than disclosed elsewhere in this annual report, there is no significant subsequent event.

HUMAN RESOURCES

As at 31 December 2020, the Group had a total of 406 employees (2019: 401). The staff costs (included Directors' emoluments) were approximately RMB69.8 million for the year ended 31 December 2020 (2019: RMB59.9 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.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this annual report, there was no specific plan for material investments or capital assets as at 31 December 2020 (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group had total cash and bank balances and current restricted bank deposits of approximately RMB421.2 million (2019: RMB178.5 million). The gearing ratio, calculated as percentage of total borrowings to the total assets of the Group was 12.5% as at 31 December 2020 (2019: 25.0%). The current ratio is 1.13 times as at 31 December 2020 (2019: 1.39 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.

On 2 June 2020, pursuant to a placing and subscription agreement ("P&S Agreement"), Expert Corporate, an existing shareholder of the Company, should place 265,000,000 ordinary shares of the Company to certain placees at HK$0.38 per share ("Placing Price") ("Placing"), and should also subscribe for 265,000,000 new ordinary shares issued by the Company at the same price ("Subscription"). The Placing Price represented a discount of approximately 9.52% to the closing price of HK$0.42 per share as quoted on the Stock Exchange on the date of the P&S Agreement.

The Placing was successfully placed to not less than six placees who are professional investors and was completed on 5 June 2020 and the Subscription was completed on 12 June 2020. The net placing price, after deduction of the relevant expenses for the Placing, was approximately HK$0.378 per share. The gross proceeds and the net proceeds received, after share issue expenses, was HK$100,700,000 (equivalent to approximately RMB90,630,000) and HK$100,191,246 (equivalent to approximately RMB90,173,000) respectively. The transaction results in an increase of issue share capital (nominal value of shares) and share premium of HK$662,500 (equivalent to approximately RMB597,000) and HK$99,528,746 (equivalent to approximately RMB89,576,000) respectively.

The Board consider that the Subscription represent an opportunity to raise additional funds for the Company to strengthen its financial position while both the Placing and Subscription will broaden the shareholders base of the Company to facilitate future development and can also increase the liquidity of the shares.

As stated in the announcement of the Company date 2 June 2020 in respect of the Subscription, the Company intended to use all net proceeds from the Subscription for the repayment of indebtedness of the Group and the Company has fully used the net proceeds as intend for the year ended 31 December 2020.

CHARGE ON ASSETS

The Group's restricted bank deposits of approximately RMB333.3 million as at 31 December 2020 were mainly pledged to secure for construction of pre-sale properties and the Group's facilities of providing guarantee services to the customers (2019: RMB38.7 million were pledged to secure for the Group's facilities of providing guarantee services to the customers and the bills payable). As at 31 December 2020, no charge on assets for the Group's bank borrowings (2019: approximately RMB615.8 million of bank borrowing were secured by finance lease receivables with carrying amount of approximately RMB17.1 million, properties held for sale with carrying amount of RMB1,318.5 million and investment properties with carrying amount of RMB401.0 million). As at 31 December 2020, other borrowings with carrying amount approximately RMB76.7 million (2019: RMB139.5 million) were secured by charged of 510,000 shares of one of the subsidiaries; and approximately RMB150.0 million (2019: nil) were secured by properties under development with carrying amount of RMB546.5 million (2019: nil), which was also secured by 100% share equity of the 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 2020.

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 36 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 2020 and the financial position of the Group at that date are set out in the financial statements on pages 72 to 75 of this annual report.

The Board proposed a final dividend of HK0.5 cent per share in respect of the year ended 31 December 2020 subject to the approval of the shareholders at the Company's annual general meeting to be held on Tuesday, 29 June 2021. The proposed final dividend is expected to be paid on Wednesday, 28 July 2021, whose names appear on the register of members of the Company at the close of business on Thursday, 15 July 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 24 June 2021 to Tuesday, 29 June 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 23 June 2021.

DIRECTORS' REPORT

The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The register of members of the Company will be closed from Tuesday, 13 July 2021 to Thursday, 15 July 2021, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 12 July 2021. Subject to the approval by shareholders of the Company at the forthcoming annual general meeting, the proposed final dividend will be paid on or around Wednesday, 28 July 2021.

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.

(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.

DIRECTORS' REPORT

(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.

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 33 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 2020 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 34 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 34 to the financial statements. The Company's reserves available for distribution to members as at 31 December 2020 amounted to approximately RMB1,195.9 million (2019: RMB1,045.6 million).

DIRECTORS' REPORT

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 2020.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest customer and the five largest customers accounted for approximately 11.6% and 34.1% of the Group's total income for the year ended 31 December 2020 respectively.

The purchases made by the Group from its largest supplier and the five largest suppliers accounted for approximately 9.5% and 34.0% of the Group's total cost of sales for the year ended 31 December 2020 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 2020.

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 ("Mr. Cai")
Mr. Wu Qinghan

Independent Non-executive Directors

Mr. Chan Sing Nun ("Mr. Chan")
Mr. Lam Kit Lam
Mr. Chen Naike

In accordance with the Company's articles of association, Mr. Hong, Mr. Cai and Mr. Chan 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' REPORT

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections "Share Option Scheme" and "Disclosure of interests by Directors and Chief Executives in the Company" below, at no time during the year ended 31 December 2020 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.

DIRECTORS' REPORT

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.

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 47 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 43 to the financial statements in this annual report.

CONNECTED TRANSACTIONS

During the year, the Group had not entered into any connected transaction which is subject to annual reporting under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES IN THE COMPANY

As at 31 December 2020, 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	41.63%
	Beneficial owner	–	6,400,000	6,400,000	0.09%
Mr. Ng	Interest in controlled corporation *(Note 2)*	822,000,000	–	822,000,000	11.40%
	Beneficial owner	305,898,000	6,400,000	312,298,000	4.33%

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 822,000,000 Shares under the SFO.

Save as disclosed above, as at 31 December 2020, 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.

DIRECTORS' REPORT

DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2020, 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	41.63%
Ms. Shi Hongjiao ("Ms. Shi")	Interest of spouse *(Note 2)*	3,007,600,000	41.72%
Ever Ultimate	Beneficial owner *(Note 3)*	822,000,000	11.40%
Ms. Ting Pui Shan ("Ms. Ting")	Interest of spouse *(Note 4)*	1,134,298,000	15.73%

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 822,000,000 Shares under the SFO.

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

Save as disclosed above and as at 31 December 2020, 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 2020.

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 2020. 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 29 to 40 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 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, 29 March 2021

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 2020.

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 2020, 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 2020 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 and Honorary Chairman
Mr. Wu Qinghan	Non-executive Director
Mr. Chan Sing Nun	Independent non-executive Director
Mr. Lam Kit Lam	Independent non-executive Director
Mr. Chen Naike	Independent non-executive Director

The biographical details of all directors are set out under the section headed "Directors' and Senior Management Biographical Details" on pages 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 2020, 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 2020, the Board held four regular board meetings which were held at approximately quarterly intervals and one general meeting, being 2020 AGM. The attendance of each Directors is as follows:

	Number of regular board meetings attended/held	**Number of general meeting attended/held**
Executive Directors:		
Mr. Hong Mingxian	4/4	1/1
Mr. Ng Chi Chung	4/4	1/1
Non-executive Directors:		
Mr. Cai Huatan	4/4	1/1
Mr. Wu Qinghan	4/4	1/1
Independent non-executive Directors:		
Mr. Chan Sing Nun	4/4	1/1
Mr. Lam Kit Lam	4/4	1/1
Mr. Chen Naike	4/4	1/1

CORPORATE GOVERNANCE REPORT

There were 2 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 2020, 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 2020, 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 discloseable and major transactions. 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. Wu Qinghan	4/4

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 2020, 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 2020, 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 1 meetings during the year and attendance of each member is as follows:

	Number of Remuneration Committee Meeting attended/held
Mr. Lam Kit Lam	1/1
Mr. Chan Sing Nun	1/1
Mr. Ng Chi Chung	1/1

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 2020, 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 2020, the Nomination Committee reviewed and discussed the structure, size and composition of the Board; made recommendation on the reappointment of Directors; and confirmed the independence of the independent non-executive Directors. The Nomination Committee held 1 meeting during the year and the attendance of each member is as follows:

	Number of Nomination Committee Meeting attended/held
Mr. Hong Mingxian	1/1
Mr. Chan Sing Nun	1/1
Mr. Lam Kit Lam	1/1

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 2020.

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 2020 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 2020 amounted to RMB1,360,000 (2019: RMB1,433,000) and RMB196,000 (2019: RMB267,000) accordingly. The non-audit services were related to major transaction (2019: agreed upon procedure). 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 2020, 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	✓	✓
Mr. Wu Qinghan	✓	✓
Independent non-executive Directors:		
Mr. Chan Sing Nun	✓	✓
Mr. Lam Kit Lam	✓	✓
Mr. Chen Naike	✓	✓

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 2020, 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 extraordinary general meeting 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 2020, there had been no change in the constitutional documents of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Differ Group Holding Company Limited (the "Company", "Differ" or "we") 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 operations 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, 2020 (the "Reporting Period", "2020") related to its major subsidiaries (collectively, the "Group") in Zhejiang, Fujian, Shandong and Hong Kong. Subsidiaries in Gingning, Longquan, Nanan and Weihai are included in 2020 in addition to those 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 values stakeholders' interests, views, and input in our journey towards sustainability. In order to enhance our transparency and acquire major stakeholders' insights and concerns in relevance to business operation, the Group has been adopting a proactive approach to maintain regular communications with them. We believe the engagement process can facilitate Differ to design its sustainability strategies and plans in a more solid manner by identifying the sustainability risks and opportunities.

Details of communication channels between Differ and stakeholders are illustrated below:

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
- Email and opinion box
- Regular meetings
- Employee performance evaluation
- Employee activities

Suppliers and business partners

- Company website
- Customer direct communication
- Customer feedback and complaints
- Customer satisfaction surveys

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Media

- Company website
- Company's announcements

Communities

- Company website
- Community activities

Government authorities and regulators

- Documented information submission
- Compliance inspections and checks
- Regular meetings/luncheons with local government representative
- Forums, conferences and workshops

Moving forward, Differ will continue to explore new communication channels to engage its internal and external stakeholders in order to comprehensively understand their needs and concerns.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

To analyze potential risk factors and meet the expectations of stakeholders, materiality assessment is essential for shaping the Group's sustainability strategies and direction of this report. In view of that, an independent consultant was entrusted to conduct a materiality assessment to indicate the material ESG issues that directly affect the business operations and development.

Phase	Actions
Phase 1 **Identification**	A list consisting of potential ESG topics is generated based on global trends and local reporting standards. After reviewing the information, 27 relevant topics covering environmental and social aspects were identified for the materiality assessment.
Phase 2 **Stakeholders Engagement**	The identified materials were included in an online questionnaire. Internal and external stakeholders including the board of directors, media, employees, and customers etc. were invited to score the material issues based on two aspects of "significance to the Group's business and operation" and "significance to the stakeholders".
Phase 3 **Analysis**	The collected feedbacks were analysed and plotted in a materiality matrix to prioritize the ESG topics. Issues which fell in the upper right corner of the materiality matrix were defined as the topics that matter most to both the Group's business operation and our stakeholders' concern. Hence, this ESG report will focus on those issues and reflect the Group's related strategies and impacts. The results from the assessment will also be considered for ESG performance improvement in future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Below is the materiality matrix based on the received responses and analysis results:

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

According to the results of the materiality matrix, the Group should focus on customer health and safety, prevention of child labour & forced labour, employee development, customer satisfaction, environmental compliance, customer privacy and data protection, labour rights, labour-management relations, employee retention, socio-economic compliance, waste management, diversity and equal opportunity and use of materials.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

AWARDS AND RECOGNITIONS

Adhering the principle of "Integrity, Gratitude, Prudence and Trailblazing", the Company is dedicated to striving for continuous improvement in providing professional and innovative customer-oriented services. We enthusiastically believe in our capabilities in exceeding beyond the standard requirements in the sustainability aspects.

During the Reporting Period, the Group is delighted to be honoured by several organizations regarding our performance in the company governance and sustainability aspects.

Awards	Issuing Authorities
The Region's Top 200 Small and Midsized Companies	Forbes Asia
Best Director Award	International Roadshow Center
Best Digital Investor Relations Award	International Roadshow Center

With our efforts in contributing the community being recognized, the Group is committed to continuously achieving excellence in business performance as well as sustainable development. We hope to pursue continuous improvement in our ESG performance in future by embedding sustainability into our business development model.

The Region's Top 200 Small & Midsized Companies | Best Director Award | Best Digital Investor Relations Award

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BUSINESS ETHICS

Anti-corruption

The Group has always put its emphasis on ethical operation. We firmly stand against corruption and bribery. As such, we adopt a zero tolerance approach towards corruption, bribery, extortion, fraud and money laundering related issues.

A Code of Conduct has been established to provide guidelines on employees' behaviours and ensure the fulfilment of relevant national and regional laws and regulations, including the Prevention of Bribery Ordinance of Hong Kong, Criminal Law of the PRC and Anti-Money Laundering Law of the PRC. Direct or indirect transfer of interests in any forms by employees to stakeholders are prohibited, and vice versa. Any breaching of the rules will lead to disciplinary actions including dismissal. Serious offenders will even be sent to disciplinary authorities for further legal actions.

To further enhance our development of integrity governance, a whistleblowing system has been established to engage related stakeholders including employees and suppliers in securing the Group's integrity. We encourage our stakeholders to report any suspected violations in either written or verbal form through email or hotline. The reported case will be handled by our internal whistleblowing management committee promptly and effectively. The case nature and personnel involved will be recorded in the investigation report for formulating remedial measures and improvement plans to prevent reoccurrence. Information of the reported case and the identity of the whistle-blower are kept confidential to ensure the investigation is conducted without any forms of disturbance and in a fair manner. A rewarding scheme is also implemented to motivate employees to step up when witnessing unlawful practices.

Business integrity is an important factor for Differ to choose its trustworthy business partners. All of our suppliers are required to behave in a dignified manner. Therefore, an Integrity Agreement is distributed to all of the selected suppliers and service providers before cooperation to ensure they are aligned with our integrity standard.

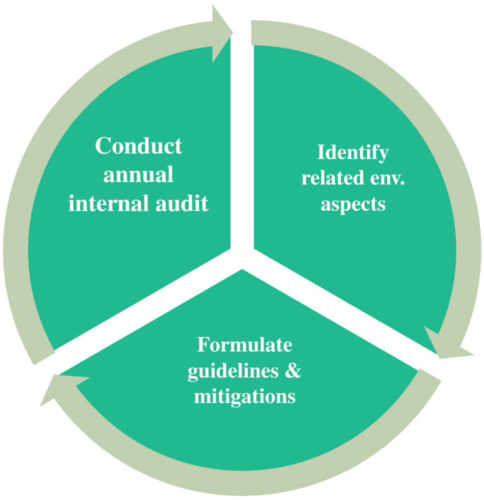
During the Reporting Period, the Group confirmed that there were no breaches of relevant laws and regulations, and no concluded legal cases regarding corruption practices were brought against the Group or our employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL STEWARDSHIP

Protecting the nature so that we can have a fresh, clean, and harmonious living environment is an important issue faced by mankind in the 21st century. It is inevitable for enterprises to bring more or less adverse impacts to the environment during operations, but the key is for businesses to think of mitigations to minimize the environmental footprint.

Therefore, the Group proactively implements a corporate environmental management system ("EMS"), so as to continuously enhance our environmental performance and bring our environmental management in line with the international and national standards. Related environmental aspects are being identified for our operations including provision of services and activities before formulating of working guidelines and mitigation strategies. A series of internal policies and working guidelines, covering greenhouse gas emission, waste management, and resource usage, has been enacted to provide detailed and people-oriented guidance for our employees to follow.



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.

Managing Emissions

Air and Greenhouse Gas Emissions

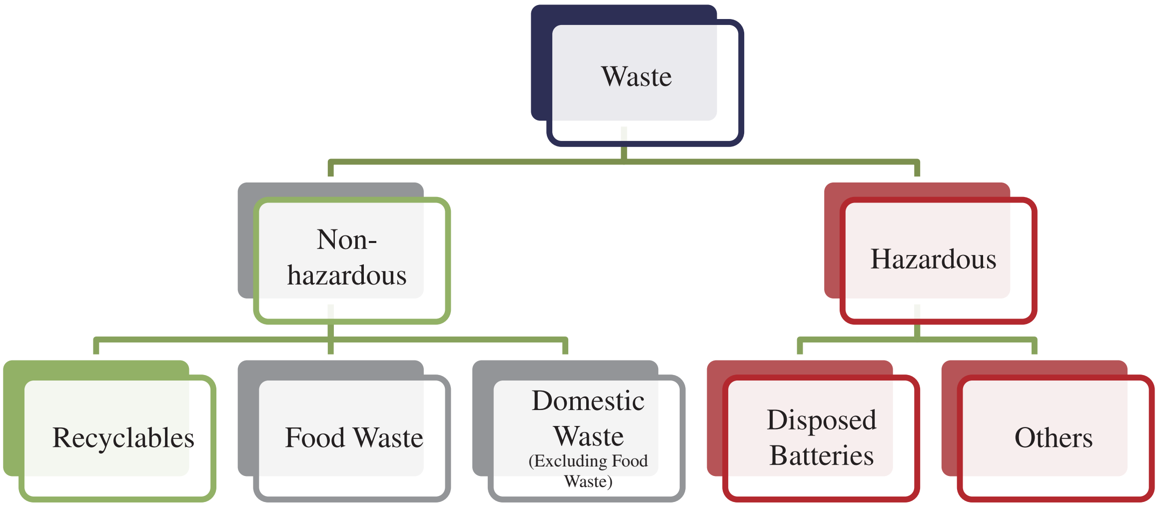
Even though the Group has limited air pollutant emissions due to its office-based nature, the Group is still striving for further elimination of our environmental footprint to an operational minimum. Establishing a comprehensive monitoring system is important for controlling pollutant emissions. Therefore, the Group has been implemented a monitoring and measurement management procedure, aiming to ensure our emissions can fulfil the regulatory standards. In order to centralize all of the data for better analysis and develop a consistent monitoring standard, our Integrated Management Centre is appointed to handle all the GHG emission monitoring works. Our daily GHG emissions are being recorded for annual data analysis to provide a solid foundation for further establishment of suitable strategies and policies. Energy conservation is critical for reducing GHG emissions. In view of that, related policies have been implemented and will be discussed in the following sections.

Based on the systematic collection of consumption data, the Group's major GHG emission source is electricity consumption which makes up 94% of the total GHG emission while mobile fuel combustion and business air travel also contributed to 3% of the total GHG emissions respectively. Please refer to the section titled "Our Environmental Performance" for detailed data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste Management

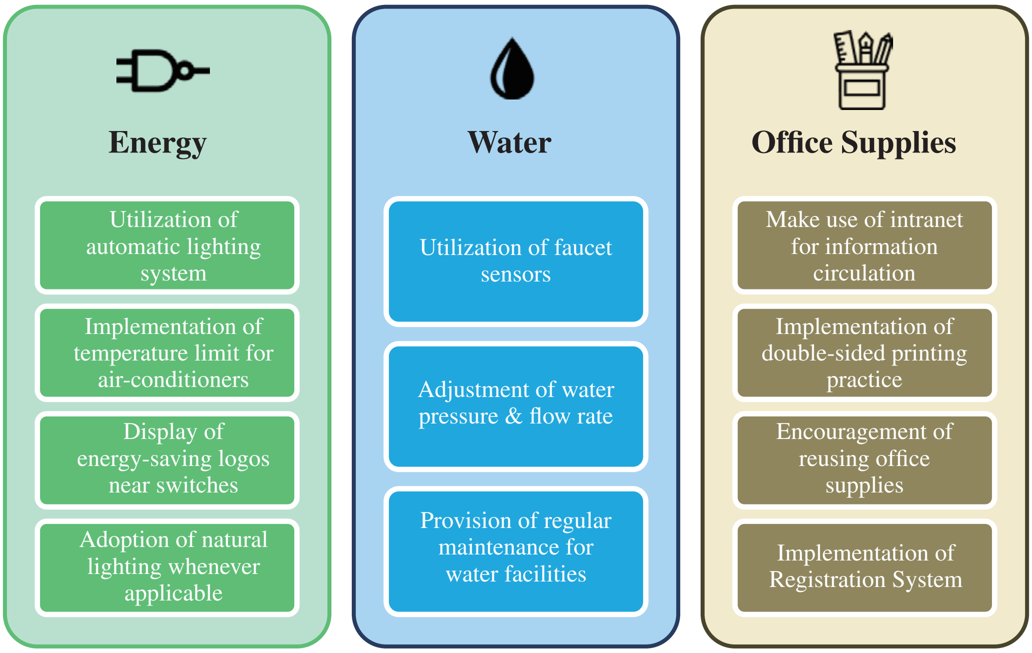
With full acknowledgement of the potential repercussions of mishandling waste, a Waste Separation Management Policy has been enacted to provide detailed procedures on waste segregation to eradicate any unnecessary disposal. Specific instructions are designed for the illustrated wastes as shown below.



To enhance the waste collection rate, colour labelled bins are allocated in designated areas including staircase, pantry, and toilets to allow employees to access the waste facilities and conduct waste sorting easily. Apart from that, the Group pays extra attention to hazardous waste management due to its toxic and harmful characteristic. Disciplinary actions will be taken in the event that malpractices, such as mixing hazarhous waste with non-hazardous waste, are observed. An administrator is entrusted to monitor and manage the whole waste management process. For example, when employees apply for new batteries for replacement, the administrator will examine the old batteries and carry out further handling so as to prevent unnecessary waste. After waste sorting and preliminary handling, all of the wastes will be collected and handled by licensed waste collectors.

Managing the Use of Resources

In order to avoid resource depletion at the expense of future generations, Differ has been committed to achieving responsible resource consumption. It is a continuous process that takes everyone in the Group to join hands consistently. Suggested instructions regarding energy, water, and other resources consumptions are delivered to all employees to encourage everyone to make incremental progress towards the goal.



As governed by the Energy and Resources Saving Policy, various measures are taken as illustrated above. Apart from that, we uphold the idea of "maintenance rather than replacement". Regular inspections on all electrical appliances and water taps are performed to prevent any leakage and extend their lifespan.

Fostering a proactive energy and resources conservation culture, we advocate promoting and educating staff on the necessities of the conservation practices. Their behaviours as well as the Group's consumption pattern are closely monitored by our Administration Department. By eliminating needless and excessive consumptions through 4R principles (i.e. reduce, reuse, replace and recycle), the Group expects to optimize its resource efficiency and embark on its sustainability journey.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our Environmental Performance

Due to the Group's business nature, we do not have significant hazardous and non-hazardous waste generation. For other emissions and consumptions, they are illustrated in the below table:

Air & GHG Emissions	2020	2019	2018
Scope 1 - Direct GHG emissions[1] (tCO_2e)	144.95	141.12	104.49
Nitrogen oxides (NOx)[2] (kg)	0.476	0.005	–
Sulphur oxides (SOx)[2] (kg)	0.012	0.007	–
Particulate matter (PM)[2] (kg)	0.035	0.004	–
Scope 2 - Energy indirect GHG emissions[3] (tCO_2e)	4,440.96	1,606.23	1,231.56
Scope 3 – Other indirect GHG emissions[4] (tCO_2e)	117.74	121.67	40.85
Total GHG emissions (tCO_2e)	4,703.65	1,869.02	1,376.90
GHG Intensity (tCO_2e/employee)	11.09	5.29	4.13
Resource Consumption	**2020**	**2019**	**2018**
Electricity (MWh)	5,505.78	1,995.68	1,523.36
Intensity (MWh/employee)	12.99	5.65	4.57
Energy (GJ)	19,820.81	7,184.44	5,484.10
Vehicle fuel (L)	67,519.62	59,036.32	39,283.32
Intensity (L/employee)	159.24	167.24	117.97
Energy (GJ)	2,213.43	1,935.34	1,287.79
Water (m^3)[5]	121,752.00	54,880.00	41,336.07
Intensity (m^3/employee)	303.62	163.33	124.13
Paper (Tonnes)	4.61	3.20	2.62
Intensity (Tonnes/employee)	0.01	0.01	0.01

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.

5 In 2020, there was no issue in sourcing water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUPPORTING THE COMMUNITY

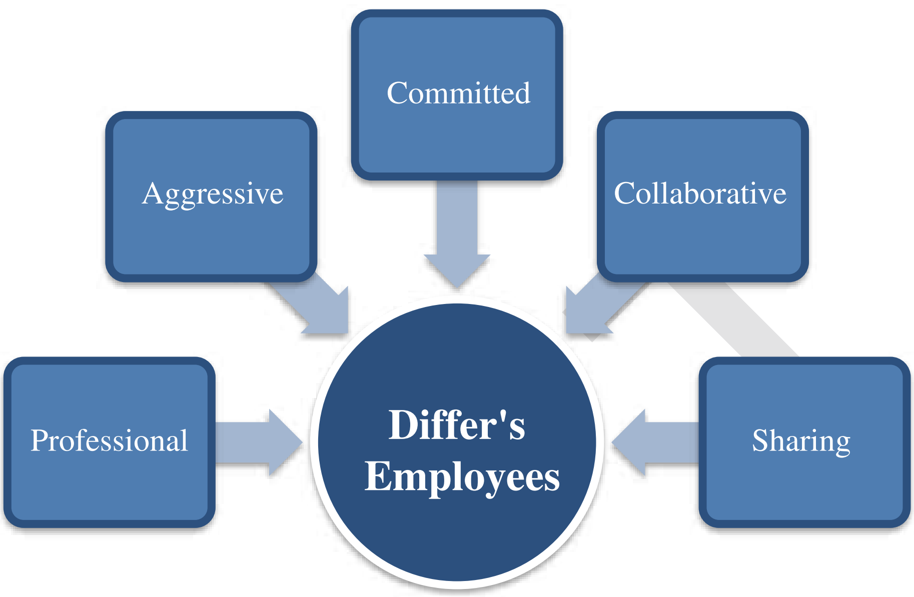
We believe that community development is one of the factors leading to sustainable business growth. Hence, the Group does not hesitate to shoulder its responsibility in giving back to the community. “Sharing and win-win” is one of the core values of the Group. With “sharing” as the fundamental starting point, the Group hopes to achieve a “win-win” situation by integrating its resources and developing on collaboration opportunities with the community.

In order to facilitate societal growth, we are dedicated to working in close and diversified cooperation with the community to promote community-based tourism. It is expected to bring positive economic values to the society while improving the living standards of the residents at the same time. In addition, we spare no efforts in delivering special care to the elderly and children living in impoverished suburban areas. Differ proactively engages in impact investing, hoping to address issues regarding education, community health and wellness, environmental protection, public facilities construction and so on in poverty-stricken areas. In FY2020, the Group donated more than HKD$1.87 million to the Longquan Charity Federation for local community development.

Other than cash donation, the Group also encourages its employees to actively participate in volunteering works to build a harmonious society in a hand-in-hand manner. We will not stop putting the community under our business consideration and will keep taking corporate responsibility actions to build a pathway for striking a balance between the community growth and business development.

OUR PEOPLE

Having a prudent standard on employee management is imperative to the Group because of its international status as a financial institution. With our skilful and carefully selected financial management team, first class and professional services could be delivered to the clients. At the same time, we are dedicated to providing a platform for our employees to unleash their potentials and achieve positive personal growth.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employment Conditions

In a tight talent market, attracting and retaining talents is of utmost concern for companies. Therefore, we spare no effort in designing attractive remuneration packages and building an ethical and friendly working environment for innovative and responsible candidates. A performance-based approach is adopted for the remuneration packages to motivate staff to reach targets and deliver quality work while maintaining productivity at the same time. Nevertheless, a wide range of responsible employment practices beyond the regulatory minimum are in place to enhance satisfactions of our skilful employees. For example, biannually appraisal is conducted to regularly review our staff's working performances. In order to show them our appreciation for their hard work, salary adjustment, position and training fund, bonus and service awards will be granted to employees with outstanding performance in disciplinary, service quality, environmental and safety aspects. All employees are entitled to paid leaves (including annual leave, sick leave, maternity and paternity leave, marriage leave, breastfeeding leave and compassionate leave). Both Hong Kong and Chinese employees are secured with mandatory provident fund and social welfare scheme respectively. Besides, the Group is dedicated to promoting work-life balance. Therefore, staff is not encouraged to work overtime beyond our fixed working hours, and it requires a prior approval from the management and the staff is compensated.

The Group embraces the idea of creating a fairness and anti-discrimination workplace. All job application candidates and employees are being treated with respect and equally regardless of race, sex, marital status, pregnancy, disability status or other forms of difference that are unrelated to the job requirements. No discriminatory behaviour at Differ is allowed at any time including during the process of making decisions on recruitment, promotion, performance evaluation and salary adjustment.

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

Differ is committed to proactively paving the way for enhancing its valuable employees' physical and mental health. As governed by the Health, Safety, Environment and Workspace Condition Policy, a series of procedures regarding workspace hygiene and safety practices are endorsed to eliminate potential safety hazards and maintain a tidy working environment. Eye-catching safety signs are displayed on machineries and equipment with high safety risks to remind workers. In addition, personal protection equipment is distributed to those who are exposed to potential occupational risks to safeguard their physical health.

A healthy and safe workspace can only be maintained with the joint collaboration of employees and management. To engage our employees in adopting suitable health and safety practices, we constantly organize training to promote the importance of everyone's contribution in this aspect and ensure they are well notified about the hazards and preventive measures. Fire drill is also organized to let employees be familiar with the evacuation routes and locations of fire extinguishers, so that they can response quickly in case of fire outbreak.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee Wellness

Mental wellness is of vital importance in maintaining healthy and safe workspace. Therefore, diversified recreational and team-bonding activities such as birthday party, wine tasting, employee gathering dinner, fun football competition, and outdoor war game were organized during the Reporting Period to cultivate a work-life balance culture and allow our employees to feel relaxed while spending quality time together.

Birthday Party for Employees

Wine Tasting Activity

Employee Gathering Dinner

Fun Football Competition

Outdoor War Game

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Other than work-life balance, the Group also pays extra attention to foster a family-friendly working environment which allows employees to balance their work commitments with their family responsibilities. By inviting staff family members to our activities, we hope to show our support to the employees, hence build a Differ Big Family.

Employee Family Sport Day

Protect Our People during COVID-19 Epidemic

As our business continue to work through the pandemic, it is essential to establish practical measures to protect our valuable asset – our employees. Preventive measures including body temperature measurement before the start of a workday, daily cleaning of all working areas, and provision of sanitary gel in all departments, toilets and pantries are implemented to enhance the hygiene and safety of workspace. In spite of the continuous operation of our canteen, a social distancing policy has been enacted together with restrictions on employees having meals together to reduce transmission of droplets.

In addition, the Group fully acknowledges the difficulties for individuals to obtain personal protection equipment (i.e. face masks) especially during the beginning period of the epidemic. Therefore, two face masks are distributed to each employee in a daily basis to ensure everyone in the Group has sufficient supply of personal protection equipment themselves.

It is critical to raise employees' awareness on the necessity of maintaining workspace and personal hygiene. In view of that, training regarding information on COVID-19 has been organized to all staff to deliver accurate knowledge on the issue. The Group will continue to enhance its epidemic policy and preventive measures so as to build a safe and sound working environment for its precious staff.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

Through training and development, it is expected to expedite employees' acquisition of knowledge, skills and abilities required for effective job performance to meet the industry and our growing demands. In order to systematically standardize and manage our training, a Training Management Procedure has been established.

A well-designed training plan is necessary to optimize the effectiveness of the training. On account of that, a "SMART" strategy is imposed on the process of drafting the annual training plan that the training outcomes must be specific, measurable, attainable, relevant and time-bound. Information collected based on departmental needs is also being considered in the planning stage for arranging supportive training resources, including internal and external vocational coaching.

After discussions with supervisors, the annual training plan is enacted and will be evaluated at the end of the year to ensure it unleashes potentials of our employees in full strength.

Staying well-informed of the industrial advancement is the secret to keep ahead of our competitors. Apart from appointing internal experienced staff as training mentor, we also invite external experts in the financial industry to share their experience and the latest market trends. Written examinations are conducted to evaluate employees' performances and learning effectiveness in a fair and transparent manner. In 2020, a wide range of training programmes were been organized according to both corporate operational and employee development needs.

We realize embedding the concept of continuous self-learning is rather pivotal in fostering a proactive enhancement culture. Hence, additional learning materials, such as reference books and training videos, are offered to employees from all level to support their continuous education during their leisure time. In addition, a training funding scheme has been established as an aid for sponsorship of external training for staff. Funds are granted correlated to their work performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Labour Standard

The Group firmly upholds its responsibility in protecting labour rights and children. Therefore, we adopt a zero tolerance approach towards employment of child and forced labour. By establishment and implement of our Anti-Child and Underage Labour Policy and Anti-Forced Labour Policy, the Group strictly abides by relevant labour laws and national regulations, including Provisions on the Prohibition of Using Child Labour, the Law on the Protection of Minors of the PRC, and the Labour Law of the PRC.

To eliminate any occasions of hiring child labour, all job candidates are required to show authentic identity card or certification for our stringent verification before being recruited. Background information is also being thoroughly examined to ensure their accuracy and legitimacy. In the event of discovering any falsification of document, the Group will terminate the contract without hesitation and take legal actions.

Mutual respect is the foundation for maintaining a harmonious workspace, therefore we spare no efforts in safeguarding their labour rights. A strict policy has been implemented to forbid any form of physical and mental abuse, including violence, humiliation, detention, and threats. Employees are encouraged to report to the management team verbally or in written form anonymously in case of any unsatisfactory treatments or suspected abuse cases. Prompt investigation and remediation will be taken within a week. The commitment in child and forced labour prevention is also extended to our supply chain management that termination of contract will be enacted when discovering any violations of the related laws and regulations.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR VALUE CHAIN

Supply Chain Management

With the ambition to become a leader in the capital management industry, the Group realizes its duty in being a trendsetter in corporate social responsibility and environmental stewardship. Apart from internal governance, we also influence our supply chain to commit in achieving environmental sustainability and addressing social concerns. With the joint collaboration, we hope to build a pathway towards socially and environmentally sustainable development.

In order to select trustable business partners, a comprehensive selection criteria has been endorsed to assess their contribution on environmental conservation, labour rights protection and ethical operation. A Supplier and Customer Code of Conduct has also been established to nurture a mutual engagement in social responsibility of financial industry. With the guidance on fulfilling suppliers and clients' social obligation, they are expected to stick to it throughout our business cooperation. In order to further facilitate the implementation of the Code of Conduct, inspections are in place to ensure that suppliers and clients are in line with the Group's expectations and standards. Training sessions regarding the document are offered occasionally to deepen and broaden their knowledge on this specific aspect. In case of any violation of the document or laws and regulations, the Group will take disciplinary actions.

Guidance based on promotion of building a sustainable community is divided into four aspects in the Code of Conduct. We encourage them to go beyond our suggested rules, thereby creating a better community and images for the Group and their companies.

Build a Fair & Equal Workplace

- Treat employees with respect and dignity
- Forbid physical and mental abuse to staff
- Maintain an equal and discrimination-free workplace

Protect Labour Rights

- Respect freedom of association
- Prohibit inhumane exemplary measures and intimidation

Environmental Conservation

- Adopt mitigation practices
- Establish comprehensive environmental management system
- Promote resources saving by adopting 4R Principle

Ethics & Integrity

- Avoid conflicts of interests
- Enforce anti corruption policy and measures
- Implement systematic documentation system

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Leading Quality Services

In such competitive industry, being innovative and having unique insights are indispensable to stand out from all the competitors. By proposing professional services that exceeds the market expectation and standard, the Group can secure its leading position in the ever-changing market. In order to fulfil our clients' demands in a timely manner, we endeavour to proactively invent and revamp our capital management plans and financial products through enhancing our service standard and expanding its coverage.

Unique insights require accurate and intuitive understanding of the industry, hence the best ideas are always raised by employees. Therefore, we offer rewards to motivate our employees to make contributions in bringing practical and innovative ideas. In addition, we have formed an internal quality committee to regularly review and update our policies and procedures regarding service quality to deliver customer-oriented service. The committee is comprised of experts in finance, legal compliance, and management aspects to conduct market trend analysis in an accurate and plausible manner.

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

As the financial industry belongs to the high-end services sector, excellent customer service plays a principal role in retaining customers and business growth. The Group has endorsed a customer service mechanism to better serve each of our precious client by truly understanding their specific needs and demands, so as to strength the bonding with clients and elevate customer's loyalty. By conducting questionnaires and visits, we are able to collect information relating to their cooperate operations and design the best custom-made services for them.

Another way to show our care is to humbly receive and handle all customer enquiries and complaints. A procedural manual has been published and explained to our employees for handling customer enquiries and complaints with the greatest patience. Prompt actions will be taken to investigate the cases and remedial action plans will be carried out where necessary. After settling the enquiry/complaint, the case will be further examined to figure out the root cause to prevent similar cases from reoccurrence.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Customer Privacy

Our business is built on the mutual trust with our clients. Therefore, we spare no efforts in resolving their concerns, especially in the privacy aspect. We deeply understand how pivotal privacy means to our clients, therefore stringent guidelines and procedures on collecting, using, transferring, storing and disclosing customers' information have been established and widely implemented. In order to provide value-added services and enhance customer's experience, relevant information is collected and handled in a secure and confidential manner. Only authorized personnel who received proper training are granted rights to access, process and erase the information. In the event of receiving governmental and legal orders to disclose the data, Differ will only take further actions after getting clients' prior consent.

Intellectual Property Rights

Without protection of innovative ideas, businesses cannot reap the full benefits of their inventions which will eventually lead to less motivation on research and development. Therefore, intellectual property ("IP") protection is critical to fostering innovation.

With full understanding of the importance of IP rights, an Intellectual Property Management Manual is in place to standardize and strengthen the Group's IP right management. A series of comprehensive instructions covering our research, product and service development, and documentation processes is thoroughly explained to all of our employees to instil the concept of IP rights protection into their minds. Permission is required for all situations of copying, using and transferring related documents. To prevent the Group's IP and confidential information from leaking, all employees and cooperation partners are required to sign the non-disclosure agreement. Legal actions will be taken once infringement of our IP right is observed.

Training and promotional campaigns are carried out to further emphasize the concept to our employees especially the top management. All departmental managers should be fully aware of the importance of IP rights and strictly comply with the Anti-unfair Competition Law of the PRC to resolutely eliminate the loss caused by improper behaviour.

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.	Environmental Stewardship – Managing Emissions
KPI A1.1	The types of emissions and respective emissions data.	Environmental Stewardship – Managing Emissions, Our Environmental Performance
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Stewardship – Our Environmental Performance
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Stewardship – Our Environmental Performance
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Stewardship – Our Environmental Performance
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environmental Stewardship – Managing Emissions, Our Environmental Performance
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environmental Stewardship – Managing Emissions, Our Environmental Performance

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.	Environmental Stewardship – Managing the Use of Resources
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).	Environmental Stewardship – Our Environmental Performance
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental Stewardship – Our Environmental Performance
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environmental Stewardship – Managing the Use of Resources, Our Environmental Performance
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Environmental Stewardship – Our Environmental Performance
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.	Environmental Stewardship – 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.	Environmental Stewardship – 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.	Our People – 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.	Our People – 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.	Our People – 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.	Our People – Labour Standard
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	Our Value Chain – Supply Chain Management
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.	Our Value Chain – Leading Quality Services

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
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.	Business Ethics – Anti-corruption
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.	Supporting the Community

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 72 to 198, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 and 19 to the consolidated financial statements.

As at 31 December 2020, the Group had finance lease, loan and account receivables amounting to RMB1,448,980,000 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 18% 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 2020 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 15 to the consolidated financial statements.

The Group has investment properties of RMB677,200,000 as at 31 December 2020 and a fair value gain of RMB23,344,000 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 competence, capabilities and objectivity 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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, 29 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020 RMB'000**	2019 RMB'000
Income from financial related services	7	**185,077**	144,634
Income from assets management business	7	**709,115**	777,613
Income from trading of commodities	7	**5,196,314**	1,329,594
Other income	7	**79,122**	53,686
Costs of property sold		**(437,746)**	(539,075)
Costs of trading of commodities		**(5,190,210)**	(1,328,264)
Gain on disposal of subsidiaries	38	**109,241**	72,888
Employee benefit expenses		**(69,765)**	(59,949)
Depreciation expenses		**(19,781)**	(16,692)
Short-term lease expenses		**(154)**	(1,195)
Equity-settled share-based payments		**(335)**	(1,624)
Other expenses		**(113,647)**	(97,739)
Share of results of associates		**128,420**	124
Share of results of a joint venture		**(13,619)**	11,088
Gain on disposal of investment properties		**2,988**	61,874
Change in fair value of investment properties		**23,344**	72,362
Change in fair value of other financial assets		**3,017**	(863)
Finance costs	10	**(88,610)**	(43,353)
Profit before income tax	8	**502,771**	435,109
Income tax expense	11	**(149,441)**	(98,978)
Profit for the year		**353,330**	336,131

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods			
– Exchange differences on translating foreign operation		**10,604**	(6,543)
– Net change in debt investments measured at fair value through other comprehensive income		**4,979**	8,000
– Transfer to profit or loss upon disposal of debt investments measured at fair value through other comprehensive income		**(728)**	(2,300)
		14,855	(843)
Total comprehensive income for the year		**368,185**	335,288
Profit/(loss) for the year attributable to:			
Owners of the Company		**356,115**	335,503
Non-controlling interests		**(2,785)**	628
		353,330	336,131
Total comprehensive income attributable to:			
Owners of the Company		**371,195**	334,444
Non-controlling interests		**(3,010)**	844
		368,185	335,288
Earnings per share	13		
– Basic (RMB cents)		**5.23**	5.32
– Diluted (RMB cents)		**5.23**	5.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	**2020 RMB'000**	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**174,377**	173,133
Investment properties	15	**677,200**	747,800
Interests in associates	16	**400,286**	15,653
Interest in a joint venture	17	**–**	15,678
Finance lease, loan and account receivables	19	**74,759**	98,558
Goodwill	20	**83,338**	33,400
Other financial assets	21	**358,238**	95,000
Prepayments, deposits and other receivables	22	**635,277**	319,060
Deferred tax assets	32	**43,569**	–
		2,447,044	1,498,282
Current assets			
Inventories of properties	23	**3,191,108**	3,064,836
Other inventories		**281**	513
Finance lease, loan and account receivables	19	**1,374,221**	867,917
Prepayments, deposits and other receivables	22	**554,117**	228,080
Contract assets		**–**	3,624
Other financial assets	21	**97,713**	44,738
Tax receivables		**50,343**	28,485
Restricted bank deposits	18	**333,293**	38,714
Cash and bank balances – general accounts	24	**87,935**	139,770
Cash and bank balances – held on behalf of customers	25	**12,435**	22,959
		5,701,446	4,439,636
Current liabilities			
Accounts and bills payable	26	**563,151**	493,756
Accruals, other payables, deposits received and deferred income	27	**1,513,266**	633,022
Contract liabilities	28	**2,309,703**	1,351,221
Lease liabilities	29	**10,659**	14,896
Provision for taxation		**265,774**	153,719
Bank and other borrowings	30	**278,013**	493,375
Corporate bonds	31	**111,223**	51,175
		5,051,789	3,191,164
Net current assets		**649,657**	1,248,472
Total assets less current liabilities		**3,096,701**	2,746,754

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	**2020** **RMB'000**	2019 RMB'000
Non-current liabilities			
Other payables and deposits received	27	**75,472**	7,507
Lease liabilities	29	**5,176**	89,699
Bank and other borrowings	30	**469,196**	689,910
Corporate bonds	31	**163,753**	248,310
Deferred tax liabilities	32	**34,784**	120,077
		748,381	1,155,503
Net assets		**2,348,320**	1,591,251
EQUITY			
Share capital	33	**14,734**	12,832
Reserves	34	**2,291,298**	1,574,321
Equity attributable to owners of the Company		**2,306,032**	1,587,153
Non-controlling interests	37	**42,288**	4,098
Total equity		**2,348,320**	1,591,251

The consolidated financial statements were approved and authorised by the board of directors on 29 March 2021 and are signed on its behalf:

Hong Mingxian

Director

Ng Chi Chung

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000 *(Note 34)*	Merger and other reserves RMB'000 *(Note 34)*	Statutory reserve RMB'000 *(Note 34)*	Financial assets revaluation reserve RMB'000 *(Note 34)*	Assets revaluation reserve RMB'000	Translation reserve RMB'000	Share options reserve RMB'000 *(Note 34)*	Retained profit RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000 *(Note 34)*	Merger and other reserves RMB'000 *(Note 34)*	Statutory reserve RMB'000 *(Note 34)*	Financial assets revaluation reserve RMB'000 *(Note 34)*	Translation reserve RMB'000	Share options reserve RMB'000 *(Note 34)*	Retained profit RMB'000	Total RMB'000	Non–controlling interests RMB'000	Total RMB'000
At 1 January 2020	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
Profit/(loss) for the year	–	–	–	–	–	–	–	356,115	356,115	(2,785)	353,330
Other comprehensive income for the year	–	–	–	–	4,251	10,829	–	–	15,080	(225)	14,855
Total comprehensive income for the year	–	–	–	–	4,251	10,829	–	356,115	371,195	(3,010)	368,185
Issue of ordinary shares by placing	597	89,576	–	–	–	–	–	–	90,173	–	90,173
Acquisition of a subsidiary	427	97,043	–	–	–	–	–	–	97,470	–	97,470
Acquisition of assets through acquisition of a subsidiary	878	158,828	–	–	–	–	–	–	159,706	1,200	160,906
Disposal of subsidiaries	–	–	(165,228)	(29,775)	–	–	–	195,003	–	15,000	15,000
Capital injection of non-controlling interests	–	–	–	–	–	–	–	–	–	25,000	25,000
Transfer to statutory reserve	–	–	–	22,369	–	–	–	(22,369)	–	–	–
Recognition of equity-settled share-based compensation	–	–	–	–	–	–	335	–	335	–	335
At 31 December 2020	14,734	1,650,607	(1,184,212)	145,497	12,251	(13,906)	26,143	1,654,918	2,306,032	42,288	2,348,320

For the Company's subsidiary operated in financial guarantee business in the People's Republic of China (the "PRC"), amount of approximately RMB25,023,000 as at 31 December 2020 (2019: RMB25,023,000) which was set aside in the PRC books of accounts as reserve in accordance with the relevant rules governing the financial guarantee business in the PRC for non-matured obligation and guarantee indemnity reserve and was not distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before income tax		**502,771**	435,109
Adjustments for:			
Bank and other interest income	7	**(23,552)**	(12,683)
Interest expenses	10	**88,610**	43,353
Depreciation of property, plant and equipment	8	**19,781**	16,692
Share of results of associates		**(128,420)**	(124)
Share of results of a joint venture		**13,619**	(11,088)
Change in fair value of investment properties		**(23,344)**	(72,362)
Equity-settled share-based payments	8	**335**	1,624
Gain on disposal of property, plant and equipment	8	**(258)**	(118)
Gain on disposal of investment properties		**(2,988)**	(61,874)
Impairment loss on goodwill	8	**13,504**	–
Write off of property, plant and equipment	8	**–**	641
Change in fair value of other financial assets		**(3,017)**	863
Gain on disposal of debt investments measured at fair value through other comprehensive income		**(728)**	(2,300)
Gain on re-measurement on pre-existing interest in a joint venture	7	**(15,487)**	–
Provision for impairment loss on finance lease, loan and account receivables and other receivables	8	**19,550**	5,794
Reversal of impairment loss on finance lease, loan and account receivables	7	**(3,053)**	(5,979)
Gain on disposal of subsidiaries		**(109,241)**	(72,888)
Gain on disposal of an associate	7	**–**	(3,056)
Operating profit before working capital changes		**348,082**	261,604
Decrease/(increase) in other inventories		**232**	(128)
Increase in inventories of properties		**(1,083,162)**	(804,423)
(Increase)/decrease in finance lease, loan and account receivables, net of deferred income		**(602,384)**	140,842
(Increase)/decrease in prepayments, deposits and other receivables		**(1,209,540)**	583,151
Decrease/(increase) in contract assets		**3,624**	(3,624)
(Increase)/decrease in restricted bank deposits		**(294,579)**	1,155
Decrease in cash and bank balances – held on behalf of customers		**10,524**	816
Increase in accounts and bills payables		**122,475**	44,153
Increase/(decrease) in accruals, other payables and deposits received		**1,246,871**	(287,147)
Increase in contract liabilities		**1,073,555**	332,458
Cash (used in)/generated from operations		**(384,302)**	268,857
Interest received		**23,552**	12,683
Income tax paid		**(59,520)**	(38,796)
Net cash (used in)/generated from operating activities		**(420,270)**	242,744

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020 RMB'000**	2019 RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(20,758)**	(135,947)
Proceeds from disposal of property, plant and equipment		**51**	213
Purchase of investment properties		**(332,730)**	(226,694)
Proceeds from disposal of investment properties		**37,786**	222,095
Proceed from disposal of an associate		**–**	9,450
Investments in other financial assets		**(9,239)**	(91,242)
Proceeds from disposal of other financial assets		**34,304**	43,030
Acquisition of additional interest of subsidiaries	39,40	**(113,061)**	(289,676)
Acquisition of asset through acquisition of a subsidiary	41	**4**	–
Disposal of subsidiaries, net of cash disposal of	38	**38,479**	38,190
Net cash used in investing activities		**(365,164)**	(430,581)
Cash flows from financing activities			
Proceeds from issue of corporate bonds		**29,325**	35,600
Proceeds from bank and other borrowings		**654,411**	446,369
Repayments of bank and other borrowings		**(607,960)**	(238,032)
Repayments of corporate bonds		**(40,375)**	(18,690)
Repayments of lease liabilities		**(7,928)**	(2,705)
Sale and leaseback arrangement		**–**	70,844
Interest paid		**(118,392)**	(53,947)
Advance from non-controlling interests		**714,041**	–
Issue of ordinary shares by placing		**90,173**	–
Capital injection from non-controlling interests		**25,000**	–
Net cash generated from financing activities		**738,295**	239,439
Net (decrease)/increase in cash and cash equivalents		**(47,139)**	51,602
Cash and cash equivalents at beginning of the year		**139,770**	88,519
Effect of foreign exchange rates, net		**(4,696)**	(351)
Cash and cash equivalents at end of the year		**87,935**	139,770
Analysis of balances of cash and cash equivalents			
Cash and bank balances	24	**87,935**	139,770

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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 "Stock Exchange").

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 activities of the Company are investment holding and provision of consultancy services. The principal activities of the Company's subsidiaries are set out in note 36 to the consolidated financial statements.

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.

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 2020

3. ADOPTION OF HKFRSs

3.1 Adoption of revised HKFRSs

In the current year, the Group has applied for the first time the following revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the annual period beginning on 1 January 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting

The adoption of the revised HKFRSs has no material impact on the consolidated financial statements. In addition, the Group has early adopted the amendment to HKFRS 16 - Covid-19-Related Rent Concessions ahead of the effective date and applied the amendment from 1 January 2020.

Amendment to HKFRS 16 – Covid-19-Related Rent Concessions

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

3. ADOPTION OF HKFRSs – continued

3.1 Adoption of revised HKFRSs – continued

Amendment to HKFRS 16 - Covid-19-Related Rent Concessions – continued

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The adoption of amendment to HKFRS 16 has no material impact on the consolidated financial statements.

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

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

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to HKAS 16	Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS	Annual improvements to HKFRS 2018-2020[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 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 consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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.

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

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. 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 2020

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 gain 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 interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis 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. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) 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, interests 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.3 Associates

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

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

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

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss. 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 2020

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)

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.5 Goodwill – continued

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

4.6 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;
- goodwill; and
- interests in subsidiaries, associates 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 in profit or loss immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or CGU (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 CGU.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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:

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
Other properties leased for own use	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. The carrying amount of the replaced part is derecognised. All other 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 classes 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 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.8 Investment properties

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss in the period in which the property is derecognised.

4.9 Leasing

Accounting as a lessee

All leases are required to be capitalised in the consolidated 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 asset 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-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

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 assets arising from the properties under tenancy agreements are carried at depreciated cost.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.9 Leasing – continued

Accounting as a lessee – 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 modification, or to reflect revised in substance fixed lease payments.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.9 Leasing – continued

Accounting as a lessee – continued

Lease liability – continued

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for Covid-19-Related Rent Concessions applies (see note 3.1), if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and right-of-use asset is adjusted by the same amount.

Accounting as a lessor

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

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, it accounts for the head lease and the sub-lease as two separate leases. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Any changes in the scope of the consideration for a lease that was not part of the original terms and conditions of the lease are accounted for as lease modifications. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, recognising the remaining lease payments as income on a either a straight-line basis or another systematic basis over the remaining lease term.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.10 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.

4.11 Share capital

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

4.12 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.

4.13 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 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.13 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 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 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.13 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 measured 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 initial recognition, the allowance will be based on the lifetime ECL.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.13 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 in default when: the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or the financial asset is more than 90 days past due.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group considers a financial asset to be credit-impaired when:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group rebutted the presumption of credit impaired when the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.13 Financial Instruments – continued

(ii) Impairment loss on financial assets – continued

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account, except for investment in debt instruments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in equity.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are past due for a number of years. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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 FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including accounts and bills payable, accruals, other payables and deposit 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.13 Financial Instruments – continued

(iv) 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.

(v) Equity instruments

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

(vi) 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 FVTPL 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 the accounting policy set out in note 4.13(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) 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 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.14 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.

4.15 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.

4.16 Accounting for income tax

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.16 Accounting for income tax – continued

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, provided that the deductible temporary differences are not arises from initial recognition of assets and liabilities in a transaction other than in a business combination that affects neither taxable profit nor the accounting profit. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

An exception to the general requirement in 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 of the economic benefits embodied in the property over time, rather than through sale.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.17 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 taxes 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 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.17 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 the control has passed to the customer. Therefore, revenue is recognised at a point in time when customer obtains control of completed properties. The control is transferred when the buyer obtains the physical possession of the completed property.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.17 Revenue recognition – continued

(e) Rental income

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

(f) 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.

(g) 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.

(h) 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.

(i) 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 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.17 Revenue recognition – continued

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

4.18 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.

4.19 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.20 Foreign currencies

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

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

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

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

4.21 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.21 Related parties – continued

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4.22 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.

4.23 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.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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

In assessing whether the Group is acting as a principal or an agent in a transaction, 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. Otherwise, the Group is an agent and revenue is recognised on a net basis.

Sale and leaseback arrangement

The management determines whether the sale and leaseback arrangement in the property development and investment business 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 management 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 management 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Key sources of estimation uncertainty – continued

Impairment of non-financial assets (other than goodwill)

The management 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 management makes an estimate of the recoverable amount of the asset. This may require an estimation of the value-in-use of the CGU to which the asset is allocated. Estimating the value-in-use requires the management to make an estimate of the expected future cash flows from the CGU 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.

Impairment of goodwill

The Group test whether goodwill has suffered any impairment on an annual basis. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. For the purposes of impairment testing, goodwill is allocated to its respective CGUs. The recoverable amounts of the CGUs have been determined based on value-in-use or fair value less cost of disposal, whichever is higher. The value-in-use calculation derived from the most recent budget plan approved by the management requires the management to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate and future revenue growth rate to calculate the present value of those cash flows.

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 LAT 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 LAT 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Key sources of estimation uncertainty – continued

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 management of the Group 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

The Group assesses the carrying amounts of inventories of properties according to their estimated net realisable value based on the realisability of these properties, taking into account construction costs to completion based on the existing development plans and the estimation of selling prices of the properties of comparable locations and conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of significant estimates.

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 services, express loan services, consultancy services, supply chain agency services, finance lease services, financial securities services and assets 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

6. SEGMENT INFORMATION – continued

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 exclude gain on disposal of subsidiaries related to investment holding company, equity-settled share-based payments, unallocated corporate expenses and unallocated finance costs. Corporate expenses include 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 other than cash and bank balances that are managed on a group basis.

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

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 2020

	Financial services RMB'000	Property development and investment RMB'000	Trading of commodities RMB'000	Total RMB'000
Revenue from external customers	**197,508**	**696,684**	**5,196,314**	**6,090,506**
Inter-segment revenue	**90**	**–**	**138,529**	**138,619**
Segment revenue	**197,598**	**696,684**	**5,334,843**	**6,229,125**
Segment results	**157,482**	**390,494**	**1,257**	**549,233**
Equity-settled share-based payments				**(335)**
Unallocated corporate expenses				**(3,255)**
Unallocated finance costs				**(42,872)**
Profit before income tax				**502,771**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

6. SEGMENT INFORMATION – continued

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 payments				(1,624)
Unallocated corporate expenses				(6,365)
Unallocated finance costs				(28,074)
Profit before income tax				435,109

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

6. SEGMENT INFORMATION – continued

Segment assets and liabilities

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

	2020 RMB'000	2019 RMB'000
Segment assets		
Financial services	**1,438,427**	1,738,454
Property development and investment	**6,217,932**	4,139,701
Trading of commodities	**491,190**	11,994
Total segment assets	**8,147,549**	5,890,149
Unallocated		
– Cash and bank balances	**941**	47,769
Total assets	**8,148,490**	5,937,918
Segment liabilities		
Financial services	**149,064**	289,209
Property development and investment	**4,835,116**	3,322,874
Trading of commodities	**48,857**	60,387
Total segment liabilities	**5,033,037**	3,672,470
Unallocated		
– Accruals and other payables	**29,651**	9,475
– Other borrowings	**462,506**	365,237
– Corporate bonds	**274,976**	299,485
Total liabilities	**5,800,170**	4,346,667

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

6. SEGMENT INFORMATION – continued

Other segment information

For the year ended 31 December 2020

	Financial services RMB'000	Property development and investment RMB'000	Trading of commodities RMB'000	Total RMB'000
Additions to non-current assets (other than financial assets)	2,175	354,357	–	356,532
Equity accounted for investment in associates	8,914	391,372	–	400,286
Depreciation of property, plant and equipment	(13,908)	(5,866)	(7)	(19,781)
Impairment loss on goodwill	(13,504)	–	–	(13,504)
Share of results of associates	(6,739)	135,159	–	128,420
Share of results of a joint venture	–	(13,619)	–	(13,619)
Gain on disposal of property, plant and equipment	–	258	–	258
Gain on disposal of subsidiaries	–	109,241	–	109,241
Gain on disposal of investment properties	–	2,988	–	2,988
Change in fair value of investment properties	(1,700)	25,044	–	23,344
Change in fair value of other financial assets	3,017	–	–	3,017
Provision of impairment loss on finance lease, loan and account receivables, amount due from an associate and other receivables	(13,508)	(6,042)	–	(19,550)
Reversal of impairment loss on finance lease, loan and account receivables and other receivables	3,053	–	–	3,053
Bank and other interest income	22,051	1,498	3	23,552
Finance costs	(1,388)	(41,617)	(2,733)	(45,738)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

6. SEGMENT INFORMATION – continued

Other segment information – continued

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
Additions to non-current assets (other than financial assets)	11,287	366,471	–	377,758
Equity accounted for investment in an associate and a joint venture	15,653	15,678	–	31,331
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 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 2020

6. SEGMENT INFORMATION – continued

Other segment information – continued

The Company's principal activities are investment holding and provision of consultancy services and the principal place of the Group's operation is in the PRC (including 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:

	2020 **RMB'000**	2019 RMB'000
Customer A *(Note)*	**703,785**	271,439

Note: This is a customer from trading of commodities segment for the years ended 31 December 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

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7. REVENUE AND OTHER INCOME

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

	2020	2019
	RMB'000	RMB'000
Income from financial related services		
Revenue from contracts with customers within the scope of HKFRS 15		
Income from financial consultancy services	**14,875**	36,887
Income from supply chain agency services	**–**	158
Income from financial securities services	**3,452**	3,223
Revenue from other sources		
Income from guarantee services	**11,038**	11,311
Interest income from:		
– Entrusted loans	**109**	17,533
– Money lending	**135,533**	51,342
– Finance lease services	**20,070**	24,180
	185,077	144,634

	2020	2019
	RMB'000	RMB'000
Income from assets management business		
Revenue from contracts with customers within the scope of HKFRS 15		
Income from sales of properties	**684,734**	764,913
Revenue from other sources		
Income from disposal of distressed financial assets	**4,724**	7,500
Rental income and sublease rental income	**14,829**	4,967
Management fee income	**4,828**	233
	709,115	777,613

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

7. REVENUE AND OTHER INCOME – continued

	2020 **RMB'000**	2019 RMB'000
Income from trading of commodities		
Revenue from contracts with customers within the scope of HKFRS 15		
Income from trading of commodities	**5,196,314**	1,329,594

	2020 **RMB'000**	2019 RMB'000
Timing of revenue recognition within the scope HKFRS 15		
At a point in time	**5,890,875**	2,097,888
Transferred over time	**8,500**	36,887
	5,899,375	2,134,775

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

7. REVENUE AND OTHER INCOME – continued

	2020 **RMB'000**	2019 RMB'000
Other income		
Bank and other interest income	**23,552**	12,683
Gain on disposal of property, plant and equipment	**258**	118
Government grants*	**3,520**	501
Reversal of impairment loss on finance lease, loan and account receivables and other receivables	**3,053**	5,979
Income from security trading	**–**	96
Sales of electronic devices	**13,017**	16,429
Gain from disposal of an associate	**–**	3,056
Gain on re-measurement of pre-existing interest in a joint venture	**15,487**	–
Foreign exchange gain, net	**7,325**	–
Others	**12,910**	14,824
	79,122	53,686

* Amount of RMB2,326,000 represents the government grants from the employment support scheme under the Anti-epidemic Fund launched by the Government of the Hong Kong Special Administrative Region and the remaining mainly represented the grants from the relevant PRC government authorities in support of the Group's financial services and assets management business in the PRC. There were no unfulfilled conditions to receive the grants.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

8. PROFIT BEFORE INCOME TAX

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

	2020 **RMB'000**	2019 RMB'000
Auditor's remuneration		
– audit service	**1,360**	1,433
– non-audit service	**196**	267
	1,556	1,700
Cost of inventories recognised as expenses	**5,623,125**	1,838,131
Depreciation of property, plant and equipment	**19,781**	16,890
Less: Amounts capitalised on inventories of properties	**–**	(198)
	19,781	16,692
Impairment loss on goodwill	**13,504**	–
Impairment loss on finance lease, loan and account receivables, amount due from an associate and other receivables	**19,550**	5,794
Reversal of impairment loss on finance lease, loan and account receivables and other receivables	**(3,053)**	(5,979)
Equity-settled share-based payments	**335**	1,624
Write off of property, plant and equipment	**–**	641
Direct operating expenses arising from investment property that did not generate rental income during the year	**7,867**	2,341
Employee's costs (including directors' remuneration (note 9))		
– Salaries and allowances	**60,661**	49,783
– Pension scheme contributions – Defined contribution plans	**3,900**	4,623
– Other benefits	**5,204**	5,543
	69,765	59,949
Net foreign exchange (gain)/loss	**(7,325)**	1,809
Gain on disposal of property, plant and equipment	**(258)**	(118)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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 2020					
Executive directors:					
Hong Mingxian ("Mr. Hong")	–	638	15	55	708
Mr. Ng Chi Chung ("Mr. Ng")	–	510	15	55	580
	–	1,148	30	110	1,288
Non-executive directors:					
Mr. Wu Qinghan	82	–	–	–	82
Mr. Cai Huatan	82	–	–	–	82
	164	–	–	–	164
Independent non-executive directors:					
Mr. Chan Sing Nun	82	–	–	–	82
Mr. Lam Kit Lam	82	–	–	–	82
Mr. Chen Naike	82	–	–	–	82
	246	–	–	–	246
Total	410	1,148	30	110	1,698

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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

(a) Directors' remuneration – continued

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Equity-settled share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2019					
Executive directors:					
Mr. Hong	–	668	16	314	998
Mr. Ng	–	534	16	314	864
Mr. Cai Huatan[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 Huatan[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 2020

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 (2019: two) for the year ended 31 December 2020 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 2020 and 2019 are set out below:

	2020	2019
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**4,036**	3,961
Pension scheme contributions	**80**	80
Equity-settled share options compensation	**173**	1,111
	4,289	5,152

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

	Number of individuals	
	2020	2019
HK$500,001 to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**–**	1
	5	5

(c) During the years ended 31 December 2020 and 2019, 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

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10. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank and other borrowings	**109,500**	65,596
Interest on corporate bonds	**28,238**	17,687
Interest on lease liabilities	**10,406**	5,743
	148,144	89,026
Less: interest capitalised *(note)*	**(59,534)**	(45,673)
	88,610	43,353

Note: The weighted average capitalisation rate for the year on fund's borrowed is 8.98% per annum (2019: 8.04%).

11. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax		
Hong Kong Profits Tax	**283**	207
PRC		
– Enterprise income tax ("EIT")	**167,984**	82,802
– LAT	**24,979**	18,122
– Withholding tax	**523**	411
	193,769	101,542
Deferred tax *(note 32)*	**(44,328)**	(2,564)
	149,441	98,978

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% (2019: 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%.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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% (2019: 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 years ended 31 December 2020 and 2019.

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:

	2020 **RMB'000**	2019 RMB'000
Profit before income tax	**502,771**	435,109
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	**155,199**	106,448
Tax effect of income not taxable for tax purpose	**(48,240)**	(41,893)
Tax effect of expenses not deductible for tax purpose	**8,507**	10,535
Tax effect of tax losses not recognised	**16,177**	10,267
Utilisation of tax losses previously not recognised	**(1,459)**	(381)
Provision for LAT	**24,979**	18,122
Tax effect on EIT of LAT payable	**(6,245)**	(4,531)
Withholding tax for interest paid by PRC subsidiaries	**523**	411
Income tax expense	**149,441**	98,978

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

12. DIVIDENDS

The directors of the Company proposed a final dividend of HK0.5 cent per ordinary share (2019: nil), totaling HK$36,042,000 (equivalent to RMB30,636,000) (2019: nil) in respect of the year ended 31 December 2020. This proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting and not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2020. No dividend was paid during the year (2019: 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:

	2020 **RMB'000**	2019 RMB'000
Profit for the year attributable to owners of the Company	**356,115**	335,503

	2020 **Number of shares** **('000)**	2019 Number of shares ('000)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,806,287**	6,301,125
Basic earnings per share (RMB cents)	**5.23**	5.32
Dilutive earnings per share (RMB cents) *(Note)*	**5.23**	5.32

Note:

The computations of diluted earnings per share for the years ended 31 December 2020 and 2019 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Construction-in-progress	Other properties leased for own use *(note 29)*	Motor vehicles	Furniture, fixtures and office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2019	12,969	–	29,034	4,381	9,748	56,132
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
As at 31 December 2019 and 1 January 2020	**16,090**	**127,125**	**35,628**	**5,170**	**13,399**	**197,412**
Additions	**157**	**17,469**	**1,843**	**1,572**	**1,560**	**22,601**
Lease modification	**–**	**–**	**1,201**	**–**	**–**	**1,201**
Acquisition of a subsidiary *(note 40)*	**–**	**–**	**–**	**150**	**210**	**360**
Disposals	**–**	**–**	**–**	**(538)**	**(2)**	**(540)**
Disposal of subsidiaries *(note 38)*	**(9)**	**–**	**(2,612)**	**(132)**	**(1,399)**	**(4,152)**
Written off	**–**	**–**	**(1,914)**	**–**	**(42)**	**(1,956)**
Exchange realignment	**(159)**	**–**	**(680)**	**(26)**	**(34)**	**(899)**
At 31 December 2020	**16,079**	**144,594**	**33,466**	**6,196**	**13,692**	**214,027**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT – continued

	Leasehold improvement	Construction-in-progress	Other properties leased for own use *(note 29)*	Motor vehicles	Furniture, fixtures and office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation:						
At 1 January 2019	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
As at 31 December 2019 and at 1 January 2020	**6,312**	**–**	**10,184**	**1,534**	**6,249**	**24,279**
Charge for the year	**4,210**	**–**	**11,534**	**1,346**	**2,691**	**19,781**
Write back on disposals	**–**	**–**	**–**	**(525)**	**(2)**	**(527)**
Disposal of subsidiaries *(note 38)*	**(8)**	**–**	**(770)**	**(35)**	**(791)**	**(1,604)**
Write back on written off	**–**	**–**	**(1,914)**	**–**	**(42)**	**(1,956)**
Exchange realignment	**(69)**	**–**	**(217)**	**(14)**	**(23)**	**(323)**
At 31 December 2020	**10,445**	**–**	**18,817**	**2,306**	**8,082**	**39,650**
Net carrying amount:						
At 31 December 2020	**5,634**	**144,594**	**14,649**	**3,890**	**5,610**	**174,377**
At 31 December 2019	9,778	127,125	25,444	3,636	7,150	173,133

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

15. INVESTMENT PROPERTIES

	2020	2019
	RMB'000	RMB'000
At 1 January	**747,800**	600,200
Additions	**332,730**	235,459
Disposals	**(34,798)**	(160,221)
Disposal of subsidiaries *(note 38)*	**(391,876)**	–
Change in fair value	**23,344**	72,362
At 31 December	**677,200**	747,800

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.

The fair values of the investment properties of the Group in the PRC were assessed by APAC Appraisal and Consulting 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, using income approach, by capitalised 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

15. INVESTMENT PROPERTIES – continued

For investment properties under construction, the fair values are 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 of investment properties is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	2020	2019
	RMB'000	RMB'000
At 1 January (level 3 recurring fair value)	**747,800**	600,200
Additions	**332,730**	235,459
Disposals	**(34,798)**	(160,221)
Disposal of subsidiaries	**(391,876)**	–
Change in fair value	**23,344**	72,362
At 31 December (level 3 recurring fair value)	**677,200**	747,800

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

15. 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 2020	Range of unobservable inputs 2019
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	**N/A**	6.5% to 10.4%
			Expected vacancy rate	The higher the expected vacancy rate, the lower the fair value	**N/A**	10% to 56.3%
			Reversionary rate	The higher the reversionary rate, the lower the fair value	**N/A**	7% to 10.4%
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	**RMB3,600 to RMB10,637**	RMB9,879 to RMB10,021
			Budgeted unit outstanding construction cost (RMB/s.q.m)	The higher the budgeted unit outstanding construction cost, the lower the fair value	**RMB1,147 to RMB3,152**	RMB4,271 to RMB6,980
			Anticipated developer's profit margin	The higher the anticipated developer's profit margin, the lower the fair value	**15% to 25%**	15%

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

15. INVESTMENT PROPERTIES – continued

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, investment properties of approximately RMB401,000,000 were pledged to secure the Group's bank borrowings (note 30).

16. INTERESTS IN ASSOCIATES

	2020 **RMB'000**	2019 RMB'000
Shares of net assets	**400,286**	15,653

Details of the Group's associates 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 ^) ("Chuang Yi")	PRC, provision of commercial factoring services in the PRC	20% (2019: 20%)
福建中海外城市開發有限公司 (Fujian China Overseas Urban Development Co., Ltd^) ("Fujian China Overseas") (Formerly known as 贛州市嘉恒商務諮詢有限公司 (Ganzhou Jia Heng Business Consulting Company Limited^))	PRC, property development and management and commodity trading business in the PRC	49% (2019: –)

^ English name is for identification only.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

16. INTERESTS IN ASSOCIATES – continued

As set out in note 38 to the financial statements, the Group disposed its 51% equity interest in Fujian China Overseas on 31 December 2020. Upon the completion of disposal, the Group's effective interest in Fujian China Overseas were changed from 100% to 49% and Fujian China Overseas become an associate of the Group. Further details of the disposal of subsidiaries are set out in note 38.

The financial effect arising from the retained interest in Fujian China Overseas and its subsidiaries was summarised as follows:

	2020 RMB'000
Fair value of 49% interests retained by the Group	256,213
Fair value of identifiable net assets attributable at the date to be associate	798,718
Group's share of net assets	391,372
Gain on bargain purchase*	135,159

* A gain on bargain purchase of RMB135,159,000, which arose from the excess of the Group's interests in the fair value of the net identifiable assets of Fujian China Overseas and its subsidiaries over the fair value of the retained interest, was included in "Share of results of associates" in the consolidated statement of comprehensive income for the year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

16. INTERESTS IN ASSOCIATES – continued

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

Chuang Yi

The total registered capital of Chuang Yi is RMB100,000,000. As at 31 December 2020, the unpaid registered capital receivable from other shareholders of Chuang Yi was RMB5,460,000 (2019: RMB5,460,000).

	2020 **RMB'000**	2019 RMB'000
Year ended 31 December		
Revenue for the year	**672**	163
(Loss)/profit for the year and total comprehensive income	**(33,695)**	618

Fujian China Overseas

	2020 **RMB'000**
From the date to be an associate to 31 December	
Revenue for the period	**–**
Profit for the period and total comprehensive income	**–**

	Fujian China Overseas	**Chuang Yi**	
	2020 **RMB'000**	**2020** **RMB'000**	2019 RMB'000
As at 31 December			
Current assets	**2,792,099**	**45,286**	114,908
Non-current assets	**412,007**	**12**	19
Current liabilities	**(1,766,709)**	**(726)**	(36,664)
Non-current liabilities	**(638,679)**	**–**	–
Net assets	**798,718**	**44,572**	78,263

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

17. INTEREST IN A JOINT VENTURE

	2020 **RMB'000**	2019 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**
威海中天房地產有限公司 (Weihai Zhongtian Real Estate Company Limited^) ("Weihai Zhongtian") (Formerly known as 威海融璟房地產開發有限公司 (Weihai Rong Jing Property Development Limited ^))	PRC, property development in the PRC	N/A (note b) (2019: 51%)

^ English name is for identification only.

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.

(a) 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 Zhongtian and responsible for the reorganisation of Weihai Zhongtian, 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 Zhongtian 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 Zhongtian respectively with nil consideration. The acquisition was completed on 18 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

17. INTEREST IN A JOINT VENTURE – continued

(a) The financial effect arising from the acquisition of Weihai Zhongtian as a joint venture was summarised as follows:

	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

(b) On 10 July 2020, the Group further acquired 49% equity interest in Weihai Zhongtian at consideration of RMB97,470,000. Upon the completion of step acquisition, the Group's effective interests in Weihai Zhongtian were changed from 51% to 100%. Further details of the step acquisition are set out in note 40.

The financial effects of the Weihai Zhongtian recognised in the profit or loss was summarised as follows:

	2020 RMB'000	2019 RMB'000
Gain on bargain purchase from acquisition of a joint venture	**–**	12,098
Share of results of a joint venture	**(13,619)**	(1,010)
	(13,619)	11,088

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

17. INTEREST IN A JOINT VENTURE – continued

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

	2020 RMB'000	2019 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

	2020 RMB'000	2019 RMB'000
Period from 1 January 2020 to date of step acquisition/date of acquisition to 31 December		
Revenue for the period	–	–
Loss for the period and total comprehensive income	**26,704**	1,981

	2020 RMB'000	2019 RMB'000
Reconciliation to the Group's interest in a joint venture		
Portion of the Group's ownership	**N/A**	51%
Group's share of net assets of the joint venture	–	15,678

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

18. RESTRICTED BANK DEPOSITS

The amount mainly represented the guarantee deposits for construction of pre-sale properties. In accordance with relevant government requirements, certain property development companies of the Group are required to place the proceeds received from pre-sale of properties as guarantee deposits for construction of properties. Such deposits can only be used for payments for construction costs of relevant property development projects when approval from related government authority is obtained. The restriction will be released upon the completion of construction.

As at 31 December 2020 and 2019, 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, restricted bank deposit of RMB10,000,000 was pledged to secure the bills payable (note 26).

19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES

	2020	2019
	RMB'000	RMB'000
Non-current asset		
Finance lease receivables	**74,759**	98,558
Current assets		
Entrusted loan receivables	**548**	869
Finance lease receivables	**33,631**	157,138
Loan receivables	**1,299,115**	613,152
Receivables from guarantee customers	**22,225**	28,788
Account receivables	**18,702**	67,970
	1,374,221	867,917

NOTES TO THE FINANCIAL STATEMENTS

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19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

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

	2020		2019	
	Minimum lease payments RMB'000	**Present value RMB'000**	Minimum lease payments RMB'000	Present value RMB'000
Not later than one year	**41,271**	**33,631**	164,756	157,138
Later than one year and not later than five years	**91,418**	**74,759**	109,269	81,505
More than five years	**–**	**–**	17,681	17,053
	132,689	**108,390**	291,706	255,696
Unearned finance income	**(24,299)**	**–**	(36,010)	–
Present value of minimum lease payments	**108,390**	**108,390**	255,696	255,696

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 two 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 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 2020

19. 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:

	2020	2019
	% per month	% per month
Entrusted loan receivables	**1.0**	1.0 to 1.4
Finance lease receivables	**0.5 to 1.1**	0.5 to 1.5
Loan receivables	**1.0 to 5.0**	0.3 to 5.0

The Group has certain concentration risk on finance lease, loan and account receivables as it has eight (2019: five) customers with outstanding balances of approximately RMB1,258,802,000 (2019: RMB721,772,000) as at 31 December 2020.

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:

	2020	2019
	RMB'000	RMB'000
0 to 30 days	**209,272**	467,345
31 to 90 days	**2,058**	7,776
91 to 180 days	**407,612**	100,000
Over 180 days	**807,813**	362,566
	1,426,755	937,687

NOTES TO THE FINANCIAL STATEMENTS

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19. 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:

	2020 RMB'000	2019 RMB'000
Not yet past due	**1,393,945**	832,915
Past due 0 to 30 days	**191**	20,778
Past due 31 to 90 days	**337**	348
Past due 91-180 days	**99**	505
Over 180 days	**32,183**	83,141
	1,426,755	937,687

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
At 1 January 2019	24,232
Impairment loss recognised	5,533
Reversal of impairment loss	(5,979)
At 31 December 2019 and 1 January 2020	23,786
Impairment loss recognised	17,310
Reversal of impairment loss	(2,800)
Disposal of subsidiaries	(568)
At 31 December 2020	**37,728**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

19. 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:

	2020	2019
	RMB'000	RMB'000
Real estate	**455,971**	811,235
Movable property	**63,397**	78,259
Property rights	**1,335,719**	1,073,483
Others	**9,000**	9,000
	1,864,087	1,971,977

As at 31 December 2020 and 2019, 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 RMB23,741,000 (2019: RMB118,915,000) (note 27).

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 were pledged to secure the Group's bank borrowings (note 30).

NOTES TO THE FINANCIAL STATEMENTS

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20. GOODWILL

	2020	2019
	RMB'000	RMB'000
At 1 January	**33,400**	33,400
Acquisition of a subsidiary *(note 40)*	**63,442**	–
Impairment loss	**(13,504)**	–
At 31 December	**83,338**	33,400

As at 31 December 2020, the carrying amounts of goodwill allocated to a CGU of finance leasing of RMB19,896,000 (2019: RMB33,400,000) and allocated to a CGU of property development of RMB63,442,000 (2019: nil).

The recoverable amount of CGUs are determined based on value-in-use calculation or fair value less cost of disposal, whichever is higher.

The recoverable amount of CGU of finance leasing is determined based on value-in-use calculation which covers a detailed 5-year budget plan plus an extrapolated cash flow projection by applying a long term estimated growth rate of zero (2019: zero), with a pre-tax discount rate of 11% (2019: 10.3%).

The recoverable amount of CGU of property development is determined based on value-in-use calculation which covers a detailed 5-year budget plan plus an extrapolated cash flow projection by applying a long term estimated growth rate of zero (2019: N/A), with a pre-tax discount rate of 13.7% (2019: N/A).

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.

During the year ended 31 December 2020, the Group has continued to operate the finance leasing business without any new customer. Due to the declining prospects in finance lease business, the Group assessed the recoverable amount of the CGU of finance leasing and the carrying amount of this CGU is written down to its recoverable amount of RMB19,896,000. An impairment loss of approximately RMB13,504,000 (2019: nil) was recognised within "other expenses" in the consolidated statement of comprehensive income.

No impairment of goodwill is necessary for the CGU of property development as it demonstrates sufficient cash flows that justify the carrying value of the goodwill.

NOTES TO THE FINANCIAL STATEMENTS

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21. OTHER FINANCIAL ASSETS

	2020 RMB'000	2019 RMB'000
Non-current:		
Financial assets measured at FVTPL		
– Unlisted equity securities *(note (a))*	**36,000**	34,000
– Distressed assets *(note (b))*	**60,331**	60,000
– Fund investment	**1,000**	1,000
– Consideration receivable *(note (c))*	**260,907**	–
	358,238	95,000
Current:		
Financial assets measured at FVTPL		
– Equity securities listed in Hong Kong	**7,136**	11,738
Financial assets measured at FVOCI		
– Distressed assets *(note (b))*	**90,577**	33,000
	97,713	44,738
	455,951	139,738

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.

(c) The balances represented a dividend entitlement in connection with the consideration receivable from the disposal of Fujian China Overseas (note 38).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

21. OTHER FINANCIAL ASSETS – continued

Notes: – continued

(d) Fair value measurement of financial assets

There were no transfers into or out of level 1 and 3 during the years.

	2020 RMB'000	2019 RMB'000
Level 1 recurring fair value		
Equity securities listed in Hong Kong	**7,136**	11,738
Level 3 recurring fair value		
Unlisted equity securities	**36,000**	34,000
Distressed assets	**150,908**	93,000
Fund investment	**1,000**	1,000
Consideration receivable	**260,907**	–
	448,815	128,000

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

	2020 RMB'000	2019 RMB'000
Opening balance	**128,000**	101,140
Additions *(Note)*	**333,809**	42,140
Disposals	**(20,305)**	(5,990)
Disposal of subsidiaries	**–**	(17,140)
Fair value gain/(loss) recognised in profit or loss	**2,332**	(150)
Fair value gain recognised in other comprehensive income	**4,979**	8,000
Closing balance	**448,815**	128,000

Note: During the year ended 31 December 2020, additions of an amount of consideration receivable of approximately RMB260,907,000 and distressed assets of RMB72,902,000 are non-cash transaction.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

21. OTHER FINANCIAL ASSETS – continued

Notes: – continued

(d) Fair value measurement of financial assets – continued

Group's financial assets carried at fair value at 31 December 2020 and 2019 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**
	2020 RMB'000	2019 RMB'000				
Financial assets						
– Distressed assets	**150,908**	93,000	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	• The higher the recoverable amounts, the higher the fair value.
– Fund investment	**1,000**	1,000	Level 3			
– Consideration receivable	**260,907**	–	Level 3			
					• Expected recovery date	• The earlier the recovery date, the higher the fair value.
					• Discount rates that correspond to the expected risk level	• The higher the discount rates, the lower the fair value.
– Unlisted equity securities	**36,000**	34,000	Level 3	Market approach	• Marketability discount	• The higher the marketability discount, the lower the fair value.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020	2019
	RMB'000	RMB'000
Non-current assets		
Amounts paid for properties acquired for asset management business	**–**	83,680
Other receivables	**–**	235,380
Amount due from an associate *(note)*	**635,277**	–
	635,277	319,060
Current assets		
Prepaid expenses	**29,882**	80,161
Deposits paid	**8,145**	9,284
Amounts paid for land and properties acquired for asset management business	**83,680**	–
Other receivables	**432,410**	138,635
	554,117	228,080

Note: As at 31 December 2020, the amount due from an associate was unsecured, interest-free and repayable on demand.

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 the amount due from an associate and other receivables for the year:

	RMB'000
At 1 January 2019	639
Impairment loss recognised	261
At 31 December 2019 and 1 January 2020	900
Impairment loss recognised	2,240
Reversal of impairment loss	(253)
At 31 December 2020	2,887

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

23. INVENTORIES OF PROPERTIES

	2020 RMB'000	2019 RMB'000
Properties held for development	–	194,946
Properties held under development	2,905,705	1,214,651
Properties held for sale	285,403	1,655,239
	3,191,108	3,064,836

(a) Properties held under development comprises leasehold interests in land are located in the PRC and have lease terms expiring from 30 to 70 years (2019: 40 to 70 years). 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 2020, properties held under development amounted to approximately RMB420,622,000 (2019: RMB392,617,000) 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 2020, carrying amount of RMB336,981,000 was transferred from properties held under development to properties held for sale (2019: RMB2,076,595,000).

(b) As at 31 December 2020, properties held under development of RMB546,513,000 were pledged to secure other borrowings (2019: nil) (note 30). As at 31 December 2019, properties held for sale of RMB1,318,523,000 were pledged to secure bank borrowings (note 30).

(c) Pursuant to note 17 to the consolidated financial statements, the Group received the Notification from the Administrator to be the reforming parties to the restructuring plan in respect of Weihai Zhongtian in accordance with the Corporate Bankruptcy Law of the PRC under the supervision of the Administrator. Pursuant to the restructuring plan, Weihai Zhongtian has to repay the liabilities to the respective creditors under the supervision of the Administrator. In return, the Group obtained the assets in Weihai Zhongtian which are mainly represented by inventories of properties. As at 31 December 2020, the agreed liabilities of RMB387,912,000 is included in other payables (note 27) and the carrying amount of the respective inventories of properties that to be realised for the repayment is approximately RMB470,000,000. Such inventories of properties are restricted for the repayment to the respective creditors under the restructuring plan.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

24. CASH AND BANK BALANCES – GENERAL ACCOUNTS

Bank balances earn interest at floating rates based on daily bank deposit rates.

As at 31 December 2020, the Group has cash and bank balances denominated in RMB amounting to approximately RMB73,859,000 (2019: RMB77,948,000) kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

25. 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.

26. ACCOUNTS AND BILLS PAYABLE

	2020 **RMB'000**	2019 RMB'000
Accounts payable from property development	**549,024**	452,847
Accounts payable from financial services		
– clearing house	**1,614**	791
– cash client	**12,513**	29,988
Bills payable *(Note)*	**–**	10,130
	563,151	493,756

Note: As at 31 December 2019, bills payable is secured by pledged deposits of RMB10,000,000 (note 18).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

26. ACCOUNTS AND BILLS PAYABLE – continued

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

	2020	2019
	RMB'000	RMB'000
Less than 1 month	**529,818**	455,652
1 to 3 months	**29,725**	10,772
More than 3 months but less than 12 months	**2,115**	20,742
More than 12 months	**1,493**	6,590
	563,151	493,756

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

	2020	2019
	RMB'000	RMB'000
Current liabilities		
Accruals, other payables and deposits received *(note a)*	**715,432**	457,680
Business and other tax payables	**59,002**	51,856
Deposits received from finance lease customers *(note 19)*	**17,241**	111,408
Amounts due to related parties	**–**	4,840
Amounts due to non-controlling interests	**714,041**	–
Deferred income *(note b)*	**7,550**	7,238
	1,513,266	633,022
Non-current liabilities		
Other payables *(note a)*	**68,972**	–
Deposits received from finance lease customers *(note 19)*	**6,500**	7,507
	75,472	7,507

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

27. ACCRUALS, OTHER PAYABLES, DEPOSITS RECEIVED AND DEFERRED INCOME – continued

Notes:

(a) Other payables of RMB387,912,000 represented the liabilities to be settled with the Administrator as at 31 December 2020.

Pursuant to note 17 to the consolidated financial statements, the Group received the Notification from the Administrator to be the reforming parties to the restructuring plan in respect of Weihai Zhongtian in accordance with the Corporate Bankruptcy Law of the PRC under the supervision of the Administrator. As at 31 December 2019, Weihai Zhongtian was accounted for as a joint venture. Pursuant to note 40 to the consolidated financial statements, the Group further acquired 51% equity interest of Weihai Zhongtian during the year ended 31 December 2020 and Weihai Zhongtian become a wholly-owned subsidiary of the Company. The results of Weihai Zhongtian is consolidated into the Group's financial statements commencing on the date of step acquisition.

Pursuant to the restructuring plan, Weihai Zhongtian has to repay the liabilities to the respective creditors under the supervision of the Administrator. In return, the Group obtained the assets in Weihai Zhongtian which are mainly represented by inventories of properties. The basis of the liabilities assumed by the Group was estimated from the realised estimated value of the inventories of properties. As at 31 December 2020, the agreed liabilities of RMB387,912,000 is included in other payables and the carrying amount of the respective inventories of properties that to be realised for the repayment is approximately RMB470,000,000 (note 23).

The nature of these respective creditors mainly include bank loans, trade payables such as construction cost payable and accruals and other tax payables. According to the arrangements under the restructuring plan, the Group will repay these payables to the Administrator in a designated bank account and the Administrator will handle the Group's repayment to the respective creditors. As such, the Group classified these liabilities as other payables.

The implementation period for the restructuring plan is 36 months since June 2018 unless further extended with approval by the court. Other payables of RMB318,940,000 is expected to be settled within 1 year from 31 December 2020 while other payables of RMB68,972,000 is expected to be settled after 1 year from 31 December 2020 under the restructuring plan.

(b) 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

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28. CONTRACT LIABILITIES

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

	2020 **RMB'000**	2019 RMB'000
Contract liabilities related to property sales	**2,309,703**	1,351,221

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.

	2020 **RMB'000**	2019 RMB'000
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	**684,734**	764,913

NOTES TO THE FINANCIAL STATEMENTS

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29. LEASES

The Group leases a number of properties in the jurisdictions from which it operates. The leases typically run for a period of 10 months to 5 years (2019: 8 months to 5 years). The lease payments 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:

	2020	2019
	RMB'000	RMB'000
Other properties leased for own use	**14,649**	25,444
Investment properties for sub lease	**–**	7,900
Leasehold land under inventories of properties	**1,740,479**	1,063,632
Leasehold land under investment properties	**330,023**	330,933
Leasehold land under construction-in-progress	**115,023**	115,023
	2,200,174	1,542,932

The Group leases out its 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.

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31 December 2020

29. LEASES – continued

Lease liabilities

The future lease payments are due as follows:

	2020 Minimum lease payments RMB'000	2020 Present value RMB'000	2019 Minimum lease payments RMB'000	2019 Present value RMB'000
Not later than one year	**11,663**	**10,659**	16,582	14,896
Later than one year and not later than two years	**5,427**	**5,176**	11,235	10,223
Later than two years and not later than five years	**–**	**–**	99,872	79,476
	17,090	**15,835**	127,689	104,595
Future interest expenses	**(1,255)**	**–**	(23,094)	–
	15,835	**15,835**	104,595	104,595

The present value of future lease payments are analysed as:

	2020 RMB'000	2019 RMB'000
Current liabilities	**10,659**	14,896
Non-current liabilities	**5,176**	89,699
	15,835	104,595

The Group had total cash outflows for leases of RMB7,928,000 during the year ended 31 December 2020 (2019: RMB2,705,000).

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31 December 2020

29. LEASES – continued

The followings are the amounts recognise in profit or loss:

	2020	2019
	RMB'000	RMB'000
Depreciation expense of other properties leased for own use	**11,534**	10,184
Interest on lease liabilities *(note 10)*	**10,406**	5,743
Expenses relating to short-term leases	**154**	1,195
Gain arising from sale and leaseback transactions	**3,484**	93,144

30. BANK AND OTHER BORROWINGS

	2020	2019
	RMB'000	RMB'000
Secured borrowings		
Bank borrowings	**58,040**	678,538
Other borrowings	**689,169**	372,849
Guarantee note	**–**	131,898
	747,209	1,183,285
Carrying amount repayable:		
Within one year	**278,013**	493,375
More than one year, but not exceeding two years	**469,196**	360,198
More than two years, but not exceeding five years	**–**	269,712
More than five years	**–**	60,000
	747,209	1,183,285

The Group has variable interest-rate bank and other borrowings which carry interest ranging from 4.8% to 15.0% per annum (2019: 4.8% to 8.0%).

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31 December 2020

30. BANK AND OTHER BORROWINGS – continued

As at 31 December 2020, the bank borrowings are secured by followings:

(i) approximately RMB55,490,000 (2019: RMB57,690,000) were guaranteed by Mr. Hong, Ms. Shi Hongjiao ("Ms. Shi") and a subsidiary of the Company; and

(ii) approximately RMB2,550,000 (2019: RMB5,027,000) were guaranteed by a director of a subsidiary.

As at 31 December 2019, approximate RMB12,000,000 were secured by finance lease receivables of the Group with carrying amount of RMB17,055,000, which were also guaranteed by Mr. Hong and Ms. Shi. Approximate RMB603,821,000 were secured by properties held for sale with carrying amount of RMB1,318,523,000 and investment properties with carrying amount of RMB401,000,000 and properties held by customers, in which approximate RMB453,822,000 were guaranteed by Mr. Hong.

As at 31 December 2020, other borrowings are secured by followings:

(i) approximately RMB76,680,000 (2019: RMB139,510,000) were secured by charged of 510,000 shares of a subsidiary of the Company;

(ii) approximately RMB462,505,000 (2019: RMB233,339,000) were secured by personal guarantee from Mr. Hong; and

(iii) approximately RMB149,984,000 (2019: nil) were secured by properties held under development with carrying amount of RMB546,513,000 (2019: nil) and also secured by 100% equity interest of a subsidiary and corporate guarantees from an associate.

In February 2021, the Group obtained consent from the lender for a loan of RMB76,680,000 which had matured before 31 December 2020, pursuant to which the Group and the lender agreed to extend the repayment date to 30 June 2021. According to the revised terms, the interest rate of the loan was modified and with the personal guarantees provided by Mr. Hong.

As at 31 December 2019, guarantee note with carrying amount of approximately RMB131,898,000 were secured by charges of 850,000,000 shares of the Company by Expert Corporate Limited ("Expert Corporate") and also guaranteed by Mr. Hong and Mr. Ng. The amount was fully settled during year ended 31 December 2020.

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

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31. CORPORATE BONDS

	2020 RMB'000	2019 RMB'000
Corporate bonds	**274,976**	299,485
Carrying amount repayable:		
Within one year	**111,223**	51,175
More than one year, but not exceeding two years	**35,616**	76,852
More than two years, but not exceeding five years	**124,737**	98,601
More than five years	**3,400**	72,857
	274,976	299,485

During the year ended 31 December 2020, the Company issued Hong Kong Dollar denominated corporate bonds with principal amount of HK$34,500,000 (equivalent to RMB29,325,000) (2019: HK$40,000,000 (equivalent to RMB35,600,000)) and repaid corporate bonds of principal amount of HK$47,500,000 (equivalent to RMB40,375,000) (2019: HK$21,000,000 (equivalent to RMB18,690,000)).

The corporate bonds bear interests from 1.0% to 7.5% (2019: 0.5% to 9.0%) per annum. The interests of the corporate bonds are payable quarterly to annually (2019: quarterly to annually) in arrears every year. The corporate bonds will mature three months to eight years (2019: two to eight years) from the issue dates.

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31 December 2020

31. CORPORATE BONDS – continued

As at 31 December 2020, among the balances, corporate bonds of HK$125,100,000 (2019: HK$144,600,000) were secured and detailed as follows:

Corporate bonds with carrying amount of HK$124,100,000 (equivalent to RMB105,485,000) (2019: HK$143,600,000 (equivalent to RMB127,804,000)) are guaranteed by Mr. Hong, and corporate bonds with carrying amount of HK$1,000,000 (equivalent to RMB850,000) are guaranteed by Ms. Shi (2019: HK$1,000,000 (equivalent to RMB890,000)).

As at 31 December 2020 and 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$14,000,000 (equivalent to RMB11,900,000) (2019: 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

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32. DEFERRED TAX

The following is the analysis of deferred tax balances for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	**43,569**	–
Deferred tax liabilities	**(34,784)**	(120,077)
	8,785	(120,077)

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using principle taxation rate of 25% for the year (2019: 25%). The following are the major deferred tax assets and liabilities recognised by the Group and the movements thereon during the year.

	Revaluation of investment properties RMB'000	Fair value adjustments on properties held for development arising from acquisition of subsidiaries RMB'000	Tax losses RMB'000	Fair value adjustment on financial instruments RMB'000	Total RMB'000
At 1 January 2019	**(75,917)**	**(46,724)**	**–**	**–**	**(122,641)**
(Charged)/credited to profit or loss *(note 11)*	(3,087)	5,651	–	–	2,564
At 31 December 2019 and 1 January 2020	**(79,004)**	**(41,073)**	**–**	**–**	**(120,077)**
Acquisition of a subsidiary *(note 40)*	–	(14,048)	–	–	(14,048)
Acquisition of asset through acquisition of a subsidiary *(note 41)*	–	(1,100)	–	–	(1,100)
Disposal of subsidiaries *(note 38)*	60,521	39,161	–	–	99,682
(Charged)/credited to profit or loss *(note 11)*	(1,153)	1,912	11,896	31,673	44,328
At 31 December 2020	**(19,636)**	**(15,148)**	**11,896**	**31,673**	**8,785**

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32. DEFERRED TAX – continued

As at 31 December 2020, 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 RMB1,516,783,000 (2019: RMB1,155,727,000). 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.

Deferred tax assets of RMB11,896,000 have been recognised in respect of these estimated unused tax losses. As at 31 December 2020, the Group has estimated unused tax losses of RMB47,584,000, that are probable for offsetting against future taxable profits.

The Group had unrecognised deferred tax assets arising from tax losses of approximately RMB105,912,000 (2019: RMB75,702,000) as at 31 December 2020. Tax losses of RMB93,095,000 (2019: RMB62,909,000) are available, within a maximum period of five years in the PRC, for offsetting against future taxable profits of the relevant entities in the Group in which the losses arose. The remaining tax losses of RMB12,817,000 (2019: RMB12,793,000) may be carried forward indefinitely. Deferred tax assets have not been recognised for such losses at the reporting date due to the unpredictability of future profit streams in the relevant subsidiaries in the PRC and/or Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

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33. 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 2019, 1 January 2020 and 31 December 2020	20,000,000	50,000	39,000
Issued and fully paid:			
At 1 January 2019	5,330,386	13,326	10,585
Issue of new shares for acquisition of subsidiaries under common control *(note a)*	1,033,000	2,582	2,247
At 31 December 2019 and 1 January 2020	6,363,386	15,908	12,832
Issue of ordinary shares by placing *(note b)*	265,000	663	597
Issue of new shares for acquisition of a subsidiary *(note c)*	190,000	475	427
Issue of new shares for acquisition of asset through acquisition of a subsidiary *(note d)*	390,000	975	878
At 31 December 2020	**7,208,386**	**18,021**	**14,734**

The movements in share capital of the Company were as follows:

(a) An aggregate of 1,033,000,000 new ordinary shares of the Company of HK$0.0025 each were issued as consideration shares on 23 January 2019 in relation to acquisition of Prime Thrive Investment Limited.

(b) In connection with the placing, an aggregate of 265,000,000 new ordinary shares of the Company of HK$0.0025 each were issued at a price of HK$0.38 per share on 12 June 2020.

(c) An aggregate of 190,000,000 new ordinary shares of the Company of HK$0.0025 each were issued as consideration shares on 10 July 2020 in relation to step acquisition of Weihai Zhongtian.

(d) An aggregate of 390,000,000 new ordinary shares of the Company of HK$0.0025 each were issued as consideration shares on 10 July 2020 in relation to acquisition of Shanghang Fengda Real Estate Co., Ltd ("Fengda").

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34. 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 2020 and 2019, 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

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34. RESERVES – continued

Company

	Share premium	Contributed surplus *(Note)*	Translation reserve	Share option reserve	Accumulated profits/ (losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1 January 2020	**1,305,160**	**355,920**	**31,195**	**25,808**	**(259,560)**	**1,458,523**
Loss for the year	**–**	**–**	**–**	**–**	**(195,103)**	**(195,103)**
Other comprehensive income for the year	**–**	**–**	**(21,415)**	**–**	**–**	**(21,415)**
Total comprehensive income for the year	**–**	**–**	**(21,415)**	**–**	**(195,103)**	**(216,518)**
Issues of ordinary shares by placing	**89,576**	**–**	**–**	**–**	**–**	**89,576**
Acquisition of a subsidiary	**97,043**	**–**	**–**	**–**	**–**	**97,043**
Acquisition of assets through acquisition of a subsidiary	**158,828**	**–**	**–**	**–**	**–**	**158,828**
Recognition of equity-settled share-based compensation	**–**	**–**	**–**	**335**	**–**	**335**
At 31 December 2020	**1,650,607**	**355,920**	**9,780**	**26,143**	**(454,663)**	**1,587,787**

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.

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35. STATEMENT OF FINANCIAL POSITION OF THE HOLDING COMPANY

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries		**1,263,828**	1,424,254
Current assets			
Loan and account receivables		**3,400**	–
Prepayments		**–**	40,000
Amounts due from subsidiaries		**1,123,594**	789,074
Other financial assets		**7,107**	11,738
Cash and bank balances		**941**	47,769
		1,135,042	888,581
Current liabilities			
Accruals and other payables		**29,651**	9,475
Amounts due to subsidiaries		**29,216**	167,283
Other borrowings		**–**	131,898
Corporate bonds		**111,223**	51,175
		170,090	359,831
Net current assets		**964,952**	528,750
Total assets less current liabilities		**2,228,780**	1,953,004
Non-current liabilities			
Other borrowings		**462,506**	233,339
Corporate bonds		**163,753**	248,310
		626,259	481,649
Net assets		**1,602,521**	1,471,355
EQUITY			
Share capital	33	**14,734**	12,832
Reserves	34	**1,587,787**	1,458,523
Total equity		**1,602,521**	1,471,355

On behalf of the Board

Hong Mingxian	**Ng Chi Chung**
Director	*Director*

NOTES TO THE FINANCIAL STATEMENTS

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36. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2020 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 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
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
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
Differ Financial Services Company Limited	BVI	100 ordinary shares of US$1 each	100%	–	Investment holding
Differ Halo Limited ("Differ Halo")	BVI	1,000 ordinary shares of HK$1.00 each	–	51%	Investment holding
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
Cultural Tours Limited (文旅有限公司)	BVI	100 ordinary shares of US$1 each	–	100%	Investment holding
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

NOTES TO THE FINANCIAL STATEMENTS

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36. 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
Prime Thrive Investment Limited (盛榮投資有限公司)	BVI	1 ordinary share of US$1	100%	–	Investment holding
Cyut Shing Company Limited (茁晟有限公司)	BVI	100 ordinary shares of US$1 each	–	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
Differ Financial Holdings Limited (鼎豐金融控股有限公司)	Hong Kong (“HK”)	1 ordinary share of HK$1.00	–	100%	Investment holding and provision of express loan services
Differ Supply Chain HK Limited (鼎豐供應鏈有限公司)	HK	1,000 ordinary shares of HK$1.00 each	–	100%	Dormant
Differ Asset Group Limited (鼎豐資產集團有限公司)	HK	1,000 ordinary shares of HK$1.00 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
Differ Asia Pacific Financial Company Limited (鼎豐亞太金融有限公司)	HK	1,000 ordinary shares of HK$1.00 each	–	100%	Provision of express loan services
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
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

NOTES TO THE FINANCIAL STATEMENTS

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36. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest		Principal activities
			Directly	Indirectly	
Differ Financial and Securities Limited (鼎豐金融證券有限公司)	HK	HK$15,176,000	–	100%	Provision of financial services
Differ Asset Management Company Limited (鼎豐資產管理有限公司)	HK	1,000 ordinary shares of HK$2,500 each	–	100%	Provision of financial services
Differ Commercial Management Company Limited (鼎豐商業管理有限公司)	HK	1,000 ordinary shares of HK$1.00 each	–	100%	Dormant
Differ Cultural and Creative Development Company Limited (鼎豐文創發展有限公司)	HK	1,000 ordinary shares of HK$1.00 each	–	100%	Dormant
Bai Rong Development Limited (佰融發展有限公司)	HK	10,000 ordinary shares of HK$1.00 each	–	100%	Dormant
Differ Property Services Company Limited (鼎豐物業服務有限公司)	HK	1,000 Ordinary shares of HK$1.00 each	–	100%	Investment holding
Differ Cultural Tourism Group Company Limited (鼎豐文旅集團有限公司)	HK	1,000 Ordinary shares of HK$1.00 each	–	100%	Investment holding
Differ Cultural Tourism Operation Company Limited# (鼎豐文旅運營有限公司)	HK	1,000 Ordinary shares of HK$1.00 each	–	100%	Dormant
Differ Planning & Marketing Company Limited# (鼎豐營銷策劃有限公司)	HK	1,000 Ordinary shares of HK$1.00 each	–	100%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

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36. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest		Principal activities
			Directly	Indirectly	
Differ Hotel Management Company Limited# (鼎豐酒店管理有限公司)	HK	1,000 Ordinary shares of HK$1.00 each	–	100%	Dormant
Cyut Sing Company Limited (茁昇有限公司)	HK	1,000 Ordinary shares of HK$1.00 each	–	100%	Dormant
Differ Group (China) Company Limited^ (鼎豐集團(中國)有限公司) (i)	PRC	Registered capital of RMB288,000,000	–	100%	Investment holding, provision of express loan and financial consultancy services and trading of commodities
Xiamen Differ Venture Capital Company Limited^ (廈門市鼎豐創業投資有限公司)(ii)	PRC	Registered capital of RMB30,000,000	–	100%	Provision of express loan services
Differ Guarantee Company Limited^ (鼎豐擔保股份有限公司)(ii)	PRC	Registered capital of RMB150,000,000	–	94.9%	Provision of guarantee services
Quanzhou Differ Supply Chain Management Company Limited^ (泉州鼎豐供應鏈管理有限公司)(ii)	PRC	Registered capital of RMB50,000,000	–	100%	Trading of commodities
Shishi Sheng Supply Chain Management Company Limited^ (石獅盛採寶供應鏈管理有限公司#)(ii)	PRC	Registered capital of RMB35,000,000	–	100%	Dormant
Xiamen Differ Capital Investment Company Limited^ (廈門市鼎豐股權投資有限公司)(i)	PRC	Registered capital of HK$500,000,000	–	100%	Investment holding
Ganzhou Wen Ding Asset Management Company Limited^ (贛州市問鼎資產管理有限公司)(ii)	PRC	Registered capital of RMB500,000,000	–	100%	Provision of assets management services

NOTES TO THE FINANCIAL STATEMENTS

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36. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest		Principal activities
			Directly	Indirectly	
Xiamen Lun Hui Trading Company Limited^ (廈門倫輝貿易有限公司)(ii)	PRC	Registered capital of RMB20,010,000	–	100%	Property holding
Xiamen Differ Asset Management Company Limited^ (廈門市鼎豐資產管理有限公司)(ii)	PRC	Registered capital of RMB500,000,000	–	100%	Provision of assets management services
Xiamen Wen Yi Trading Company Limited^ (廈門文軼貿易有限公司)(ii)	PRC	Registered capital of RMB10,000,000	–	100%	Provision of assets management services
Xiamen Differ Dai Investment Consulting Company Limited^ (廈門市鼎豐貸投資咨詢有限公司)(ii)	PRC	Registered capital of HK$500,000,000	–	100%	Provision of express loan services
Ganzhou Hao Sheng Investment Management Company Limited^ (贛州市豪晟投資管理有限公司)(ii)	PRC	Registered capital of RMB50,000,000	–	100%	Provision of express loan and assets management services
Jiashi (Xiamen) Finance Lease Limited^ (嘉實(廈門)融資租賃有限公司)(i)	PRC	US$35,000,000	–	100%	Provision of finance lease services
Xiamen Differ Property Services Company Limited^ (廈門市鼎豐物業服務有限公司)(i)	PRC	Registered capital of RMB20,000,000	–	100%	Provision of property management services
Xiamen Differ Cultural Tourism Group Company Limited^ (廈門鼎豐文化旅遊集團有限公司)(i)	PRC	Registered capital of RMB300,000,000	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

36. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest		Principal activities
			Directly	Indirectly	
Jingning Differ Property Company Limited^ (景寧鼎豐置業有限公司)(ii)	PRC	Registered capital of RMB20,000,000	–	100%	Property development
Quzhou Differ Cultural Tourism Development Company Limited^ (衢州鼎豐文化旅遊開發有限公司)(ii)	PRC	Registered capital of RMB100,000,000	–	100%	Dormant
Xiamen He Run Xin Business Consulting Company Limited^ (廈門禾潤信商務咨詢有限公司) (ii)	PRC	Registered capital of RMB1,000,000	–	100%	Dormant
Nanan Differ Property Company Limited^ (南安鼎豐置業有限公司)(ii)	PRC	Registered capital of RMB1,000,000	–	100%	Property development
Weihai Zhongtian^ (威海中天房地產有限公司)(ii)	PRC	Registered capital of RMB50,000,000	–	100%	Property development
Xiamen Ding Feng Sheng Enterprise Management Co., Ltd^ ("Ding Feng Sheng") (廈門鼎豐盛企業管理有限公司#)(ii)	PRC	Registered capital of RMB100,000,000	–	50%	Investment holding
Longyan Ding Feng Sheng Enterprise Management Co., Ltd ^ (龍岩鼎豐盛企業管理有限公司#)(ii)	PRC	Registered capital of RMB50,000,000	–	50%	Property development and investment
Longquan Differ Cultural Tourism Company Limited^ ("Longquan") (龍泉市鼎豐文化旅遊有限公司)(ii)	PRC	Registered capital of RMB100,000,000	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

36. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ establishment	Particulars of issued and fully paid up share capital/registered capital	Attributable equity interest		Principal activities
			Directly	Indirectly	
Longquan Differ Hotel Company Limited^ (龍泉鼎豐酒店有限公司)(ii)	PRC	Registered capital of RMB100,000,000	–	100%	Provision of hotel and tourism services and property development and investment
Jinan Differ Business Consulting Company Limited^ (濟南市鼎豐商業咨詢有限公司#)(ii)	PRC	Registered capital of RMB10,000,000	–	100%	Dormant
Ganzhou Differ Cultural Tourism Development Company Limited^ (贛州鼎豐文化旅遊發展有限公司#)(ii)	PRC	Registered capital of RMB1,000,000	–	100%	Investment holding
Fengda^ (上杭豐達置業有限公司)(ii)	PRC	Registered capital of RMB300,000,000	–	51%	Property development and investment

^ 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 2020

37. NON-CONTROLLING INTERESTS ("NCI")

Summarised financial information in relation to the NCI material to the Group, before intra-group eliminations, is presented below:

Summarised statement of financial position

	Differ Halo		**Ding Feng Sheng** *(note (a))*		**Fengda** *(note (b))*	
	2020 **RMB'000**	2019 RMB'000	**2020** **RMB'000**	2019 RMB'000	**2020** **RMB'000**	2019 RMB'000
Percentage of equity interest held by NCI	**49%**	49%	**50%**	–	**49%**	–
Current						
Assets	**75,747**	83,566	**548,929**	–	**594,927**	–
Liabilities	**(68,703)**	(73,796)	**(617,476)**	–	**(554,451)**	–
	7,044	9,770	**(68,547)**	–	**40,476**	–
Non-current						
Assets	**2,810**	4,629	**116,755**	–	**116,807**	–
Liabilities	**(606)**	(6,036)	**(368)**	–	**(1,201)**	–
	2,204	(1,407)	**116,387**	–	**115,606**	–
Net assets	**9,248**	8,363	**47,840**	–	**156,082**	–
Carrying amount of NCI	**4,532**	4,098	**23,920**	–	**(1,164)**	–

Notes:

(a) During the year ended 31 December 2020, an independent third party made a capital injection of RMB25,000,000 in Ding Feng Sheng and to be the non-controlling interest. The principal activity of Ding Feng Sheng is property development in the PRC.

(b) During the year ended 31 December 2020, the Group acquired 51% equity interests in Fengda as detailed in note 41.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

37. NON-CONTROLLING INTERESTS – continued

Summarised statement of comprehensive income

For the year ended 31 December 2020

	Differ Halo RMB'000	**Ding Feng Sheng RMB'000**	**Fengda RMB'000**
Percentage of equity interest held by NCI	**49%**	**50%**	**49%**
Revenue	**10,518**	**–**	**–**
Profit/(loss) for the year and total comprehensive income for the year	**885**	**(2,160)**	**(4,824)**
Profit/(loss) allocated to NCI	**659**	**(1,080)**	**(2,364)**

For the year ended 31 December 2019

	Differ Halo RMB'000	Longquan 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)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

37. NON-CONTROLLING INTERESTS – continued

Summarised statement of cash flows

For the year ended 31 December 2020

	Differ Halo RMB’000	Ding Feng Sheng RMB’000	Fengda RMB’000
Net cash generated from/(used in) operating activities	**8,817**	**(14,034)**	**(97,465)**
Net cash used in investing activities	**(65)**	**(114,210)**	**(114,707)**
Net cash (used in)/generated from financing activities	**(7,513)**	**209,002**	**328,300**
Net increase in cash and cash equivalents	**1,239**	**80,758**	**116,128**

For the year ended 31 December 2019

	Differ Halo RMB’000	Longquan 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

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31 December 2020

38. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2020

On 12 November 2020, the Group entered into a sale and purchase agreement with an independent third party to disposal 51% equity interest in Fujian China Overseas and its subsidiaries for consideration of (a) cash of RMB51,000,000; and (b) dividend to be received by the purchaser for it's shares in Fujian China Overseas up to RMB387,600,000 ("Dividend Entitlement"). The principal business of the Fujian China Overseas is property development and management and commodities trading in the PRC. The disposal was completed on 31 December 2020 and the Group recognised a gain on disposal of Fujian China Overseas of approximately RMB109,241,000. Upon the completion of the disposal, the Group's effective interests in the Fujian China Overseas were changed from 100% to 49%.

The net assets of Fujian China Overseas at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	2,548
Investment properties	391,876
Finance lease and account receivables	91,664
Prepayments, deposits and other receivables	750,997
Inventories of properties	1,486,424
Cash and bank balances	1,521
Accounts payable	(52,264)
Accruals and other payables	(777,651)
Contract liabilities	(108,583)
Amount due to the Group	(636,945)
Lease liabilities	(94,974)
Provision for taxation	(44,052)
Bank and other borrowings	(467,000)
Deferred tax liabilities	(99,682)
Net assets disposed of	443,879

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

38. DISPOSAL OF SUBSIDIARIES – continued

	RMB'000
Cash consideration	51,000
Consideration receivable *(Note a)*	260,907
Fair value of interest retained	256,213
Net assets disposal of	(443,879)
Non-controlling interests	(15,000)
Gain on disposal of subsidiaries	109,241
Net cash outflow arising on disposal:	
Cash consideration	51,000
Cash consideration receivable *(Note b)*	(51,000)
Cash and bank balances disposed of	(1,521)
	(1,521)

Notes:

a) The consideration receivable of RMB260,907,000 represented the Dividend Entitlement. The Dividend Entitlement, up to RMB387,600,000, to be received by the purchaser for the period commencing from date of sale and purchase agreement up to 31 December 2023, will be distributed to the Group as part of the consideration in this disposal transaction. Any dividend amount in excess of the Dividend Entitlement will then be distributed to the purchaser and Group according to their respective shareholding in Fujian China Overseas. In the event that the total amount of dividends received by the Group is less than RMB387,600,000 as at 31 December 2023, the purchaser shall pay the shortfall to the Group by way of cash.

   At the disposal completion date (i.e. 31 December 2020), the fair value of the consideration receivable was RMB260,907,000 and was estimated by applying the discounted cash flow approach at a discount rate of 13.74%. The amount has been included in "other financial assets" of the consolidated statement of financial position.

b) The cash consideration of RMB51,000,000 in relation to the disposal of the Fujian China Overseas was not yet received as at 31 December 2020 and was included in "other receivables" of the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

38. DISPOSAL OF SUBSIDIARIES – continued

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 2020

38. 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 balances	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 (outflow)/inflow arising on disposal:		
Cash consideration received*	–	44,000
Cash and bank balances disposed of	(16)	(5,794)
	(16)	38,206

* During the year ended 31 December 2020, the consideration of RMB40,000,000 regarding the disposal of Differ Development has been fully received.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

39. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

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. Prior to the acquisition, the Group indirectly hold 70% of Longquan. Upon completion of the acquisition, the Group's effective interests in Longquan were changed from 70% to 100%.

As at 31 December 2019, the consideration in relation to acquisition of RMB115,324,000 was not yet settled and was included in other payables. As at 31 December 2020, the consideration has been fully settled.

The difference between the consideration 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.

40. BUSINESS ACQUISITION

On 18 June 2020, the Group entered into a sale and purchase agreement with an independent third party for acquisition of additional 49% equity interest of Weihai Zhongtian (the "Step Acquisition"). Weihai Zhongtian is engaged in property development. The Step Acquisition was made as part of the Group's strategy to expand the property development business in the PRC.

The consideration of the Step Acquisition was settled by 190,000,000 shares of the Company of RMB97,470,000 which was based on the share price on the Step Acquisition completion date of HK$0.57 per share.

The Step Acquisition was completed on 10 July 2020 (the "Step Acquisition Date"). Upon the completion of the transaction, Weihai Zhongtian became a wholly-owned subsidiary of the Company and the financial results of Weihai Zhongtian is consolidated into the Group's financial statements.

The fair value of the Group's 51% equity interest in Weihai Zhongtian as at the Step Acquisition Date was RMB23,156,000 and the carrying amount of the Group's interest in the joint venture was RMB7,669,000. The Group recognised a gain on the re-measurement of the Group's pre-existing interest in the joint venture of RMB15,487,000 and presented as "gain on re-measurement of pre-existing interest in a joint venture" under "other income" in the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

40. BUSINESS ACQUISITION – continued

The fair value of identifiable assets and liabilities assumed as at the Step Acquisition Date were as follows:

	RMB'000
Property, plant and equipment	360
Inventories of properties	470,000
Other receivables	2,894
Cash and bank balances	2,263
Accounts payable	(567)
Accruals, other payables and deposit received	(400,335)
Contract liabilities	(3,383)
Deferred tax liabilities	(14,048)
Total identifiable net assets acquired	57,184
Satisfied by:	
Consideration shares	97,470
Fair value of previous interest in a joint venture	23,156
Fair value of net identifiable assets acquired	(57,184)
Goodwill	63,442
Net cash inflow arising from the Step Acquisition:	
Cash and bank balances acquired	2,263

The fair value of other receivables is approximately RMB2,894,000 is considered as fully recoverable.

Weihai Zhongtian has contributed no revenue but loss of approximately RMB7,803,000 in the consolidated statement of comprehensive income for the year ended 31 December 2020.

Had Weihai Zhongtian been consolidated from 1 January 2020, the Group's revenue and profit for the year would been approximately RMB6,090,506,000 and RMB324,758,000 respectively. The pro forma information is for illustrative purpose only and is not necessary an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor it intended to be a projection of future results.

The acquisition-related costs of approximately RMB168,000 have been charged to other expenses in the consolidated statement of comprehensive income for the year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

41. ACQUISITION OF ASSET THROUGH ACQUISITION OF A SUBSIDIARY

In June 2020, the Group, entered into an agreement with an independent third party to acquire 51% equity interest in Fengda. Fengda is principally holding a land plot in the PRC for property development and investment purposes. The consideration is settled by issuance of 390,000,000 new shares of the Company. The transaction was completed in July 2020 and Fengda became an indirectly 51% owned subsidiary of the Company accordingly.

The Group elected to measure the non-controlling interests in Fengda at its fair value. The amount of non-controlling interests at the acquisition date amounted to approximately RMB1,200,000.

The net assets acquired at the date of acquisition were as follows:

	RMB'000
Prepayments and other receivables	253,196
Cash and bank balances	4
Accruals	(5)
Amount due to a shareholder	(91,189)
Deferred tax liabilities	(1,100)
	160,906
Non-controlling interests	(1,200)
Net assets acquired	159,706
Satisfied by:	
Consideration shares	159,706

	RMB'000
Net cash inflow arising from the acquisition was calculated as follows:	
Cash and bank balances acquired	4

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

42. COMMITMENTS

(i) Operating lease commitments

Group as lessor

Future minimum lease payments receivable under non-cancellable operating lease at the Group were as follows:

	2020 RMB'000	2019 RMB'000
Within one year	**4,841**	7,874
After one year but within two years	**4,889**	10,590
After two years but within five years	**11,245**	26,643
Over five years	**–**	29,015
	20,975	74,122

Leases are negotiated for terms of 8 years (2019: 2 to 15 years).

(ii) As at 31 December 2020, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to its subsidiaries of RMB833,500,000 (2019: RMB850,538,000).

(iii) As at 31 December 2020, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to an associate of RMB75,950,000 (2019: RMB20,910,000 in respect of the capital injection to a joint venture).

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

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for		
– Investment properties under construction	**198,602**	84,443
– Property development	**1,423,664**	799,365
– Property, plant and equipment	**37,028**	49,161

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

43. 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:

	2020	2019
	RMB'000	RMB'000
Short-term employee benefits	**4,909**	6,266
Pension scheme contribution	**114**	97
Equity-settled share-based payment	**194**	1,298
	5,217	7,661

(ii) Except as disclosed elsewhere in the consolidated financial statements, the Group did not entered into any significant transaction with related parties during years end 31 December 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

44. FINANCIAL INSTRUMENTS BY CATEGORY

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

	2020	2019
	RMB'000	RMB'000
Financial assets		
Other financial assets		
– Financial assets at FVTPL	**365,374**	106,738
– Financial assets at FVOCI	**90,577**	33,000
At amortised costs		
– Finance lease, loan and account receivables	**1,448,980**	966,475
– Deposits and other receivables	**1,075,832**	383,299
– Restricted bank deposits	**333,293**	38,714
– Cash and bank balances	**100,370**	162,729
	3,414,426	1,690,955
Financial liabilities		
At amortised costs		
– Accounts and bills payable	**563,151**	493,756
– Accruals, other payables and deposits received	**1,522,186**	581,435
– Bank and other borrowings	**747,209**	1,183,285
– Corporate bonds	**274,976**	299,485
– Lease liabilities	**15,835**	104,595
	3,123,357	2,662,556

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

45. 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 18, 24 and 30 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 2020

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Interest rate risk – continued

	2020		2019	
	RMB'000	**RMB'000**	RMB'000	RMB'000
	+0.5%	**–0.5%**	+0.5%	–0.5%
Increase/(decrease) in profit after income tax for the year	**(948)**	**948**	(1,888)	1,888

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 simplified approach to measure ECL on account receivables; general approach on measure ECL on finance lease, loan and interest receivables, deposits 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 19 and 27.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

45. 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 minimise 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 21.

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 collaterals of the customers as follows:

	2020 **RMB'000**	2019 RMB'000
Inventories	**–**	6,000
Property rights	**1,357,682**	1,145,549
	1,357,682	1,151,549

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

45. 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, amount due from an associate and other receivables as at 31 December 2020 and 2019. The average expected loss rate is derived from the gross carrying amount and loss allowance as at 31 December 2020 and 2019 after taken into accounting of the collaterals, historical default rate and forward looking information when determined the loss allowance.

	Average expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
At 31 December 2020			
Account receivables	**3.00%**	**19,280**	**578**
Finance lease receivables	**8.51%**	**118,471**	**10,081**
Receivables from guarantee customers	**41.94%**	**38,277**	**16,052**
Entrusted loan receivables	**31.67%**	**802**	**254**
Loan receivables	**0.82%**	**1,309,878**	**10,763**
		1,486,708	**37,728**
Amount due from an associate	**0.26%**	**636,945**	**1,668**
Other receivables	**0.28%**	**433,629**	**1,219**
		1,070,574	**2,887**
			40,615

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

	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

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;

– 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 debtors; 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

Movement in the loss allowance account in respect of finance lease, loan and account receivables, amount due from an associate and other receivables during the year is as follows:

	RMB'000
At 1 January 2019	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)
At 31 December 2019 and 1 January 2020	24,686
Impairment losses recognised	
– finance lease, loan and account receivables	17,310
– amount due from an associate	1,668
– other receivables	572
Reversal of impairment loss	
– finance lease, loan and account receivables	(2,800)
– other receivables	(253)
Disposal of subsidiaries	(568)
At 31 December 2020	**40,615**

The origination of new finance lease, loan and account receivables, amount due from an associate and other receivables net of those settled resulted in an increase in loss allowance of RMB16,497,000 during the year ended 31 December 2020 (2019: decrease in loss allowance of RMB185,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

45. 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 RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000
At 31 December 2020						
Accounts and bills payable	**563,151**	**563,151**	**563,151**	**–**	**–**	**–**
Accruals, other payables and deposits received	**1,522,186**	**1,522,186**	**1,446,714**	**68,972**	**6,500**	**–**
Bank and other borrowings	**747,209**	**849,762**	**361,915**	**487,847**	**–**	**–**
Corporate bonds	**274,976**	**318,291**	**128,143**	**44,377**	**142,269**	**3,502**
Lease liabilities	**15,835**	**17,090**	**11,663**	**5,427**	**–**	**–**
	3,123,357	**3,270,480**	**2,511,586**	**606,623**	**148,769**	**3,502**
Financial guarantees issued						
Maximum amount guaranteed	**–**	**2,452,681**	**2,452,681**	**–**	**–**	**–**
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	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

45. 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 2020

45. 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 2020 and 2019 were as follows:

	2020	2019
	RMB'000	RMB'000
Bank and other borrowings	**747,209**	1,183,285
Corporate bonds	**274,976**	299,485
	1,022,185	1,482,770
Less: Cash and bank balances - general accounts	**(87,935)**	(139,770)
Net debts	**934,250**	1,343,000
Equity attributable to owners of the Company	**2,306,032**	1,587,153
Net debts to equity ratio	**40.5%**	84.6%

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

Reconciliation of liabilities arising from financing activities

	Lease Liabilities RMB'000 *(note 29)*	Bank and other borrowings RMB'000 *(note 30)*	Corporate bonds RMB'000 *(note 31)*	Amounts due to non-controlling interests RMB'000	Total RMB'000
At 1 January 2020	**104,595**	**1,183,285**	**299,485**	**–**	**1,587,365**
Changes from financing cash flow:					
Proceeds from bank and other borrowings	–	654,411	–	–	654,411
Proceeds from issue of corporate bonds	–	–	29,325	–	29,325
Repayments of bank and other borrowings	–	(607,960)	–	–	(607,960)
Repayments of corporate bonds	–	–	(40,375)	–	(40,375)
Repayments of lease liabilities	(7,928)	–	–	–	(7,928)
Advance from non-controlling interests	–	–	–	714,041	714,041
Interest paid	–	(90,889)	(27,503)	–	(118,392)
Total changes from financing cash flows	(7,928)	(44,438)	(38,553)	714,041	623,122
Exchange adjustments	(567)	(16,706)	(13,460)	–	(30,733)
Other changes:					
Disposal of subsidiaries	(94,974)	(467,000)	–	–	(561,974)
Transaction cost	–	1,178	–	–	1,178
Capitalised borrowing costs	–	50,640	8,894	–	59,534
Interests expenses	10,406	58,860	19,344	–	88,610
Interests accrued	(8,614)	(18,610)	(734)	–	(27,958)
New leases	12,917	–	–	–	12,917
At 31 December 2020	**15,835**	**747,209**	**274,976**	**714,041**	**1,752,061**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS – continued

	Lease liabilities RMB'000 *(note 29)*	Bank and other borrowings RMB'000 *(note 30)*	Corporate bonds RMB'000 *(note 31)*	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
Interests expenses	5,743	19,923	17,687	43,353
Interests 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 2020

47. 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:

2020

		Number of share options						
Name or category of participants	**Date of grant**	**At 1 January 2020**	**Granted**	**Exercised**	**Forfeited**	**At 31 December 2020**	**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	24,336,000	–	–	(2,104,000)	22,232,000	30 April 2017 to 30 April 2021	0.734
Total		**37,136,000**	**–**	**–**	**(2,104,000)**	**35,032,000**		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

47. SHARE OPTION SCHEME – continued

2019

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$
		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	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		

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 2020

47. 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 2019	42,194,000	0.734
Forfeited	(5,058,000)	0.734
Outstanding at 31 December 2019 and 1 January 2020	**37,136,000**	**0.734**
Forfeited	**(2,104,000)**	**0.734**
Outstanding at 31 December 2020	**35,032,000**	**0.734**

The share options outstanding at 31 December 2020 had exercise price of HK$0.734 (2019: HK$0.734) and a weighted average remaining contractual life of 0.24 year (2019: 0.98 year).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

48. 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 RMB1,681,211,000 (2019: RMB1,127,810,000) 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 RMB304,470,000 (2019: RMB328,232,000).

Assets pledged to secure the above banking facilities are disclosed in note 45 to the financial statements.

(c) The Group has provided financial guarantee of maximum amount of approximately RMB467,000,000 (2019: nil) to banks in respect of bank facilities granted to an associate.

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 consolidated financial statements.

49. EVENT AFTER THE REPORTING DATE

On 12 March 2021, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with Fujian Liantai Real Estate Development Co., Ltd, a non-controlling interest holder of a Company's subsidiary, to dispose 51% equity interest in Fengda at consideration of RMB76,877,000. The principal activities of Fengda are property development and investment. Upon the completion of disposal, Fengda will no longer be a subsidiary of the Company.

Other than disclosed elsewhere in the financial statements, up to the date of this report, there is no significant event identified by the management subsequent to the reporting period.

PROPERTIES PORTFOLIO

PROPERTIES UNDER DEVELOPMENT/ FOR SALE AS AT 31 DECEMBER 2020

Property name	Address and lot no.	Stage of completion	Expected completion date	Type	Site area (sq.m.)	Total or estimated gross floor area (GFA) at 31 December 2020 (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	Completed	Completed	Residential/ Commercial	99,729[i]	21,082[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 2021	Residential/ Commercial	23,762	44,490[iii]	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	406,507[iii]	100
Differ Fortune Plaza 鼎豐財富中心	Junction of Erhuan Road South and West Ring Road West, Lincheng Town, Shanghang County, Longyan, Fujian Province, PRC 中國福建省龍岩市上杭縣臨城鎮二環路南與西環路西交界處	Construction in progress	by the end of 2022	Residential/ Commercial	52,221	132,311[iii]	50
Differ Hua Cheng 鼎豐華城	Junction of Erhuan Road South and Jinshan Road East, Lincheng Town, Shanghang County, Longyan, Fujian Province, PRC 中國福建省龍岩市上杭縣臨城鎮二環路南與金山路東交界處	Construction in progress	by the end of 2022	Residential/ Commercial	69,994	152,692[iii]	51[iv]
Longdu Lijing 龍都麗景	Junction of Mishan Road and Zhengqi Road, Wendeng District, Weihai, Shandong Province, PRC 中國山東省威海市文登區米山路及正氣路交界處	Construction in progress	by the end of 2023	Residential/ Commercial	41,639	115,038[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.

(iv) On 12 March 2021, a wholly owned subsidiary of the Company entered into a sale and purchase agreement to dispose 51% equity interest in Differ Hua Cheng.

PROPERTIES PORTFOLIO

PROPERTIES HELD FOR INVESTMENT AS AT 31 DECEMBER 2020

Property name	Address and lot no.	Type	Total or estimated GFA (sq.m.)	Lease term expiry date
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
Differ Fortune Plaza (Office building under construction) 鼎豐財富中心的在建辦公室大樓	Junction of Erhuan Road South and West Ring Road West, Lincheng Town, Shanghang County, Longyan, Fujian Province, PRC 中國福建省龍岩市上杭縣臨城鎮 二環路南與西環路西交界處	Commercial	29,980(i)	4 August 2060
Differ Hua Cheng (shopping mall under construction) 鼎豐華城的在建商場	Junction of Erhuan Road South and Jinshan Road East, Lincheng Town, Shanghang County, Longyan, Fujian Province, PRC 中國福建省龍岩市上杭縣臨城鎮 二環路南與金山路東交界處	Commercial	90,900(i)(ii)	10 August 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.

(ii) On 12 March 2021, a wholly owned subsidiary of the Company entered into a sale and purchase agreement to dispose 51% equity interest in Differ Hua Cheng.