



国美金融科技
GOME FINTECH

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 628)

Annual Report 2020



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Yafei (*Note 1*)
Ms. Chen Wei (*Note 2*)
Mr. Chung Tat Fun (*Note 3*)

Non-executive Director

Ms. Wei Qiuli

Independent Non-executive Directors

Mr. Cao Dakuan
Mr. Hung Ka Hai Clement
Mr. Wan Jianhua
Mr. Zhang Liqing

COMPANY SECRETARY

Ms. Suen Yu May Sammi

AUDIT COMMITTEE

Mr. Hung Ka Hai Clement (*Chairman*)
Mr. Cao Dakuan
Mr. Zhang Liqing

REMUNERATION COMMITTEE

Mr. Cao Dakuan (*Chairman*)
Mr. Wan Jianhua
Ms. Wei Qiuli

NOMINATION COMMITTEE

Mr. Zhang Liqing (*Chairman*)
Mr. Zhou Yafei (*Note 1*)
Mr. Hung Ka Hai, Clement
Ms. Chen Wei (*Note 2*)

STRATEGY COMMITTEE

Mr. Wan Jianhua (*Chairman*)
Mr. Zhou Yafei (*Note 1*)
Mr. Zhang Liqing
Ms. Chen Wei (*Note 2*)

AUDITOR

Moore Stephens CPA Limited
Certified Public Accountants
Registered Public Interest Entity Auditor
801-806 Silvercord, Tower 1
30 Canton Road
Tsimshatsui, Kowloon
Hong Kong

BANKERS

CMB Wing Lung Bank Limited
Industrial Bank Co., Ltd.
Bank of Jiangsu Co., Ltd.

LEGAL ADVISERS

As to Hong Kong Law

Sidley Austin

As to Bermuda Law

Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Two International Finance Centre
8 Finance Street, Central
Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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

STOCK CODE

628

INVESTOR RELATIONS

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

Notes:

1. Appointed as director with effect from 26 March 2021
2. Resigned as director on 26 March 2021
3. Retired as director on 29 June 2020

EXECUTIVE DIRECTOR'S STATEMENT

Dear Shareholders,

On behalf of GOME Finance Technology Co. Ltd. (the "Company") and its subsidiaries (collectively the "Group"), I would like to present the results of the Group for the year ended 31 December 2020.

In 2020, we experienced global pandemic outbreak of the coronavirus disease 2019 ("COVID-19"), with more than 100 million people infected and a death toll of more than 2.5 million as of today, and the spread of the COVID-19 pandemic has not been effectively contained. Major economies such as the United States, Europe and Japan have suffered from varying degrees of recession, and the economies of all countries have faced enormous challenges as a result of the pandemic. With comprehensive economic and political considerations, countries such as the U.K. and the U.S. continued to provide assistance to the economy through the governments' large-scale quantitative easing and financial subsidies. However, the spread of the pandemic is still showing an upward trend in general and the time for the recovery of the real economy is at best still elusive.

Although China was the first country to discover the COVID-19 outbreak on a large scale, thanks to the quick decision and courage of the government, a series of comprehensive pandemic prevention and control measures were taken in a timely manner. As a result, the real economy resumed positive growth from the third quarter of 2020 and achieved an overall positive growth of 2.3% for the year ended 31 December 2020, making China the only major economy in the world that achieved positive growth in 2020. Due to the impact of the pandemic on all aspects of economy, many companies experienced significant operational difficulties in the first half of 2020, and the related pressures also affected the fintech industry, which was directly reflected by the significant increase in bad debt ratio and liquidity stress across the industry in the first half of the year. In the second half of 2020, the overall industry landscape shadowed the improvement in the macro environment, and the general operating conditions of the industry shows an improving trend. The Group also achieved satisfactory results in the supply chain finance business by relying on the operational recovery of its target customer base.

In the face of the catastrophic global pandemic, the Group will pay close attention to the development and impacts of the macro environment. The Group will also continue to rely on the on-scene resources of the Gome system to provide in-depth service to the industry and focus on enhancing the technology, online transformation, and scale of product and services in order to strive for better development capabilities in the post-pandemic era.

Looking ahead, given that the global pandemic is not yet over, and despite the gradual implementation of vaccine control measures in various countries and the moderate recovery of the economy of China, the Group will remain cautiously optimistic and continue to increase its market share in supply chain financial technology and other services in 2021, with a focus on digital empowerment to create greater benefits for the shareholders of the Group.

Lastly, I would like to take this opportunity to express my sincere gratitude to all the staff and the senior management, for their incessant efforts and contributions to the Group despite the difficult times of the pandemic. My sincere thanks also go to the customers and shareholders of the Group, for their long-standing trusts and unwavering support as well as confidence in the future development of the Group.

Zhou Yafei

Executive Director

Beijing, 26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2019, the Group carried out several business reforms to maintain market share and healthy cash flow of the Group under tough business environment. Although the outbreak of the Coronavirus Disease 2019 (“COVID-19”) pandemic in January 2020 seriously affected the global economy and nearly all the enterprises, the Group still achieved a turnaround and recorded a profit of RMB14.3 million for year ended 31 December 2020 (2019: loss of RMB32.0 million).

During the year ended 31 December 2020, the Group recorded an operating revenue of RMB86.7 million (2019: RMB69.9 million), representing a significant increase of 24% compared to the last year. On the other hand, the Group successfully controlled its staff cost which decreased by RMB17.1 million to RMB13.3 million in 2020 as a result of the business reform in 2019. In addition, in 2019, due to the change in economic environment and operation of the Group, the Group recognized provision for impairment loss on the Group’s prepayments, other receivables and other intangible assets of RMB18.8 million which was one-off in nature. As a result, the Group turned around and recorded a profit in 2020.

The increase in revenue was mainly contributed by the commercial factoring business. As mentioned in our 2019 Annual Report, new lending under commercial factoring dropped in 2018 and early 2019, but the Group successfully stopped such downward trend in the second half of 2019 with new lending amounting to over RMB1.2 billion recorded in the second half of 2019, and these lending continuously generated interest income in 2020. The increasing trend was maintained with new lending of over RMB1.9 billion recorded in 2020 (2019: RMB1.8 billion).

The management believes the result of 2020 proved the business reform in 2019 was successful. In 2020, due to the economic uncertainty under COVID-19, the Group focused on strengthening its risk management on loan receivables and controlling its operating costs in order to improve its operating results and at the same time maintain growth by continuously developing its commercial factoring businesses, in order to achieve the long term objective of establishing a market-leading comprehensive financial technology services group.

INDUSTRY ENVIRONMENT

In 2020, the world economy was hit hard by the COVID-19 pandemic, and all major economies in the world have experienced significant negative growth. In response to the economic impact of the pandemic, all countries introduced varying degrees of fiscal stimulus and monetary easing policies to counteract the adverse macroeconomic environment. The stimulus policies have relieved some of the pressure on the real economy, and U.S. stocks have reached new heights under the monetary easing policies. However, with the political instability in certain western countries and the continued economic distress caused by the pandemic, it is expected that the uncertainty of the global economic development in the future will further intensify, and the global economic environment will again suffer from high volatility.

MANAGEMENT DISCUSSION AND ANALYSIS

Benefiting from the robust domestic prevention and control measures, even though it experienced a negative growth of 6.8% in the first quarter, China recovered in the second quarter and maintained growth through the end of 2020, with gross domestic product (GDP) growing by 2.3% over last year, making it the only country among major economy in the world that achieved growth. The growing share of China's economy in the world also demonstrated the strength and resilience of its economy.

As of the end of 2020, the remaining amount of loans to small and micro enterprises (including loans to small and micro enterprises, loans to individual business proprietors and loans to owners of small and micro enterprises) of financial institutions in the banking industry of China amounted to RMB42.7 trillion, among which, the loans to small and micro enterprises each with a credit facility of not more than RMB10 million amounted to RMB15.3 trillion, increased by 31% as compared to the end of last year. As the pandemic in China has been getting under control, as of the end of 2020, the remaining amount of non-performing loans of commercial banks in China amounted to RMB2.7 trillion, representing a decrease of RMB133.6 billion from the end of the third quarter. Non-performing loan ratio of commercial banks was 1.84%, representing a decrease of 0.12 percentage point from the end of the third quarter. As long as there will be no major change in the overall pandemic prevention and control, the industry as a whole is expected to continue to develop in a prudent manner.

The suspension of the listing of "Ant Financial" in 2020 and the comprehensive regulatory reform demonstrate a further increase in regulatory focus on the fintech industry and a strong regulatory stance in the near term. As traditional peer-to-peer financing companies have been caught up in default incidents or criminal liabilities, the fintech market landscape of China has become more oligopolistic, with the remaining large enterprises dominating the market rules. In such a competitive environment, it is expected that the competition in the industry will continue to focus on three directions: serving the real economy, financial inclusion, and enhancing the hard power of technology.

BUSINESS REVIEW

Benefitting from GOME's advantages in resources and industry chain, the Company remained committed to the vision of "using innovation to promote the development of technology and using technology to drive financial reform".

Gome Xinda Commercial Factoring Limited ("Xinda Factoring"), a wholly-owned subsidiary of the Company, provided prompt and convenient supply chain financial services to high-quality customers in a prudent way of combining online and offline services. Under the COVID-19 pandemic, the overall financing needs increase and during 2020 the Group further improved its business relationship with certain high-quality customers. The lending amount of the Group increased from RMB1.8 billion in 2019 to RMB1.9 billion in 2020. Considering the uncertainties of the economy, the management further strengthened its risk management by lowered the credit limit of certain customers and actively maintained communication with customers who had overdue payment due to the pandemic and adopted various measures. The total lending volume of the commercial factoring business maintained its increasing trend and exceeded RMB1.9 billion during 2020. The commercial factoring business achieved a turnaround in 2020 and recorded operating earnings of RMB41.4 million. The commercial factoring business is currently the main source of income for the Group. It is believed that the commercial factoring business will be the cornerstone of the future development of the Group as the business can maintain steady growth despite various negative factors in the external environment in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Other than the commercial factoring business and financial leasing business, the Group, through Gome Wangjin (Beijing) Technology Co., Ltd. (“Gome Wangjin”), a wholly-owned subsidiary of the Company, has been dedicating to the research and development of comprehensive financial technology solutions (such as customer management solutions and risk management solutions), and has continued to explore different opportunities in other financing services with its extensive technical experience in the relevant areas. In 2019, Gome Wangjin launched a business by providing operational services to a financial service App and provides customer referral services to financial institutions through the operation of the App. The business began to generate revenue in second half of 2019 and the management readjusted its development direction and streamlined its manpower in late 2019. In 2020, the management believed this business was mature and kept monitoring the operating cost. As a result, the other financial services business turned around and recorded an operating profit of RMB2.2 million during 2020.

The vehicle leaseback business was terminated in 2019 due to its relatively high bad debt ratio and high cost in securing high-quality customers. Considering the relatively high uncertainty over the repayment ability of individual customers, the mobile phone leaseback business was also suspended in the second half of 2019.

Significant changes were made to the Group’s overall development plan and related personnel allocation in 2019. The total number of staff was decreased to 36 as at the end of 2019. During 2020, as a result of natural loss of staff and streamlining operating team members, the total number of staff was decreased to 27 as at 31 December 2020. Meanwhile, other administrative expenses were also significantly decreased due to cost control. Considering the COVID-19 pandemic, the uncertainties surrounding the overall economic environment are still high. The management believes that continuous downsizing and maintaining low operating costs will create maximum benefits and higher returns for the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results highlights

During the year ended 31 December 2020, the Group recorded an increase in operating revenue of 24% or RMB16.8 million. The Group recorded RMB70.1 million in revenue from commercial factoring services, representing a significant increase of 60% as compared to 2019 as a result of the increase in total lending. The Group successfully overcame the external economic difficulties and the commercial factoring business was not seriously affected by COVID-19. By further developing business relationship with certain high quality commercial factoring customers, new lending amounted over RMB1.9 billion was recorded for 2020 in total (2019: RMB1.8 billion) and interest income improved.

During the year ended 31 December 2020, the Company recorded a profit attributable to the owners of the Company of RMB14.3 million (2019: loss of RMB32.0 million) and a profit before tax of approximately RMB22.6 million (2019: loss of RMB35.2 million). Significant loss in 2019 was partly contributed by the provision for impairment loss on the Group's prepayments, other receivables and other intangible assets of RMB18.8 million, which was non-recurring. Apart from increase in revenue, the Group kept operating cost under control after the business reform in 2019 and successfully reduced its staff cost which decreased by RMB17.1 million or 56% in 2020. Provision for expected credit loss ("ECL") on trade and loans receivable also decreased by RMB3.0 million or 12% in 2020 as a result of the strong credit control in 2019 and 2020.

As disclosed in the announcement of the Company dated 21 January 2020, on 17 January 2020, a wholly owned subsidiary of the Company entered into a swap contract with a bank, pursuant to which the Group agreed to exchange with the bank USD22.4 million for RMB154.0 million on 20 January 2020 and RMB154.0 million for USD22.4 million on 19 January 2021 in order to hedge the exchange risk on a RMB structured deposit product. During 2020, as USD depreciated significantly against RMB, the Group recorded a loss in financial assets for the swap contracts which amounted to RMB8.0 million. During 2020, the Group also recorded an exchange gain of RMB8.1 million in respect of the said RMB154 million structured deposit product, thus, no material net impact to the Group's performance was resulted.

Basic earnings per share for the year was RMB0.53 cents (2019: loss of RMB1.18 cents). The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Commercial factoring business

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Revenue	70,141	43,794
Net operating expenses	(11,476)	(27,021)
Operating earnings	58,665	16,773
Provision for ECL of loans receivables	(17,242)	(19,857)
Provision for impairment of other intangible assets and financial assets	—	(8,560)
Segment results	41,423	(11,644)

The revenue from the commercial factoring business during 2020 significantly increased to over RMB70 million, mainly due to the stable development of this business. As aforesaid, new lendings in the first half of 2019 was very low, but new lendings started to increase from the second half of 2019, with the total new lendings in 2020 exceeded that of 2019, hence despite a slight downward adjustment in the interest rate in 2020, the total income still increased.

Interest income generated from pledged bank deposits for obtaining bank loan for the commercial factoring business was allocated to this segment starting from 2020, and an amount of RMB12.2 million was included in net operating expenses. There was no other material change in other operating expenses of commercial factoring business.

MANAGEMENT DISCUSSION AND ANALYSIS

As discussed, COVID-19 affected operation and cash flow of many domestic enterprises, which also affected the recoverability of certain loan receivables, and the balance of the loss category as at 31 December 2020 increased by RMB12.7 million as compared with 2019 and resulted in additional provision in 2020. The provision for ECL on loans receivables for the commercial factoring business in 2020 maintained at a similar level as that of 2019, amounted to RMB17.2 million (2019: RMB19.9 million). Management considered such amount of impairment was high but in line with the operating scale of the commercial factoring business and overall market environment.

In 2019, the Group recorded impairment provision on other intangible assets and financial assets amounting to approximately RMB8,560,000, which mainly included impairment provision on (i) other receivables of RMB4,923,000 the recoverability of which was considered by management to be doubtful; and (ii) computer software under other intangible assets for the commercial factoring business and related prepayments which were wholly impaired in 2019 as the software was no longer in use after the operation structure had been simplified. The above impairment provision made in 2019 was one-off in nature.

As a result of the increase in revenue, the commercial factoring business turned around to record a profit of RMB41.4 million (2019: loss of RMB11.6 million).

The Group takes a consistent and objective approach in analysing loan qualities so as to assess whether there will be provision for ECL on loans receivables, taking into account, among others, default or delinquency in interest or principal payments, and the financial and credit analysis of each individual debtor or a group of debtors. After such analysis, the Group classifies the loans into five different categories as well as three stages based on expected credit losses as required by the standard in relation to financial instrument, and applies a consistent policy to each loan category in providing for the impairment of loans receivables with reference to the balances of loans receivable of various categories of loans, net of any settlement amounts subsequent to the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	31 December 2020		31 December 2019	
	Gross balance RMB'000	Impairment provision RMB'000	Gross balance RMB'000	Impairment provision RMB'000
Normal	738,791	3,908	662,260	2,768
Special mention	1,400	301	4,930	730
Substandard	–	–	65,377	10,970
Doubtful	33	20	–	–
Loss	17,585	17,585	4,855	4,855
	757,809	21,814	737,422	19,323

Gross balance of substandard, doubtful and loss loans decreased significantly by RMB52.6 million compared to 31 December 2019, as most of the balances at 31 December 2019 were already settled or sold in 2020. As at 31 December 2019, RMB65,377,000 was loan receivables from two customers that were included in the substandard category, and provision had been made according to the estimated recoverable amount, among which RMB13.7 million due from a single customer remained outstanding at 31 December 2020 which was re-classified to loss category and full provision was made in 2020. At 31 December 2020, allowance to substandard, doubtful and loss loans ratio was nearly 100%.

Although significant impairment was made in 2020, the Group's management considered the credit control procedures implemented in 2019 and 2020 were effective as over 97% of loan receivables were categorized as normal as at 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial leasing business

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Revenue	9,054	13,359
Net operating expenses	(4,139)	(10,782)
Operating earnings	4,915	2,577
Provision for ECL of loans receivables	(5,160)	(5,933)
Provision for impairment of other intangible assets and financial assets	—	(4,746)
Segment results	(245)	(8,102)

Financial leasing business include the vehicle leaseback business and the mobile phone leaseback business. The vehicle leaseback business was stopped and the mobile phone leaseback business was suspended during 2019 for risk control and to reserve resources for business with higher potential.

Interest income was still generated from the loan balances, however, since business was suspended and no new lending was made after July 2019, revenue decreased by RMB4.3 million in 2020. Interest from existing balance will be generated until 2021 even though no more new lending is expected to be made. Upon suspension of the business, only a minimal number of staff was kept to manage the loan receivables, and as a result operating expenses also significantly decreased.

During 2020, COVID-19 continually affected the repayment ability of certain individual borrowers such that most of the overdue balance at 31 December 2019 was still unsettled at 31 December 2020 and additional provision for ECL on loans receivable of RMB5.2 million for the financial leasing business was recorded in 2020 to cover the whole balances of loss category.

MANAGEMENT DISCUSSION AND ANALYSIS

As a combined result of the above, the financial leasing business was nearly breakeven in 2020.

In 2019, the computer software under other intangible assets for financial leasing business and related prepayments of approximately RMB2.5 million in total were wholly impaired as a result of suspension of the business. Impairment for other receivables of RMB2.2 million was also made in 2019. All of these are non-recurring in nature.

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

	31 December 2020		31 December 2019	
	Gross balance RMB'000	Impairment provision RMB'000	Gross balance RMB'000	Impairment provision RMB'000
Normal	4,493	22	44,236	1,362
Special mention	55	14	538	243
Substandard	94	42	861	487
Doubtful	241	133	1,625	1,113
Loss	19,933	19,933	20,219	16,689
	24,816	20,144	67,479	19,894

As mentioned above, most of the individuals with outstanding balances at 31 December 2019 still failed to settle the balances in 2020, however, balances under the doubtful and loss categories still decreased due to the suspension of business. Additional provision of RMB5.2 million was made during the year to cover the whole balance of loss category.

MANAGEMENT DISCUSSION AND ANALYSIS

Other financing services business

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Revenue	7,469	12,733
Net operating expenses	(5,315)	(24,562)
Operating earnings/(loss)	2,154	(11,829)
Reversal of impairment on loans receivables	–	356
Provision for impairment of other intangible assets and financial assets	–	(5,448)
Segment results	2,154	(16,921)

The revenue of the other financing services business represents financial information service fee collected by Gome Wangjin by providing customer referral services to financial institutions through financial services App, which mainly involved referring the App users to other financial institutions for borrowing, obtaining credit record and applying for credit cards, etc.

From April 2020, the Group's management reviewed the products of the financial institutions which the Company referred to the App's users due to the increase in regulatory focus on the fintech industry in China. The number of products for referral was reduced after such review, as a result the referral business of the Group was affected and revenue decrease significantly in the second half of 2020. The management considered this tough market environment may last for a long period. Having considered this new business is already mature, the management started to simplify the operation structure and implemented cost control in order to maintain a positive margin. As a result other financing services business successfully record a profit of RMB2.2 million.

In 2019, the Group planned for several new businesses including prepaid card business, the third party internet payment service, extended warranty service, consultation service, and operation and information services. The Group increased headcount started from the last quarter of 2018 for these new business plan and resulted in significant staff cost in 2019. In September 2019, the management decided to postpone certain new businesses and focus on operation of the information services related to financial services App first, therefore, operating expense for 2020 decreased significantly as compared with 2019 with a decrease in staff cost of RMB14.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2019, due to the slow down of the real estate-backed loan and pawn loan businesses and some other business, the Group recorded impairment provision on other intangible assets and financial assets which amounted to RMB5.4 million, of which approximately RMB5.0 million was for the computer software under other intangible assets and related prepayments for the related businesses.

Key operating data of the Group

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Net trade and loans receivables	741,009	771,817
– Net loan balance	740,667	765,687
Gross trade and loans receivable balance	786,827	814,894
– Gross loan balance	786,485	808,764
	For the year ended 31 December 2020	For the year ended 31 December 2019
Total return on loans (interest income/average gross loan balance)	8.56%	8.59%
Allowance to loans ratio (impairment allowance as % of gross loan balance)	5.83%	5.33%
Non-performing loan ratio (gross non-performing loan balance as % of gross loan balance)	5.31%	11.88%
Allowance coverage ratio (impairment allowance as % of gross non-performing loan balance)	109.75%	44.50%

As at 31 December 2020, the Group's net loan balance and gross loan balance maintained at similar level as at 31 December 2019. Despite that the overall new lending in 2020 was higher than those in 2019, as a significant portion of new lending in 2019 was released in the last quarter of 2019, the balance as at 31 December 2020 was slightly lower than that as at 31 December 2019. In addition, as mentioned above, the substandard, doubtful and loss loans of commercial factoring business decreased significantly by RMB52.6 million compared to 31 December 2019, which affected the gross loan balance at 31 December 2020 and resulted in a lower non-performing loan ratio.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall interest rate charged to customers in 2020 in relation to commercial factoring loans and financial leasing loans slightly decreased when compared with 2019 as the Group offered a lower rate to quality customers who were affected by COVID-19, and as a result total return on loans slightly dropped.

As aforesaid, full provision was made for loss category of both commercial factoring business and finance lease business, therefore, both the allowance to loans ratio and the allowance coverage ratio increased, especially the allowance coverage ratio which increased to over 100%. Taking into account the uncertainties of the economy, the management was cautious and considered that it would be appropriate to maintain a higher level of impairment provision.

Loan quality analysis and impairment allowances

During the year ended 31 December 2020, net amount for the provision for ECL on trade and loans receivables was RMB22.4 million (2019: RMB25.4 million). Additional provision was made for the commercial factoring and financial leasing businesses as aforesaid. Furthermore, since RMB51.4 million of the substandard loan at 31 December 2019 was either settled or sold in 2020, the relevant loan receivable impairment loss was reversed/write-off, which resulted in increase in amount as compared with 2019.

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
At the beginning of the period	43,077	29,634
Impairment allowances recognized	26,770	28,104
Impairment loss reversed	(4,368)	(2,670)
Impairment loss write-off and transferred out	(19,661)	(11,991)
	45,818	43,077

MANAGEMENT DISCUSSION AND ANALYSIS

Other balance sheet items

The Group has been investing in certain principal guaranteed structured deposit products offered by a bank from time to time for the purpose of better utilizing the surplus cash arising in the ordinary and usual course of business.

During 2020, the Group invested in a principal guaranteed structured deposit product offered by a bank and also entered into a swap contract with the same bank in order to hedge the exchange risk on a RMB structured deposit product, details of which are set out in the Company's announcement dated 21 January 2020. Both the structured deposit products and foreign currency swap contract have been accounted for as "financial assets at fair value through profit or loss" in the Company's consolidated financial statements. During 2020, certain pledged bank loan was released. Therefore, as at 31 December 2020, the amount of financial assets at fair value through profit or loss increased to RMB149.5 million (2019: RMB105.7 million) while pledge bank deposits and bank loan decreased to RMB734.7 million (2019: RMB922.9 million) and RMB809.5 million (2019: RMB927.0 million), respectively.

PROSPECTS

In 2020, the global economy experienced a significant recession resulted from the COVID-19 pandemic, which caused numerous companies operating difficulties or bankruptcies. With the development of vaccines and the gradual implementation of vaccination programmes around the world, the world is slowly shifting to a post-pandemic era. Taking the lead in recovery, China is expected to adopt relatively stable and moderate fiscal and monetary policies, and the "first-aid" macro-control policies implemented during the pandemic will be steadily withdrawn. The Group planned to start its extended warranty services business, details of which was disclosed in the circular of the Company dated 27 May 2020. Due to the COVID-19 pandemic, the Group slowed down this plan.

In the financial sector, the China Banking and Insurance Regulation Commission and the People's Bank of China (the "PBOC") have promulgated a series of important policies such as the draft version of the Interim Administrative Measures for Online Micro-credit Business (《網絡小額貸款業務管理暫行辦法(徵求意見稿)》), further stressing the importance of licensed and compliance financial operations. In the context of the continued strengthening of financial supervision, the Group continued to uphold its philosophy of prioritizing compliance in the business operations, carried out business expansion by relying on its well-established commercial factoring business network and further strengthened the risk control capabilities based on artificial intelligence and big data technology to achieve steady and comprehensive business growth.

Apart from the existing business, the Group planned to enter into the prepaid card, internet payment services and related technology services business by the acquisition of Tianjin Guanchuang Mei Tong Electronic Commerce Limited, details of which are set out in the Company's circular dated 28 June 2017. This acquisition was not yet completed up to 26 March 2021 and the Group's management expected it to be completed in 2021 or 2022 as a new business drive. In 2021, the Group will tie in with GOME's new strategic development plan to further develop its commercial factoring business and strive to extend the technology exports and business practices of other financial business based on its technology and knowledge accumulated, with the aim of providing shareholders with more superior return on their investment while complying with regulatory compliance requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position is sound with strong equity and working capital bases. As at 31 December 2020, the Group's total equity amounted to RMB1,701.2 million, representing a slight decrease of 2.6% as compared with that as at 31 December 2019. As at 31 December 2020, the Group's cash and cash equivalents amounted to RMB350.2 million (2019: RMB316.4 million) which was mainly contributed by cash inflow from investing activities.

During the year ended 31 December 2020, the Group recorded cash inflow from its operating activities of RMB79.0 million (2019: outflow of RMB156.6 million). Profit for 2020 generated positive operating cash flow for 2020. The Group recorded an inflow from investing activities of RMB118.9 million (2019: RMB46.9 million). During 2020, pledged bank deposit for securing bank loan amounted to RMB188.2 million was released which contributed to significant investing cash inflow in 2020. The Group repaid certain bank loans in 2020 and incurred an outflow from financing activities of RMB155.1 million (2019: inflow of RMB110.6 million).

The Group's current ratio as at 31 December 2020 was 2.37 (2019: 2.23). The Group's gearing ratio, expressed as percentage of total liabilities except tax payable over the Group's total equity was 50.5% (as at 31 December 2019: 55.6%). The increase in current ratio and decrease in gearing ratio was due to repayment of short term bank borrowings in 2020.

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

The Group had no particular seasonal pattern of borrowing. As at 31 December 2020, the Group's borrowings (including current borrowings (which are due within one year) and non-current borrowings (which are due after one year)) amounted to RMB837,723,000 (2019: RMB956,495,000). The Group's current borrowings were all made at fixed interest rates. The weighted average effective interest rates on secured current borrowings for the year were 3.55% to 4.8% per annum.

As at 31 December 2020, the Group's borrowings were denominated in RMB and HKD, amounting to approximately RMB809,500,000 and approximately HKD33,533,000 (equivalent to approximately RMB28,223,000), respectively.

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

CAPITAL STRUCTURE

During the year ended 31 December 2020, there was no change in the issued capital of the Company and the number of issued ordinary shares of the Company remained at 2,701,123,120 as at 31 December 2020 and 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP STRUCTURE

The Group did not have any significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2020.

For details relating to the acquisition of Tianjin Guanchuang Mei Tong Electronic Commerce Limited, please refer to the Company's circular dated 28 June 2017.

As at 31 December 2020, the Group had no future plans for material investments or capital assets.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2020, the Group's bank deposits in the amount of RMB734,704,000 (2019: RMB922,865,000) and a structured deposit with a principal amount of RMB154,000,000 and its interest (2019: principal amount of RMB105,000,000 and its interest) were pledged to secure banking facilities of the Group. The Group did not have any material contingent liabilities as at 31 December 2020 and 2019.

TREASURY POLICIES AND FOREIGN EXCHANGE EXPOSURE

The Group has continued to adopt a conservative treasury policy, with all bank deposits held in HKD, RMB, and USD. The Board and management has been closely monitoring the Group's liquidity position, performing ongoing credit evaluations and monitoring the financial conditions of its customers in order to ensure the Group's healthy cash position. The Group has been investing in certain principal guaranteed structured deposit products offered by a bank with the surplus cash arising in the ordinary and usual course of business of the Group from time to time. The principal amount invested by the Group in these products was determined by the Group having regard to the surplus cash position of the Group from time to time and after taking into account the highly liquid nature of such investments and nearly no financial risks involved. The Group has not adopted any hedging policy and except for the foreign currency swap contract as disclosed in the announcement dated 21 January 2020, the Group has not entered into any derivative products. However, the Board and the management will continue to monitor the foreign currency exchange exposure and will consider adopting certain hedging measures against the currency risk when necessary.

EMPLOYEES AND EMOLUMENT POLICY

The Group had 27 employees in total as at 31 December 2020 (2019: 36). The Group pays for social insurance for its PRC employees in accordance with the applicable laws in the PRC. The Group also maintains insurance coverage and contributes to mandatory provident fund schemes for its employees in Hong Kong in accordance with the applicable laws in Hong Kong. The overall aim of the Group's employee and remuneration policy is to retain and motivate staff members to contribute to the continuing success of the Group.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Mr. Zhou Yafei

Mr. Zhou Yafei (“Mr. Zhou”), aged 53, was appointed as an executive director of the Company with effect from 26 March 2021. Mr. Zhou is currently a member of the Nomination Committee and the Strategy Committee of the Company. Mr. Zhou was the Chief Financial Officer of GOME Appliance Co., Ltd. from 2000 to 2004, and subsequently remained in his position as the Chief Financial Officer for GOME Retail Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 493), from 2004 to 2008 after the injection of GOME Appliance Co., Ltd. into GOME Retail Holdings Limited in 2004, and has been the executive vice president of GOME Holding Group Company Limited (incorporated in Beijing, the PRC) since 2009. Mr. Zhou has over 20 years of experience in PRC accounting, finance and tax consulting. He is a registered accountant (non-practising) and a registered tax agent (non-practising) in the PRC. Mr. Zhou graduated from the Beijing Institute of Technology with a master’s degree.

Mr. Zhou has been appointed as non-executive director of Lajin Entertainment Network Group Limited, a company listed on GEM of the Stock Exchange (stock code: 8172), since April 2015.

NON-EXECUTIVE DIRECTOR

Ms. Wei Qiuli

Ms. Wei Qiuli (“Ms. Wei”), aged 53, was appointed as a non-executive director of the Company with effect from 5 September 2016. Ms. Wei is currently a member of the Remuneration Committee of the Company. Ms. Wei has been acting as vice president and senior vice president of GOME Retail Holdings Limited (國美零售控股有限公司) (“GOME Retail”) (stock code: 0493) responsible for administrative and brand management matters since November 2006 and 2012, respectively, and as an executive director of GOME Retail between January 2009 and June 2011. She was appointed as chairman of decision-making committee of GOME Retail in March 2018 and responsible for the medium- to long-term strategic planning, group organizational planning as well as planning and implementation of human resources training. Ms. Wei obtained a Bachelor of Philosophy degree from Capital Normal University in 1990 and a Master of Business Administration degree from the China Europe International Business School in 2013.

Ms. Wei is a director of Gome Telecom Equipment Co., Ltd. (國美通訊設備股份有限公司) (formerly known as Sanlian Trading Company Holding Limited (三聯商社股份有限公司)) which is listed on the Shanghai Stock Exchange (stock code: 600898).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Dakuan

Mr. Cao Dakuan (“Mr. Cao”), aged 62, was appointed as an independent non-executive director of the Company with effect from 29 August 2019. He is currently the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. Cao is currently an executive partner of Beijing GuangTian Capital Management Center (Limited Partnership) (北京廣田資本管理中心(有限合夥)) and co-operate guidance teacher of Master Degree student in Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Zhongnan University of Economics) (中南財經大學).

Mr. Cao had served Beijing RuiFeng I&M Co., Ltd (北京瑞豐投資管理有限公司) for over 12 years where he had assumed various leadership roles before he took up the chairman role from 2014 to 2018. Before joining Beijing RuiFeng I&M Co., Ltd, he was an associate professor of Zhongnan University of Economics and Law and also served China Great Wall Securities Co., Ltd. (長城證券有限責任公司) as President. Mr. Cao obtained his Doctor degree and Master degree in Accountancy from Zhongnan University of Economics and Law in June 2010 and July 1987 respectively.

Mr. Cao was a director of Baolingbao Biology Co., Ltd. (保齡寶生物股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002286), from October 2007 to January 2011; and a director of Beijing Strong Biotechnologies, Inc. (北京九強生物技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300406), from March 2011 to August 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Hung Ka Hai Clement

Mr. Hung Ka Hai Clement (“Mr. Hung”), aged 65, was appointed as an independent non-executive director of the Company with effect from 31 October 2016. He is currently the chairman of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Hung had served Deloitte China for 31 years where he had assumed various leadership roles before he took up the chairman role of Deloitte China from 2014 to 2016. He retired from the chairman role of Deloitte China with effect from June 2016. When Mr. Hung was working with Deloitte China, he had assumed various leadership roles, including, the office managing partner of Deloitte Shenzhen Office and Guangzhou Office. He was also a member of the China Management Team of Deloitte China. Later on, Mr. Hung assumed the role of the southern audit leader and the deputy managing partner of the southern region (including the regions of Hong Kong, Macau, Shenzhen, Guangzhou, Xiamen and Changsha). He was also a board member of Deloitte Global.

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

Mr. Hung has been appointed as 1) as an independent non-executive director of Sheng Ye Capital Limited (stock code: 8469, the listing of the shares of which has been transferred to the Main Board (stock code: 6069) from the GEM of the Stock Exchange with effect from 24 October 2019) since 19 June 2017; 2) as a non-executive director of High Fashion International Limited (stock code: 0608) since 1 December 2017; 3) as an independent non-executive director of Aoyuan Healthy Life Group Company Limited (stock code: 3662) since 22 February 2019; 4) as an independent non-executive director of China East Education Holdings Limited (stock code: 0667) since 12 June 2019; 5) as an independent non-executive director of Huarong International Financial Holdings Limited (stock code: 0993) since 13 December 2019; 6) as an independent non-executive director of Tibet Water Resources Limited (stock code: 1115) since 31 December 2019; 7) an independent non-executive director of Skyworth Group Limited (stock code: 0751) since 18 March 2020; 8) as an independent non-executive director of Zhongchang International Holdings Group Limited (previously known as Henry Group Holdings Limited) (stock code: 0859) on 12 January 2018 and subsequently resigned on 15 June 2020; 9) as an independent non-executive director of SMI Holdings Group Limited (stock code: 0198) on 16 January 2017, re-designated as non-executive director thereof on 15 March 2017 and subsequently resigned on 28 February 2019; and 10) as an independent non-executive director of Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (stock code: 0112) on 24 February 2017, re-designated as non-executive director on 3 March 2017, re-designated as an independent non-executive director on 30 June 2017 and subsequently resigned on 30 September 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wan Jianhua

Mr. Wan Jianhua (“Mr. Wan”), aged 65, was appointed as an independent non-executive director of the Company with effect from 26 August 2017. He is currently the chairman of the Strategy Committee and a member of the Remuneration Committee of the Company. Mr. Wan is currently the chairman and chief executive officer of All-in-pay Network Services Co., Ltd. (通聯支付網絡服務股份有限公司), the chairman of the Association of Shanghai Finance Industry (上海市互聯網金融行業協會), independent director of China Resources Bank of Zhuhai Co., Ltd. (珠海華潤銀行股份有限公司), independent director of Great Wall Fund Management Company Limited (長城基金管理有限公司) and independent director of Shengang Securities Co., Ltd. (申港證券有限公司). Mr. Wan formerly served as senior management of various well-known enterprises and organizations including director of treasury management and office of macro-economic analysis of The People’s Bank of China (中國人民銀行), vice president of China Merchants Bank Co., Ltd. (招商銀行股份有限公司), president and the first chairman of China UnionPay Co., Ltd. (中國銀聯股份有限公司), president of Shanghai International Group (上海國際集團) and chairman of Guotai Junan Securities Co. Ltd. (國泰君安證券股份有限公司). Mr. Wan has extensive working and management experience in banking, securities, payment and corporate management. Mr. Wan obtained a bachelor degree in the Department of Economics of The Xiamen University, a master degree in Economics from The People’s Bank of China Institute of Finance (now known as Tsinghua University PBC School of Finance) and the qualification of doctoral degree candidate in Economics from The Australian National University.

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

Mr. Zhang Liqing

Mr. Zhang Liqing (“Mr. Zhang”), aged 57, was appointed as an independent non-executive director of the Company with effect from 5 September 2016. He is currently the chairman of the Nomination Committee and a member of the Audit Committee and the Strategy Committee of the Company. Mr. Zhang joined Central University of Finance and Economics in 1987 and is a professor of Central University of Finance and Economics. Mr. Zhang is the author and editor of numerous publications on international economics and finance issues. Mr. Zhang is a member of the fifth executive council of the China International Finance Society (中國國際金融學會), China Urban Financial Society (中國城市金融學會) and the current vice president of China Society of World Economics (中國世界經濟學會). Mr. Zhang served as the member of the 12th Main Board Market Issuance Examination Committee of the China Securities Regulatory Commission in 2010. Mr. Zhang was an independent director of Poly Real Estate Group Co., Ltd (保利房地產(集團)股份有限公司) (Shanghai A share stock code: 600048) from May 2015 to September 2018. Mr. Zhang obtained a doctoral degree in Global Economics at Renmin University of China in 2003 and a Master of Economics degree from the Finance Graduate School of People’s Bank of China in 1987.

SENIOR MANAGEMENT

Mr. Lei Jian

Mr. Lei Jian (“Mr. Lei”), aged 47, was appointed as Vice-President of Finance of the Group with effect from 1 September 2019. Before joining the Group, Mr. Lei had served AWP Business Services (Beijing) Co., Ltd. (a member of Allianz) as Chief Financial Officer of Greater China and Baidu Inc. as finance department head of financial service sector. Mr. Lei has over 20 years of experience in financial management and served several multi-national financial institutions. Mr. Lei obtained his Master degree in Business Administration (Finance) from University of Ottawa in March 2002 and he is also a member of American Institute of Certified Public Accountants since 2005.

REPORT OF THE DIRECTORS

The board (the “Board”) of directors (the “Directors”) of Gome Finance Technology Co., Ltd. (the “Company”) is pleased to present its report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise commercial factoring, financial leasing and other financial services in the People’s Republic of China (the “PRC”), details of which are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

BUSINESS REVIEW

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

Details of the risks associated with the operation of the Group are set out in the Risk Factors section on page 48 of this Annual Report and the financial risk management objectives and policies of the Group are shown in note 32 to the consolidated financial statements. An analysis of the Group’s performance during the year using key financial performance indicators is provided in the Management Discussion and Analysis section from pages 7 to 16 of this Annual Report.

Discussion on the Group’s environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided in the Environmental, Social, and Governance Report from pages 63 to 85 of this Annual Report.

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

ENVIRONMENTAL PROTECTION

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

REPORT OF THE DIRECTORS

RELATIONSHIP WITH EMPLOYEES

The employees of the Group are one of the most important assets and stakeholders of the Group and their contribution and support are valued at all times. As at 31 December 2020, Group employed a total of 27 employees. The Group regularly reviews compensation and benefits policies according to industry benchmark as well as the individual performance of employees. Other fringe benefits are provided to employees. The Group pays for social insurance for its PRC employees in accordance with the applicable laws in the PRC. The Group also maintains insurance coverage and contributes to mandatory provident fund schemes for its employees in Hong Kong in accordance with the applicable laws in Hong Kong. The overall aim of the Group's employee and remuneration policy is to retain and motivate the management and staff members to contribute to the continuing success of the Group.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 94 to 95 of this Annual Report.

The Directors did not recommend the payment of a final dividend for the years ended 31 December 2020 and 2019.

DIVIDEND POLICY

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements, is set out on page 188 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 24 to the consolidated financial statements.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2020, there were no equity-linked agreements entered into during the year or subsisting at 31 December 2020 that would or may result in the Company issuing Shares or that requires the Company to enter into any agreements that would or may result in the Company issuing Shares.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2020.

SHARE OPTION SCHEME

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

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

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

During the year ended 31 December 2020, the number of shares in respect of which option had been granted and remained outstanding under the Scheme was nil. As at the date of this report, share options carrying the right to subscribe for 60,157,078 shares, representing 2.23% of the issued share capital of the Company, may be granted under the Scheme.

PRE-EMPTIVE RIGHTS

As at 31 December 2020, there are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

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

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to shareholders, calculated in accordance with the provision of the Companies Act 1981 of Bermuda (as amended), amounted to nil (as at 31 December 2019: nil).

DONATION

No charitable donation was made by the Group for the year ended 31 December 2020 (for the year ended 31 December 2019: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, revenue generated from the Group's top five customers accounted for 68% of the total revenue of the Group with the top customer contributing 36% of the Group's revenue. The Group is principally engaged in financial business and there was no major supplier to the Group during the year.

Two of the top five customers of the Group for the year ended 31 December 2020 are Dazhong Putaoyuan E-Commerce Co., Ltd. (大眾葡萄園電子商務有限公司) which is wholly-owned by the mother of Mr. Wong Kwong Yu ("Mr. Wong"), and Zhejiang Dejing Electronics Technology Co., Ltd. (浙江德景電子科技有限公司) whose ultimate controlling party is Mr. Wong. Mr. Wong is the spouse of Ms. Du Juan ("Ms. Du"), the controlling shareholder of the Company.

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

RELATED PARTY TRANSACTIONS

Except certain transactions disclosed under "Connected transactions and disclosure pursuant to Rule 13.20 of the Listing Rules" and "Continuing connected transactions" below, the other related party transactions set out in note 29 to the consolidated financial statements either did not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or fell within the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules but were exempted from the connected transaction requirements under Rules 14A.73 or 14A.90 of the Listing Rules.

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

The information required for disclosure under Rule 14A.71 of the Listing Rules in relation to the Group's connected transactions conducted during the year and/or under Rule 13.20 of the Listing Rules in relation to the Group's advance to an entity as at 31 December 2020 (as the case may be) is as follows:

Acquisition of Tianjin Guanchuang Mei Tong Electronic Commerce Limited

On 7 June 2017, Gome Xinda Commercial Factoring Limited ("Xinda Factoring"), an indirect wholly-owned subsidiary of the Company, entered into a loan agreement with Beijing Bosheng Huifeng Business Consulting Co., Limited (北京博盛匯豐商業諮詢有限公司) ("Bosheng Huifeng"), a company incorporated in the PRC with limited liability and owned as to 90% by Ms. Du (the controlling shareholder of the Company) and 10% by Mr. Ding Donghua (an executive Director of the Company who has retired from such role with effect from 27 May 2019), pursuant to which Xinda Factoring agreed to provide an unsecured non-interest loan for an amount of RMB720 million (the "Consideration") to Bosheng Huifeng solely for the purpose to acquire the entire equity interest in Tianjin Guanchuang Mei Tong Electronic Commerce Limited (the "Acquisition"). As at 31 December 2020, an aggregate amount of RMB576 million, representing 80% of the Consideration, was advanced to Bosheng Huifeng to pay for the Consideration. Bosheng Huifeng will use 90% of the dividends arising from its interest in Tianjin Guanchuang Mei Tong Electronic Commerce Limited to repay the loan and Bosheng Huifeng undertakes that if the completion of the Acquisition does not take place, Bosheng Huifeng shall refund the loan (with accrued interest) to Xinda Factoring in full.

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

The Acquisition was not yet completed up to the date of this report and the Group's management expected it to be completed in 2021 or 2022.

As at 31 December 2020, the aggregate amount of RMB576 million advanced to Bosheng Huifeng exceeded 8% under the assets ratio defined under Rule 14.07(1) of the Listing Rules, thereby giving rise to the Company's disclosure obligation under Rule 13.20 of the Listing Rules.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

The information required for disclosure under Rule 14A.71 of the Listing Rules in relation to the Group's continuing connected transactions conducted during the year ended 31 December 2020 is as follows:

(1) New Financial Leasing Service Framework Agreement

The Company and Swiree Capital Limited ("Swiree") entered into the New Financial Leasing Service Framework Agreement on 29 March 2019 to renew the framework for the provision of financial leasing loans by the Group to the customers of GOME Retail Holdings Limited ("GOME") and its subsidiaries (the "GOME Group") ("GOME Customers"). The principal terms of the New Financial Leasing Service Framework Agreement are as follows:

Date:	29 March 2019
Parties:	(i) The Company (ii) Swiree, a company incorporated in the British Virgin Islands with limited liability and a connected person of the Company by virtue of it being a substantial shareholder of the Company
Term:	From 1 April 2019 to 31 December 2021 (both days inclusive)
Subject:	Members of the Group may grant financial leasing loans to GOME Customers (the "Connected Financial Leasing") from time to time where the proceeds from the relevant loans are used by the GOME Customers to purchase goods by wholesale from the GOME Group or purchase goods from GOME Group's designated outlets through which such retail customers can get access to the Group's financial leasing service and products.

REPORT OF THE DIRECTORS

Guiding principles for providing Connected Financial Leasing:

- (i) The members of the Group may from time to time and in view of their business demand enter into separate financial leasing agreements with the GOME Customers (the “Individual Financial Leasing Agreement(s)”), which shall comply with the terms and conditions as set out in the New Financial Leasing Service Framework Agreement.
- (ii) The aggregate principal amount of any outstanding Connected Financial Leasing which may be granted by the Group under the Individual Financial Leasing Agreements entered/to be entered into pursuant to the New Financial Leasing Service Framework Agreement are subject to the following annual caps:

For the nine months ended 31 December 2019	For the year ending 31 December	
	2020	2021
RMB7,500,000	RMB7,500,000	RMB7,500,000

The largest outstanding principal amount for the Connected Financing Leasing during the year ended 31 December 2020 amounted to approximately RMB808,000. Other details of the New Financing Leasing Service Framework Agreement have been disclosed in the announcement of the Company dated 29 March 2019.

REPORT OF THE DIRECTORS

(2) Revised Factoring Service Framework Agreement

The Company and Swiree entered into the New Factoring Service Framework Agreement on 15 March 2019 to renew the framework for the provision of connected commercial factoring loans by the Group to the suppliers of the GOME Group (the “GOME Suppliers”). On 15 April 2019, the Company and Swiree entered into the Supplemental Agreement to expand the scope of the New Factoring Service Framework Agreement (as amended and supplemented by the Supplemental Agreement, the “Revised Factoring Service Framework Agreement”) so as to provide an expanded framework to regulate the provision of commercial factoring loans by the Group to the GOME Suppliers who are deemed connected persons of the Company as well as other connected persons of the Company who are connected with the GOME Group, Mr. Wong and/or Ms. Du. The principal terms of the Revised Factoring Service Framework Agreement are as follows:

Parties:	(i) The Company (ii) Swiree
Term:	From 27 May 2019 to 31 December 2021 (both days inclusive)
Subject:	Pursuant to the Revised Factoring Service Framework Agreement, members of the Group may grant commercial factoring loans to the GOME Suppliers and/or connected persons of the Company who are connected with the GOME Group, Mr. Wong and/or Ms. Du (the “Connected Factoring Loan Borrowers”) from time to time, which are conditional upon transfer of the relevant accounts receivable of such GOME Suppliers (being trade payables of the GOME Group) and/or the relevant accounts receivable of such connected persons to the Group (the “Connected Factoring Loans”). The Connected Factoring Loan Borrowers shall pay interest and/or other charges (such as penalty interest, early repayment charge and costs incurred in relation to debt collection, if applicable) to the relevant members of the Group for the factoring services.
Guiding principles for providing Connected Factoring Loans:	(i) The members of the Group may from time to time and in view of their business demand enter into separate factoring agreements with the Connected Factoring Loan Borrowers (the “Individual Factoring Agreement(s)”), which shall comply with the terms and conditions as set out in the Revised Factoring Service Framework Agreement.

REPORT OF THE DIRECTORS

- (ii) The Company will limit the aggregate revenue generated from the Connected Factoring Loans to not more than RMB9,000,000, for each of the years ended/ending 31 December 2019, 2020 and 2021, respectively.

- (iii) The aggregate outstanding principal amount of the Connected Factoring Loans which may be granted by the Group under the Individual Factoring Agreements entered/to be entered into pursuant to and during the term of the Revised Factoring Service Framework Agreement is subject to the following annual caps:

From 27 May 2019 to 31 December 2019	For the year ending 31 December	
	2020	2021
RMB290,000,000	RMB230,000,000	RMB230,000,000

The largest outstanding principal amount for the Connected Factoring Loans and the aggregate revenue generated from the Connected Factoring Loans during the year ended 31 December 2020 amounted to approximately RMB170,000,000 and RMB7,808,000, respectively. Other details of the Revised Factoring Service Framework Agreement have been disclosed in the circular of the Company dated 8 May 2019.

REPORT OF THE DIRECTORS

(3) Extended Warranty Services Cooperation Agreement

On 3 April 2020, Gome Wangjin, an indirect wholly-owned subsidiary of the Company, entered into the Extended Warranty Services Cooperation Agreement with Tianjin Pengsheng Logistics Co., Ltd.*, Beijing GOME Steward IT Co., Ltd.* and GOME-on-line e-Commerce, Ltd.* (for themselves and on behalf of the other service companies) (collectively the “Service Companies”), pursuant to which Gome Wangjin will provide extended warranty services, including repairing and replacement services, for certain electronic products sold by the GOME Group for one-off service fees in return. The principal terms of the Extended Warranty Services Cooperation Agreement are as follows:

Parties:	(i) Gome Wangjin (ii) Tianjin Pengsheng Logistics Co., Ltd.* (iii) Beijing GOME Steward IT Co., Ltd.* (iv) GOME-on-line e-Commerce, Ltd.*
Term:	From 3 April 2020 up to and including 31 December 2021 (both days inclusive)
Subject:	The GOME Group may from time to time offer extended warranty for electronic products such as mobile phones, digital cameras, computers and home appliances including air conditioners, washing machines and refrigerators, amongst others, for purchase by its customers. The customers who elect to purchase extended warranty services for such electronic products will be required to enter into separate agreements containing standard terms and conditions (the “Individual Extended Warranty Agreement(s)”) with the relevant Service Companies.

Pursuant to the Extended Warranty Services Cooperation Agreement, the Service Companies will pay Gome Wangjin an one-off service fees for the provision of extended warranty services pursuant to each Individual Extended Warranty Agreement, and in return Gome Wangjin will procure for the provision of the extended warranty services, including repairing and replacement services, for the electronic products covered by such Individual Extended Warranty Agreements upon occurrence of warranty claims within the applicable extended warranty periods. Gome Wangjin will not receive any service fees from the end customers pursuant to the Individual Extended Warranty Agreements.

* for identification purpose only

REPORT OF THE DIRECTORS

The extended warranty period provided under the Individual Extended Warranty Agreements may last for six (6) months to ten (10) years after expiry of the basic warranty period depending on the category of electronic products being covered. The total warranty period (i.e. the basic warranty period plus the extended warranty period) may be up to fourteen (14) years after the date of the relevant Individual Extended Warranty Agreements for certain electronic products. The Directors consider that such extended warranty period is a normal commercial term and is comparable to similar services available in the market within the knowledge of the Group.

Pursuant to the Extended Warranty Services Cooperation Agreement, Gome Wangjin's liability for each electronic product covered under the extended warranty services will be subject to the agreed cap amount set out in the Extended Warranty Services Cooperation Agreement with reference to the retail price of such electronic product.

Guiding principles:

- (i) Terms of an Individual Extended Warranty Agreement shall be based on normal commercial terms and with reference to the prevailing terms and conditions of other comparable services in the market within the knowledge of the Group. The transactions contemplated thereunder shall be fair and reasonable.
- (ii) The aggregate service fees that Gome Wangjin will receive under the Extended Warranty Services Cooperation Agreement (excluding value-added tax) is subject to the following annual caps:

For the year ending 31 December

2020	2021
RMB25,000,000	RMB55,000,000

In 2020, Gome Wangjin negotiated with insurance companies for providing insurance coverage to manage its exposure to potential warranty claims but the proposal was not finalized. Therefore, during the year ended 31 December 2020, the extended warranty business was not started and there was no transaction under the Extended Warranty Services Cooperation Agreement. Other details of the Extended Warranty Services Cooperation Agreement have been disclosed in the circular of the Company dated 27 May 2020.

REPORT OF THE DIRECTORS

(4) Extended Warranty Repair Cooperation Agreement

On 3 April 2020, Gome Wangjin entered into the Extended Warranty Repair Cooperation Agreement with Gome Hengyuan Electrical Appliances Repairing Services Limited* (for itself and on behalf of the other repair companies) (collectively the “Repair Companies”), pursuant to which the Repair Companies will provide repairing and replacement services for the electronic products for which Gome Wangjin provides extended warranty services and in return Gome Wangjin will pay repairing fees to the Repair Companies. The principal terms of the Extended Warranty Repair Cooperation Agreement are as follows:

Parties:	(i) Gome Wangjin
	(ii) Gome Hengyuan Electrical Appliances Repairing Services Limited*
Term:	From 3 April 2020 up to and including 31 December 2021 (both days inclusive)
Subject:	Pursuant to the Extended Warranty Repair Cooperation Agreement, the Repair Companies will provide repairing and replacement services for the electronic products for which Gome Wangjin provides extended warranty services. In return, Gome Wangjin will pay the Repair Companies repairing fees.
Guiding principles:	(i) The transactions contemplated under the Extended Warranty Repair Cooperation Agreement shall be based on normal commercial terms and with reference to the terms and conditions of comparable services offered by Gome Hengyuan to independent third parties with reference to the prevailing terms and conditions of other comparable services in the market within the knowledge of the Group. The transactions contemplated thereunder shall be fair and reasonable.
	(ii) The engagement of the Repairing Companies for providing repairing services is not exclusive and Gome Wangjin may engage other service provider(s) who can offer competitive services, pricing and/or coverage where appropriate.

* for identification purpose only

REPORT OF THE DIRECTORS

- (iii) The aggregate repairing fees that Gome Wangjin will pay under the Extended Warranty Repair Cooperation Agreement is subject to the following annual caps:

For the year ending 31 December

2020	2021
RMB3,000,000	RMB7,000,000

As mentioned above, during the year ended 31 December 2020, the extended warranty business was not started and there was no transaction under the Extended Warranty Repair Cooperation Agreement. Other details of the Extended Warranty Repair Cooperation Agreement have been disclosed in the circular of the Company dated 27 May 2020.

Reasons for the continuing connected transactions

The revenue generated from the provision of financial leasing services to the GOME Customers and commercial factoring loans to the Connected Factoring Loan Borrowers can provide a source of income for the Group. The demand for factoring loans from connected persons of the Company who are connected with the GOME Group, Mr. Wong and/or Ms. Du represent an opportunity for the Group to expand its commercial factoring business and achieve better economies of scale.

In addition to the continued dedication in its existing businesses, the Group plans to further expand its coverage in the financial technology business in the area of “retail + finance”, in order to achieve continuous income growth. The initial scheme is to launch the extended warranty services business through utilising resources such as existing technology systems, information resources, risk management techniques and talent reserves. By expanding into the extended warranty services business, the Group aims at realizing income sources from areas such as risk spread, platform commission income and sharing of financial incomes. The Company believes that the entering into of the Extended Warranty Services Cooperation Agreement and the Extended Warranty Repair Cooperation Agreement represent an important milestone in the Group’s plan to implement its strategy as outlined above.

Annual review of the continuing connected transactions

The independent non-executive Directors have reviewed the aforementioned continuing connected transactions and confirmed that the transactions were entered into:

- i. in the ordinary course of business of the Group;
- ii. either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and
- iii. in accordance with the terms of the relevant agreements that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

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

CONTRACTUAL ARRANGEMENTS

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

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

As at 31 December 2020, no relevant rules and regulations had been announced by MOFCOM or The Economic & Information Commission of Guangdong Province (廣東省經濟和信息化委員會). According to the Administrative Licensing Law of the PRC (中華人民共和國行政許可法), administrative licensing regimes may only be set up and implemented where there are established laws setting out relevant procedures, parameters, conditions and scope of administrative power. As the approval of investment in pawn loans financing business by foreign invested companies in the PRC falls under an administrative act, no approval can be granted and no licence can be issued to a foreign invested company if there are no established laws governing the investments by foreign invested companies in pawn loans financing business.

REPORT OF THE DIRECTORS

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

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

Major terms of the Structural Agreements

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

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

There was no material change in the Contractual Agreements and/or the circumstances in which they were adopted during the year ended 31 December 2020.

REPORT OF THE DIRECTORS

Services agreement

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

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

Equity charge

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

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

REPORT OF THE DIRECTORS

Equity transfer agreement

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

Directors' undertaking

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

Registered Owners' undertaking

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

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

REPORT OF THE DIRECTORS

Powers of Attorney of directors

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

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

Powers of Attorney of the Registered Owners

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

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

Risk relating to the Structural Agreements

The following risks are associated with the Structural Agreements:

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

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

Mitigation actions taken by the Company

In light of the risks set out above, the Company would work closely with its external legal advisers and consultants as well as the Registered Owners to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Agreements. In addition, it is the intention of the Company to unwind or partially unwind the Contractual Agreements when the foreign ownership restriction in respect of the businesses of Lido Pawnshop is lifted or relaxed, to the extent reasonably practicable or advisable for the Company to do so under the then applicable laws and the Group's prevailing circumstances. However, as at 31 December 2020, such foreign ownership restriction remained subsisting in the PRC and therefore the Contractual Agreements were still subsisting as at 31 December 2020.

Lido Pawnshop's business activities

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

Under the Pawn Operations Business Licence (典當經營許可證) dated 23 February 2014 issued to Lido Pawnshop by The Economic and Information Commission of Guangdong Province (廣東省經濟和信息化委員會), Lido Pawnshop is allowed to engage in the provision of pawn loans relating to movable and immovable properties (other than immovable properties located in autonomous regions, municipalities directly under the central government, or those under construction without permission for sale) (which may involve realization of overdue pawned items); valuation and consultancy services and other approved pawn-related business; and other pawn loans related businesses permitted under the relevant PRC rules for a period of six years. Under the Special Industry Licence (特種行業許可證) dated 30 March 2018 issued to Lido Pawnshop by Guangzhou Public Security Bureau (廣州市公安局), Lido Pawnshop is allowed to engage in pawning industry.

For the year ended 31 December 2020, the revenue subject to the Structured Agreements are nil (2019: Nil). As at 31 December 2020, the total assets and the loans receivable (net off provision of impairment loss) subject to the Structured Agreements are approximately RMB96,210,000 and nil (2019: approximately RMB100,741,000 and RMB3,000).

REPORT OF THE DIRECTORS

DIRECTORS

The Directors for the year ended 31 December 2020 and up to the date of this report of the directors were:

Executive Directors:

Mr. Zhou Yafei (appointed with effect from 26 March 2021)

Ms. Chen Wei (resigned on 26 March 2021)

Mr. Chung Tat Fun (retired on 29 June 2020)

Non-executive Director:

Ms. Wei Qiuli

Independent Non-executive Directors:

Mr. Cao Dakuan

Mr. Hung Ka Hai Clement

Mr. Wan Jianhua

Mr. Zhang Liqing

Pursuant to Bye-law 86(2) of the Bye-laws of the Company, Mr. Zhou Yafei who was newly appointed on 26 March 2021 shall retire from office at the forthcoming annual general meeting. Pursuant to Bye-law 87(1) of the Bye-laws of the Company, Ms. Wei Qiuli and Mr. Wan Jianhua shall retire from office by rotation at the forthcoming annual general meeting. Mr. Zhou Yafei, Ms. Wei Qiuli and Mr. Wan Jianhua, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

CONFIRMATION OF INDEPENDENCE

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

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

Save as disclosed above and under the section headed "Connected Transactions and Disclosure Pursuant to Rule 13.20 of the Listing Rules" and "Directors' Remuneration" disclosed in note 8 to the consolidated financial statements, no contract of significance, to which the Company, its fellow subsidiaries, its subsidiaries or its holding company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2020 or at any time during the year.

MANAGEMENT CONTRACTS

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

COMPETING INTERESTS

In so far as the Directors are aware, as at 31 December 2020, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

REPORT OF THE DIRECTORS

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

As at 31 December 2020, none of the Directors and the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2020, so far as is known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

REPORT OF THE DIRECTORS

Long positions in Shares and Underlying Shares in the Company

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

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

Notes:

- As Ms. Du Juan wholly and beneficially owned Swiree, she was deemed to be interested in 1,653,073,872 Shares held by Swiree by virtue of the SFO.
- Mr. Wong Kwong Yu, being the spouse of Ms. Du Juan, was also deemed to be interested in 1,653,073,872 Shares by virtue of the SFO.
- Mr. Ko held 5,000,000 Shares directly. He also held 297,776,312 Shares indirectly, among which he held 2,264,000 shares through Peninsula Resources Limited and 295,512,312 shares through Richlane, both of which were wholly-owned by him.
- As at 31 December 2020, the total number of issued Shares was 2,701,123,120.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this Annual Report.

PERMITTED INDEMNITY PROVISION

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

REMUNERATION OF THE DIRECTORS

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

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

CORPORATE GOVERNANCE

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

Details of the corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 49 to 62 of this Annual Report.

CHANGE OF DIRECTOR'S INFORMATION

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

REPORT OF THE DIRECTORS

CHANGE OF AUDITOR

Following the resignation of Ernst & Young (“EY”) as auditor of the Company on 3 November 2020, Moore Stephens CPA Limited (“Moore”) was appointed as the auditor of the Company by the Board on 3 November 2020 and to hold office until the conclusion of the next annual general meeting of the Company.

The consolidated financial statements of the Company for the year ended 31 December 2020 were audited by Moore whose terms of office will expire upon the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Moore as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

The Board confirmed that there was no disagreement between EY and the Company.

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

On behalf of the Board

Zhou Yafei

Executive Director

Beijing, 26 March 2021

RISK FACTORS

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

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Credit risk and risks of money laundering

The Group is selective about its customers and will only deal with creditworthy parties. In order to minimize the credit risk and risks of money laundering, the Group has formulated policies on credit and anti-money laundering, and delegated a team to determine credit limits, approve credit, monitor progress in recovering overdue debts and implement anti-money laundering measures. For further details please refer to note 16 and note 32 to the consolidated financial statements.

Management of key customers

The Group relies on certain major customers from the factoring and finance lease businesses. During the year ended 31 December 2020, the aggregate amount of revenue attributable to the Group's five largest customers represented approximately 68% (2019: 27%) of the Group's revenue for the year. The major customers of the factoring business are PRC based distributors. The Group strived to diversify its businesses and broaden its customer base through the launching of new business area and the continuing development of its existing business. On the other hand, given our well-established business relationships, the present customers of the factoring business may continue to account for a relatively large percentage of the Group's sales in the coming year.

RISKS ASSOCIATED WITH THE PRC

Changing economic and relevant policies in the PRC

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

Changing license requirement in the PRC

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

CORPORATE GOVERNANCE REPORT

The board (the “Board”) of directors (the “Directors”) of Gome Finance Technology Co., Ltd. (the “Company”) is committed to maintain high standard of corporate governance practices. The primary corporate governance rules applicable to the Company is the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Throughout the year ended 31 December 2020, the Company had complied with all code provisions set out in the CG Code, except for deviation disclosed below.

Code provision A.2.1 and Code provision A.2.7

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

Ms. Chen Wei, an executive Director, had performed the duties of the chairman and the chief executive of the Company as an interim arrangement without formal appointment of as chairman and chief executive on 30 August 2018 until her resignation on 26 March 2021. The Board considered that while vesting the roles of the chairman and chief executive in the same person can facilitate the execution of the Company’s business strategies and maximize effectiveness of its operation, the Board would nevertheless review the structure of the Board from time to time and would be considering suitable candidate to be appointed as the chairman and chief executive of the Company such that the Company can comply with code provision A.2.1 of the CG Code. As the Company did not have a chairman, it could not strictly comply with code provision A.2.7 of the CG Code during the year ended 31 December 2020. However, the independent non-executive Directors had effective access to Ms. Chen Wei and other senior management of the Company at all material times to discuss any potential concerns or questions and follow-up meeting(s) could be arranged, if necessary. The Company considers that there were sufficient channels and communications for discussion of the Company’s affair between Ms. Chen Wei and other non-executive Directors during the year ended 31 December 2020.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

During the year ended 31 December 2020 and up to the date of this report, except for Ms. Chen Wei's resignation on 26 March 2021 and Mr. Chung Tat Fun's retirement on 29 June 2020 as executive Directors and Mr. Zhou Yafei's appointment as executive Director with effect from 26 March 2021, there was no change in the structure of the Board. As at the date of this report, the Board comprises six Directors and its composition is set out as follows:

Executive Director

Mr. Zhou Yafei

Non-Executive Director

Ms. Wei Qiuli

Independent Non-Executive Directors

Mr. Cao Dakuan

Mr. Hung Ka Hai Clement

Mr. Wan Jianhua

Mr. Zhang Liqing

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

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

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

The non-executive Director and the independent non-executive Directors have signed letters of appointment for a term of three years with the Company.

CORPORATE GOVERNANCE REPORT

Chairman and CEO

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

During her tenure in office, Ms. Chen Wei had performed the duties of the chairman and the chief executive of the Company as an interim arrangement without formal appointment of a new chairman and CEO. The roles and responsibilities of the Chairman and the CEO are set out as follows:

Chairman is mainly responsible for:

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

CEO is responsible for, among other things:

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

CORPORATE GOVERNANCE REPORT

Board Diversity

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

ROLES AND FUNCTIONS OF THE BOARD AND THE MANAGEMENT

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

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results, as well as corporate governance, financial, capital, remuneration and mergers and acquisition matters. During the year under review, five Board meetings were held and the Company's annual general meeting ("AGM") was held on 29 June 2020. The attendance of each Director (who held office during the year under review) at the Board meetings and the AGM during the year under review is set out as follows:

Name of Directors	Attendance of the AGM	Number of Board meetings attended/held
Executive Directors		
Ms. Chen Wei (resigned on 26 March 2021)	✓	5/5
Mr. Chung Tat Fun (retired on 29 June 2020)		0/3
Non-Executive Director		
Ms. Wei Qiuli	✓	5/5
Independent Non-Executive Directors		
Mr. Cao Dakuan	✓	5/5
Mr. Hung Ka Hai Clement	✓	5/5
Mr. Wan Jianhua	✓	5/5
Mr. Zhang Liqing	✓	5/5

During the year ended 31 December 2020, the Board had dealt with matters covering mainly the Group's overall strategy, annual and interim results, internal control, corporate governance, capital, financial, and acquisition matters.

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

CORPORATE GOVERNANCE REPORT

ACCESS TO INFORMATION

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

DIRECTORS INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

Name of Directors	Courses/Seminars provided/accredited by professional body	Reading materials
Executive Directors		
Ms. Chen Wei (resigned on 26 March 2021)	–	✓
Mr. Chung Tat Fun (retired on 29 June 2020)	–	–
Non-Executive Director		
Ms. Wei Qiuli	–	✓
Independent Non-Executive Directors		
Mr. Cao Dakuan	✓	✓
Mr. Hung Ka Hai Clement	✓	✓
Mr. Wan Jianhua	–	✓
Mr. Zhang Liqing	✓	✓

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

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

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to directors and employees; and
- (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

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

BOARD COMMITTEES

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

REMUNERATION COMMITTEE

As at 31 December 2020, the Remuneration Committee comprised three members including two independent non-executive Directors, namely Mr. Cao Dakuan (the Chairman) and Mr. Wan Jianhua, and one non-executive Director, namely Ms. Wei Qiuli.

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

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2020, there was one meeting held by the Remuneration Committee to review the remuneration packages of the Directors for the year ended 31 December 2019 and make recommendation on the remuneration packages of the Directors and the senior management for the year ended 31 December 2020.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2020 are disclosed in notes 8 and 29(d) to the consolidated financial statements.

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

Members	No. of meeting(s) attended/held
Mr. Cao Dakuan (<i>Chairman</i>)	1/1
Ms. Wei Qiuli	1/1
Mr. Wan Jianhua	1/1

NOMINATION COMMITTEE

As at 31 December 2020, the Nomination Committee comprised three members including two independent non-executive Directors, namely Mr. Zhang Liqing (the Chairman) and Mr. Hung Ka Hai Clement, and one executive Director, namely Ms. Chen Wei.

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

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

CORPORATE GOVERNANCE REPORT

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

- (a) reputation for integrity;
- (b) accomplishment, experience and reputation in the financial services, banking and other related industries;
- (c) commitment in respect of sufficient time and attention to the Company's business;
- (d) diversity in all aspects, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge;
- (e) the ability to assist and support management and make significant contributions to the Company's success;
- (f) compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive Director; and
- (g) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

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

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, one meeting was held by the Nomination Committee to (i) review the structure, size and composition of the Board; (ii) nominate the Director for re-election at the 2020 annual general meeting; (iii) assess the independence of the independent non-executive Directors with reference to the requirements under the Listing Rules; and (iv) discussed and agreed on the measurable objectives for achieving diversity of the Board.

Based on the Nomination Committee's review for the year ended 31 December 2020, the Nomination Committee considers that the measurable objectives for achieving diversity of the Board with reference to the Board Diversity Policy have been satisfactorily implemented and that there is sufficient diversity in the Board for the Company's corporate governance and business development needs.

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

Members	No. of meeting(s) attended/held
Mr. Zhang Liqing (<i>Chairman</i>)	1/1
Ms. Chen Wei	1/1
Mr. Hung Ka Hai Clement	1/1

AUDIT COMMITTEE

As at 31 December 2020, the Audit Committee comprised three independent non-executive Directors, namely Mr. Hung Ka Hai Clement (the Chairman), Mr. Cao Dakuan and Mr. Zhang Liqing.

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

The Audit Committee has access to and maintains an independent communication with the external auditors and the management to ensure effective information exchange on all relevant financial accounting matters. During the year ended 31 December 2020, there were five meetings held by the Audit Committee to (i) review the work done by external auditor, the relevant fees and terms of engagement, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance; (ii) review and discuss with the auditor the audited financial statements and the unaudited interim financial statements, with recommendations to the Board for approval; (iii) review the internal control system covering financial, operational, procedural compliance and risk management functions; and (iv) consider the independence of the auditor, review the auditor's remuneration and recommend to the Board the auditor's appointment.

CORPORATE GOVERNANCE REPORT

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

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

Members	No. of meeting(s) attended/held
Mr. Hung Ka Hai Clement (<i>Chairman</i>)	5/5
Mr. Zhang Liqing	5/5
Mr. Cao Dakuan	5/5

STRATEGY COMMITTEE

As at 31 December 2020, the Strategy Committee comprised one executive Director, Ms. Chen Wei, and two independent non-executive Directors, Mr. Wan Jianhua and Mr. Zhang Liqing. The Strategy Committee is chaired by Mr. Wan Jianhua.

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

COMPANY SECRETARY

Ms. Suen Yu May Sammi is the Company Secretary and had complied with Rule 3.29 of the Listing Rules in respect of professional training during the year under review.

EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2020, the total remuneration for the audit services and permissible non-audit services provided by Moore, the Company's external auditor, amounted to approximately RMB840,000 and RMB nil, respectively.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2020, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The Directors acknowledge their responsibility to prepare the financial statements as set out on pages 94 to 187 of this Annual Report. The statement of the external auditors about their reporting responsibilities on the financial statements is set out in the “Independent Auditor’s Report” on pages 86 to 93 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

During the year ended 31 December 2020, the Company implemented various policies and procedures for internal audit and risk management at each aspect of its operation. The internal audit function monitors compliance with policies and procedures and the effectiveness of risk management and internal control structures across the Group and its principal divisions.

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

During the year ended 31 December 2020, the Company had in place policy and procedural guidelines for the disclosure of inside information. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information (as defined under the SFO). Also, the Company endeavours to keep Directors, senior management and employees apprised of the latest regulatory updates.

SHAREHOLDERS' RIGHTS

Procedures for convening a special general meeting

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

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

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

Procedures for shareholders to put forward proposals at general meetings

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

- (a) any number of members representing not less than one-twentieth of the total voting rights of the Company on the date of the requisition; or
- (b) not less than 100 members holding shares in the Company.

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

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

CORPORATE GOVERNANCE REPORT

Procedures for directing shareholders' enquiries to the Board

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

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

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year ended 31 December 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 Sustainable Development Management

This is the Environmental, Social and Governance (“ESG”) report for GOME Finance Technology Co., Ltd. (the “Company”) and its subsidiaries (collectively, the “Group”). While actively expanding the strategic layout in the financial technology field, the Company strives to foster a sustainable business development. The Group’s ESG approach is to factor the concept of sustainability into the business operations with a view to creating long-term value for stakeholders. A cross-departmental ESG work group is scheduled to form in the first quarter of the year 2021 for a better implementation of ESG practices and control systems in the Group’s operations and businesses. This work group will comprise members designated by the management team spanning across finance and corporate compliance department, HR & admin department, product and sales department, as well as PRC legal and compliance department.

With commitment to sustainability, the Company publishes this ESG Report to disclose information on material ESG issues of the Group from 1 January 2020 to 31 December 2020 (“Reporting Period”). Material ESG issues including compliance in operation, product responsibilities, green office, employees’ interests and giving back to the community will be discussed in the following sections.

This Report is prepared in compliance with the ESG Reporting Guide set out in Appendix 27 to the Main Board Listing Rules of the Hong Kong Stock Exchange (the “Exchange”) and in accordance to the material ESG issues identified from the Stakeholders’ Questionnaire. Information disclosed and presented in this Report follow the four Reporting Principles required by the ESG Reported Guide, i.e. Materiality, Quantitative, Balance and Consistency.

COMMUNICATION WITH STAKEHOLDERS

To create long-term value in business for stakeholders, it is essential to understand their concerns and expectations. The Company engages its key stakeholders, including customers, the government, regulatory authorities, shareholders and investors, employees, suppliers/business associates, peer enterprises and industry associations as well as local community, from time to time through various communication channels, such as meeting, survey, online platforms and etc.

The Company achieves efficient and effective communication with its stakeholders and responds to them with concrete actions.

Stakeholders	Suggestions and Expectations	Methods of Communications and Feedback
Customers	<ul style="list-style-type: none">Quality serviceAddress customers’ concerns timelyOpen communication channelsPrivacy protection	<ul style="list-style-type: none">Complaint mechanismCustomer feedbackSatisfaction managementSocial media and corporate website

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Suggestions and Expectations	Methods of Communications and Feedback
Government	<ul style="list-style-type: none"> • Proper tax payment • Promoting economic development • Inclusive finance • Promoting employment • Financial risk management • Performance of social responsibility 	<ul style="list-style-type: none"> • Files submission • Advices and suggestions • Reports on special projects • Conferences • Compliance with government inspection
Regulatory Authorities	<ul style="list-style-type: none"> • Compliance in operation • Comprehensive risk management • Performance of social responsibility • Information disclosure 	<ul style="list-style-type: none"> • Regular reports • Publishing reports • Company announcements
Shareholders and Investors	<ul style="list-style-type: none"> • Sustainable and stable investment return • Information disclosure • Compliance in operation • Corporate governance • Participation in decision-making process 	<ul style="list-style-type: none"> • General meetings • Regular reports • Company announcements • Investor relations enquiry hotline and mailbox • Official company website • Monitoring public opinion
Employees	<ul style="list-style-type: none"> • Legal rights • Remuneration and welfare • Occupational health • Career development • Care for employees 	<ul style="list-style-type: none"> • Internal training • Staff opinion surveys • Staff-caring activities • Corporate internal website and corporate culture WeChat official account
Suppliers/Business Associates	<ul style="list-style-type: none"> • Openness and fairness • Integrity and honesty • Contract execution 	<ul style="list-style-type: none"> • Open tender • Arm's length negotiation • Regular evaluation
Peer Enterprises and Industry Associations	<ul style="list-style-type: none"> • Industry interactions • Compliance with standards 	<ul style="list-style-type: none"> • Participation in industry forums and conferences • Visits and inspections with industry peers
Community	<ul style="list-style-type: none"> • Boosting regional development • Supporting community welfare • Poverty alleviation • Caring for the underprivileged 	<ul style="list-style-type: none"> • Community communications and interactions • Social welfare activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIAL ISSUES AND MATRIX

The Company identifies the ESG issues arising from its own operation with reference to the ESG Reporting Guide issued by the Exchange, internal and external experts' analysis, media monitoring, management advices, as well as peer benchmark analysis. Awareness of the stakeholders and the sustainability are taken into account when considering the material ESG issues that have significant impact of the business of the Company during the Reporting Period.

Regulatory authorities, community representatives, media, employees and senior management of the Company were invited to complete a questionnaire to express their concerns and expectations in relation the ESG performance of the Company, providing an important reference for the Board of directors when reviewing the ESG approach in the future.

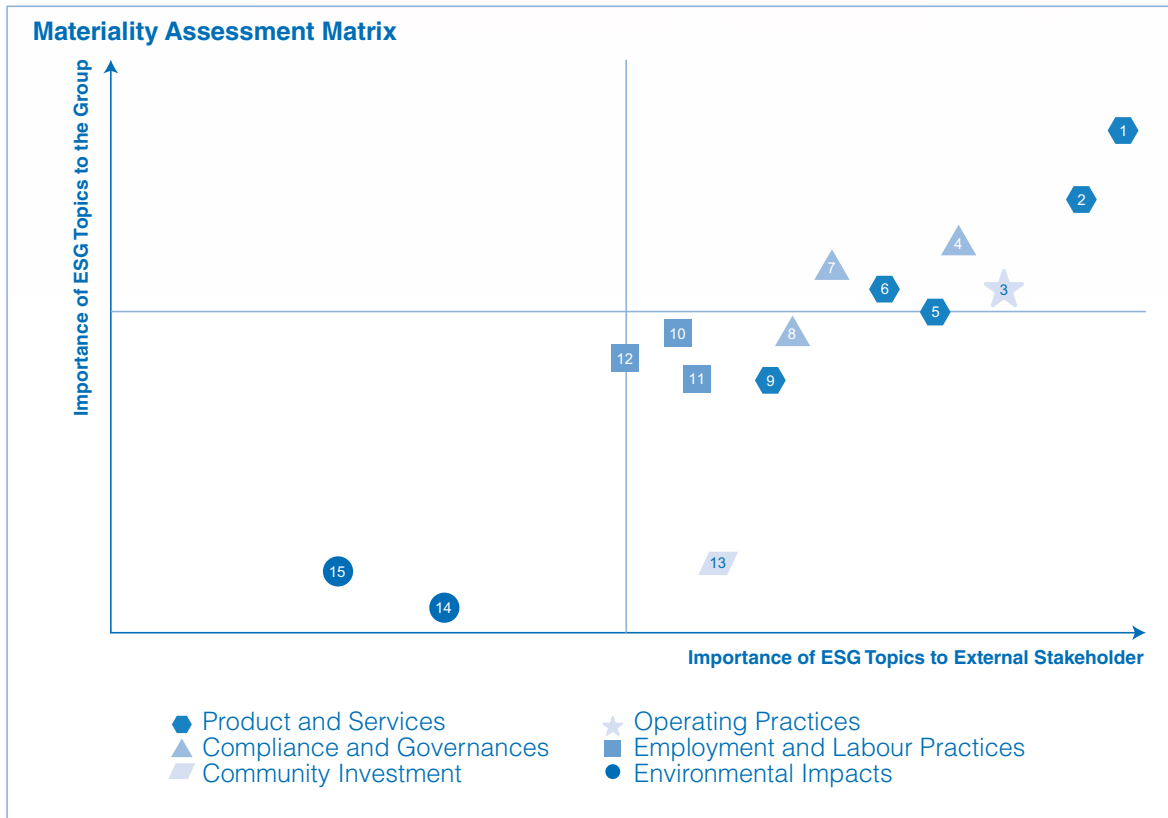
The Company conducted internal and external stakeholder research by engaging independent third parties.

Based on the aggregated scores given by the Company's stakeholders through the questionnaire, we have mapped out and prioritized the 15 sustainability issues, falling into five categories including compliance in operation, environmental performance, employment, products and services and community contribution, reflecting their relevance to the Group and their perceived overall importance to society and the environment. The company conducted a statistical analysis on the scores of each topic, and classified and summarized the recommendations and expectations. The 7 issues that are classified as "Highly Important" or above are the material issues to be covered in this Report.

The results of material issues were tabulated into a matrix of ESG material issues and reported to the management for discussion. The ESG issues were differentiated into categories of highly, moderately and least important for report disclosure and future sustainable development.

In summary, while all stakeholder groups have concerns about governance related issues, internal and external stakeholder groups have particularly put their focus on people related issues and product and services related issues respectively. Details of the key topics and concerns raised by our stakeholders and how we responded to their concerns are found in the "Corporate Governance", "Anti-Money Laundering", "Anti-Corruption" and "Product Responsibility" sections of this Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



ESG Material Issue

- | | | | |
|---|---|----|---|
| 1 | Customer information and privacy | 9 | Inclusive Finance |
| 2 | Customer Services | 10 | Employee Cares |
| 3 | Supply chain management | 11 | Employee's Interests |
| 4 | Internal Control and Protection from Risks | 12 | Employee's Growth |
| 5 | Observing and protecting intellectual property rights | 13 | Community Development |
| 6 | Product Responsibility | 14 | Waste Management |
| 7 | Corporate Governance | 15 | Energy Conservation and Emissions Reduction |
| 8 | Anti-corruption management | | |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2 Healthy development and compliance in operation

Legal and compliance operations are the cornerstone of the healthy development of the Company. The Company continued to reinforce its compliance management, strengthen the compliance awareness of all employees, establish a multi-dimensional risk management system and internal control mechanism, in order to regulate corporate governance and eliminate all forms of illegal behaviors including bribery, corruption and money laundering.

2.1 Corporate Governance

With the Board at the core, the Company has always adhered to good corporate governance principles and has maintained excellent risk management and internal control to keep its transparency and accountability to the shareholders. During the Reporting Period, the Company strictly implemented its existing corporate governance policies. The Board ensures all decisions are made under the principle of fairness and strengthens and improves internal governance in order to regulate the Group's operation and steadily enhance the shareholder value.

Being the Company's highest governing body, the board consists of executive directors, non-executive director(s), and independent non-executive directors. The Board is responsible for the overall governance, supervision and regular review of the Group, with the goal of bringing in long-term benefits for the Company and the stakeholders. The Board has accumulated sufficient experience to carry out its duty and possesses a balanced mix of skills and expertise which supports the continuing development of the Company.

The Board is responsible for setting the Company's strategic direction, overseeing the business performance of the Company, ensuring the effectiveness of risk management and its corresponding internal control system of the Group, and delegating the Group's management to take charge of implementing relevant policies and measures. In recent years, ESG management has been included as the responsibility of the Board. The Board of the Company will be kept informed of the Company's relevant policies and plans on sustainable development through internal trainings, meetings and relevant information such as the ESG report, and participate in the ESG risk assessment as well as express their views during Board meetings in order to promote plan adjustment and implementation. The Board is responsible for overseeing the content of the Company's ESG report to ensure it does not contain any false representations, misleading statements or material omissions.

Please refer to the section headed "Corporate Governance Report" in the 2020 Annual Report of the Company for more details relating to the Company's corporate governance practices and status, and the respective roles of the Board and the Board committees.

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2.2 *Internal Control and Protection from Risks*

The Company abides by the *Company Law of the People's Republic of China*, the *Securities Law of the People's Republic of China* and other relevant laws, regulations and industry regulations. The Company adheres to compliant operation, constantly reinforces the establishment of risk management system and internal control compliance system, laying a solid foundation for the sustainable and healthy development of the enterprise.

On the basis of establishing an effective risk management system, and in accordance with the relevant laws and regulations and the articles of association of the Company, the Company formulated the *Internal Control System* to establish an internal control mechanism with defined duties and effective checks and balances. The Company adheres to the concept of “compliance value creation” and actively implements compliance management to prevent practical compliance risk. The Company continues to strengthen the organizational leadership, improved the compliance management organization and functions, and to ensure the orderly and healthy development of the business of each department. The Company also follows its standardized business procedures to effectively prevent risks such as legal liabilities and regulatory penalties as a result of irregular operation and operational management. In addition, the Company constantly reinforces the establishment of internal control system and improves various systems including internal control management, risk management and customer service to ensure compliance operation.

During the Reporting Period, the Company launched compliance education to staff by interpreting and analysing the contents of the latest regulatory requirements, in order to ensure the full implementation of the compliance operation requirements.

The Board and the senior management take important roles in the risk management system and the internal control compliance system of the Company, the former oversees the business approach while the later monitors the risks in the Company's businesses. Board meetings and meetings with senior management, external and internal auditor are held regularly. Internal Audit Reports and Risk Assessment Reports are also provided to the Board annually as reference. Senior management is responsible for identifying the risks that impact the businesses and operations. Frequent departmental meetings help the senior management to monitor the identified risks closely. Up-to-date financial and operational data also keeps the awareness of senior management on the changes in business and economic environment.

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Adhering to the four principles of “comprehensiveness, adaptability, independence and integrated development”, the Company maintains three lines of defense for risk management, comprising relevant functional departments and business units, risk management center and control and audit center, to continuously optimize the risk management system. The Company has a sound and complete risk management structure in comprehensive risk management, with defined responsibilities for the board of directors, board of supervisors and operating management. Operating mechanisms such as identification, evaluation, monitoring, measurement and reporting of risks has been running smoothly, effectively preventing all kinds of risks.

2.3 **Anti-Money Laundering**

The Company's core businesses include commercial factoring, financial leasing and other financial services in Mainland China. Pursuant to its businesses, anti-money laundering is considered as an important aspect of the risk management of the Company.

The Company abides by the regulations set in the *Anti-Money Laundering Law of the People's Republic of China*, the *Anti-Money Laundering Regulations for Financial Institutions*, the *Administrative Measures for the Financial Institutions' Report of Large-Sum Transactions and Suspicious Transactions*, the *Measures on the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions*, the *Notice of the People's Bank of China on Issuing the Guidelines for the Assessment of Money Laundering and Terrorism Financing Risks and Categorized Management of Customers of Financial Institutions*, the *Administrative Measures for the Freezing of Assets Relating to Terrorist Activities*, and the *Measures for the Supervision and Administration of Anti-Money Laundering by Financial Institutions (for Trial Implementation)*.

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To reinforce the anti-money laundering practice, the Company incorporated an anti-money laundering (“AML”) department and formulated the *Anti-Money Laundering Internal Control Policy of Gome Finance Technology Co. Ltd.* (“AML policy”) in the Reporting Period. The AML department comprises members from each business unit, information technology center, compliance and government affairs department and monitoring center, the responsibilities of each party in the department are outlined as follows:

Related parties	Roles and Responsibilities
Information technology center	To build and maintain an AML system which adopts fintech big data technology, providing a reliable and systematic platform for each party to identify, monitor and audit customers’ information in accordance to the AML policy.
Each business unit	<p>To review the customers’ identity and transaction records, to assess customers’ risk level and to identify suspicious transactions from time to time through the AML systems.</p> <p>To follow up high risk customers and suspicious transactions with monitoring center and to propose possible action plans.</p>
Compliance and government affairs department	To formulate and update AML related policies and guidelines in accordance to the laws and regulations, and to educate the employees in respect of the Company’s AML policies and procedures.
Monitoring center	<p>To supervise the AML practice implemented in the business operation and the maintenance of the AML related records.</p> <p>To investigate and to respond to the suspicion cases reported by each business unit and from the whistleblowers.</p>

Pursuant to its online financing services business, the Company formulates its own *Know-Your-Customer (KYC) policy*. The KYC policy integrates with the AML system, creating a customer digital information database, launching customer investigation and transaction review, assessing and updating risk level on a regular basis, and maintaining early risk warning.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The AML system allows each business unit to assess the risk level of the customer upon creation of account and to classify the customer accounts in accordance to the AML policy into three categories, i.e. high risk, moderate risk and low risk. If the customer account is classified as high risk, the Company will recall the loan and suspend the services provided immediately according to the policy. As at the end of Reporting Period, the customer classified as moderate risk.

The AML system is able to detect and label questionable transactions them as red, orange and yellow warning signals representing high credit risk, moderate credit risk and low credit risk respectively. Transaction that triggered the system to issue warning signals will be monthly reviewed by the risk management center, and will be investigated by the corresponding business unit by looking into the operation of the corresponding customer. Site visit may be needed in some circumstances. The credit risk level of each labelled transaction will be finalized by the risk management center according to the investigation result.

If there is one transaction in a customer account finalized as a high credit risk transaction, such account will be regarded as high risk. Following measures may be adopted as suggested by the AML policy:

1. Freezing account balance;
2. Freezing credit;
3. Suspending application of new loan;
4. Calling partial prepayment before maturity;
5. Claiming for additional guarantee;
6. Accelerating the maturing of loan.

To prevent its employees from participating in any money laundering activities and to prohibit them from providing assistance to any person or organisation that attempts to engage in criminal behaviour or illegal activity, the Company requires its employees, who are responsible for reviewing client information, to complete an AML training within 3 months from his/her commencement date of employment. The Company also provides one to two AML trainings to employees from each business unit and those relevant to compliance operations every financial year to watch out for moral risks, as well as to increase the employees' awareness and skills of anti-money laundering.

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During the Reporting Period, no AML training was held due to the outbreak of COVID-19, but the AML policy remained in force. Below table discloses the AML-related issues in respect of the Company:

AML-related issues	In 2020
Number of customer account that have one or more high risk transaction(s) triggering the issue of red warning signal by the AML system	170
Number of customer account that regarded as high risk by the risk management center after investigation	15
Number of money laundering transaction recognized by the Company	0
Number of litigation arising from money laundering	0

2.4 Anti-Corruption

The Company continued to strengthen discipline inspection and supervision, and vigorously promoted the construction of moral integrity and anti-corruption management. The Company implements the *Internal Audit Charter of Gome Finance Technology Co., Ltd.* in accordance with the *Supervision Law of the People's Republic of China* and the relevant laws and regulations to strengthen the internal auditing procedures, eliminate potential malpractices. The *Supply Chain Finance Non-compliance By-laws and Punishment Regulations of Gome Finance Technology Co., Ltd.* further defines staff's violations and specifies the corresponding penalties, and to ensure the staff's compliance in business development. During the reporting period, the Company carried out the construction work of moral integrity, fulfilled its responsibilities and strengthened supervision and anti-corruption training.

Implementation of responsibility:

- Implement the responsibilities of moral integrity construction and anti-corruption works to each management personnel
- Finalize important documents from important meetings on moral integrity Construction
- Implement the arrangements for moral integrity construction and anti-corruption works and call for full member conferences

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Strengthening supervision and reporting reception:

- CEO leads the heads of each business divisions and centers in supervising corrupt behaviors including treats, gifts, cards and offers
- the Group oversees the audit center and seriously handles every reporting letter and by conducting prompt investigation and report

Anti-corruption training:

- Adhere to the collective study once every quarter*
- Release new rules and regulations through OA and timely provide training to relevant operational staff
- Carry out anti-corruption projects and conduct integrity and anti-corruption training for the departments involved in supervision and audit work*

Note:

- * Such activity has been suspended due to the implementation of social distancing measure during the outbreak of COVID-19.

The Company implements an internal monitoring mechanism to provide double-guarantee for the company's compliance in operation through the establishment of supervision and anonymous reporting channels. Employees can report to the Group's Supervision and Audit center on a confidential basis, any misconduct, dishonesty, corruption, illegal activity or wrongdoing within the Company. Upon receipt of such reports, the Supervision and Audit department of the Company will promptly conduct investigations on the reported cases of non-compliance, corruption or bribes and take appropriate actions against the violating personnel in accordance with the rules and regulations after reporting to the superiors.

The Company did not have any litigation arising from corruption, bribery or money laundering during the Reporting Period.

2.5 Supply Chain Management

In order to regulate the procurement of materials, the Company constantly reviews the *Materials Procurement Management System* and makes revisions in compliance, where necessary, with relevant laws and regulations including the *Bidding Law of The People's Republic of China* and the *Implementation Regulations for Bidding Law of the People's Republic of China*. The Company implements centralized, standardized and sunlight management of procurement, and strictly reviews the professional qualifications and credibility of suppliers to optimize supplier resources, ensuring the quality of procurement.

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In order to reduce the environmental and social risks of the supply chain, the Company requires suppliers and purchasers to satisfy the requirements of integrity and standardized procurement. The Company regulates the anti-corruption management and performance of the suppliers, requiring that all suppliers entering into service contracts with the Company to sign the Integrity Cooperation Agreement. The agreement states finer provisions such as “no acceptance of private banquets is allowed” and “no acceptance of gifts in kind, cash or coupons or shopping cards is allowed”, and requires purchasers to strictly comply with the Company’s integrity system, such that corruption, bribery and behaviors which violate operation with integrity can be rooted out.

During the Reporting Period, the Company did not engage in production and processing business. Although certain amounts of office supply were purchased, these only took up an insignificant portion of the Company’s expenditure during the Period. The Board considered the associated environmental and social risks are immaterial, as such, further information and the distribution of suppliers are not disclosed in this Report.

3 Development of Financial Technology with Innovation

Led by supply chain finance, the Company is committed to serving the real economy and promoting the development of inclusive finance by leveraging on its own business advantages, in creating a new terrain for fintech development with business innovation and quality services.

3.1 Product Responsibility and Intellectual Property Right

The Company commits to serving the real economy by leveraging its business advantages. Focusing on supply chain finance with Credit Cloud Loan as its core product, the Company provides liquidity for the real economy to revitalize assets.

During the Reporting Period, the Company focused on serving suppliers in the Gome ecosystem, and further expanded the supply chain finance business beyond the Gome ecosystem, providing supply chain financing solutions and services for more small and micro companies with increased efforts to serve the real economy.

The Company encourages technology innovation, focusing on the protection of intellectual property rights, and regards technology innovation as the driving force for company development. The Company applied for several software copyrights including network security monitoring, operating systems and software scheduling during the Reporting Period. In addition to enhancing innovation as a driving force, the Company revised the Regulations on Intellectual Property Rights in accordance with relevant laws and regulations, such as *Patent Law of the People’s Republic of China*, the *Copyright Law of the People’s Republic of China*, the *Trademark Law of the People’s Republic of China* and *Law of the People’s Republic of China against Unfair Competition*, so as to protect and respect the intellectual property rights of our innovative parties and other companies, and maintain a fair and open market competition environment.

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3.2 Customer Services and Privacy

By adhering to and implementing the service philosophy of “customer orientation”, the Company attaches importance to customer needs and protects customers’ personal data and privacy, as well as provides quality and satisfactory services.

Quality Customer Services

The Company continues to enhance customer relationship management, keeping feedback channels unblocked and improving customer satisfaction.

During the Reporting Period, the Company conducted staff training timely to ensure that employees are familiar with the industry and the Company’s business conditions, so as to effectively settle about loan application and factoring process enquiries raised by customers through phone calls and WeChat.

In addition, there are clearly defined customer service standards in place, under which false publicity and marketing activities are not allowed.

Account managers are arranged for on-site visits at appropriate times to take follow-up actions subsequent to loan drawdowns. For the situation of COVID-19, account managers contact the most of the customer through phone call for understanding the customer’s business size, operation and the capital needs at least once in the month. And the account managers are supported with adequate preventive protection before carry out on-site visit to the core customers.

The Company implements a standardized customer complaint mechanism. When handling customers’ complaints or inquiries, account managers are arranged to provide one-to-one service to answer the questions raised by customers and give feedback at once, providing customers with quality service experiences. During the Reporting Period, no complaints were received from customers. In addition, since all the financial services of the Company are carried out online, the operating activities do not involve quality inspection procedures and product recycling.

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Protecting Customer Privacy

The Company attaches great importance to the protection of customers' personal data and privacy, and builds a comprehensive information security management system. In accordance with the *Regulations on the Protection of Computer Information Systems Security of the People's Republic of China, the Implementation Guidelines for the Protection and Levels of Information Systems Security in the Financial Industry (JR/T0071-2012)* and related laws and regulations, the Company formulates the *Information Technology Management System* and the *Confidentiality Policy*, specifying the information security of each section at the institutional level and to enabling it to manage the collection, use and storage of all kinds of data, regulate information security management work, ensure the availability, integrity and confidentiality of information, and fully protect customer privacy.

During the Reporting Period, the Company strengthened network security and monitoring of the office network and guest network, and isolated internal network from external to ensure information security. It also kept users' sensitive information in the database using encryption algorithms.

During the reporting period, there was no leakage of information on customers recognized.

3.3 Supporting Inclusive Finance

The Company commits to promoting the development of inclusive finance and small and micro enterprises, and actively assumes the social responsibility of a financial company. The Company, by leveraging its own advantages, carries out supply chain finance business, and applies the digital technology to track the business conditions of SMEs in real time, thereby providing a reliable guarantee for cash flows of the SMEs. In the Period, the Company provided near 250 loans for over RMB400 million to near 60 SMEs.

Case: The Company provides financing services for SMEs

Credit Cloud Loan is a factoring product within the Company's internal ecosystem, which has full access of the operating conditions of SMEs in the ecosystem through the use of technologies, and applies the technologies such as big data and cloud computing to grant credit facilities in advance and make dynamic adjustments to the SMEs in the ecosystem, so that they may use the facilities as needed. This improvement of financing efficiency tackles the difficulties of SMEs in obtaining financing due to low credit ratings.

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4 Green Innovation to Protect the Earth

As a financial technology enterprise, the Company does not involve the discharge of hazardous waste or waste water and gas, nor does its operation have a significant impact on the environment and natural resources. However, it still strictly abides by the *Environmental Protection Law of the People's Republic of China* and the relevant laws and regulations, actively promotes green office, strengthens environment management and guides employees to implement low-carbon energy conservation in details in daily activities, as well as minimizes the impact of its operation on the environment. During the reporting period, the Company did not have any non-compliance with the environmental protection laws and regulations.

4.1 Energy Conservation and Emissions Reduction

The Company strictly abides by the *Environmental Protection Law of the People's Republic of China* and other relevant laws and regulations, actively promotes the concept of green and low-carbon office, and practices the concept of green development from small actions. By introducing the *Regulations on the Management of Green Office*, it advocates green office and low-carbon commute, encouraging employees to save water and electricity, so as to minimize the impact of daily operations on the environment.

During the Reporting Period, the Company continued to implement the concept of green and low-carbon office, by taking the following measures:

- Advocating “*Paperless Office*”, “*Recycling of Paper*”, “*Environment-friendly Printing*” and etc. to reduce the consumption of paper. All documents of the Company were submitted for approval through the OA office system and circulated via electronic means. Electronically stored documents were no longer printed. For documents that did need to be printed, recycled paper or double-sided printing was recommended, and for the documents of no significance, used paper was recommended.
- Advocating the “*Reuse of Office Supplies*”. It is advisable to replace the internal consumed parts to extend the normal consumption of office supplies. Replaced consumption parts, such as toner cartridges, printer ink cartridges, batteries, plastic products and paper cartons, were required to be placed in designated cabinets, and dealt with by cleaning personnel on a daily basis, and then recycled and reused periodically through special channels.

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- Advocating “*Water and Electricity Saving*”. Energy-saving lights were used in the offices and environmental protection signs were posted to encourage employees to reduce the use of elevators and save energy.
- Advocating “*Green Dining*”. The Company prepared microwave ovens for employees, and encouraged them to bring their own lunch boxes to minimize the use of disposable lunch boxes.
- Advocating “*Green Commute*”. Employees were encouraged to commute or go on a business trip by public transport instead of driving or taking a taxi as much as possible when not urgent, without carrying important documents.

The carbon emission of the Company mainly arose from indirect emission generated by the purchased electricity and purchased heat of the office. During the Reporting Period, the Company generated 20.37 tonnes (-55.95%) of carbon dioxide equivalent. The consumption of other resources is as follows:

The Consumption and Intensity of Resources of the Company

Total resource consumption	Unit	2019	2020
Paper	kg	200.00	140.52
Municipal water use	m ³	320.00	224.90
Purchased electricity	kWh	24,452.73	18,381.77
Purchased heat	GJ	205.07	259.62
Total greenhouse gas emissions	t _{CO2e}	46.23	18.61
Intensity of total greenhouse gas emissions	t _{CO2e} /no. of employees	1.93	0.78
Intensity of energy consumption	MWh/no. of employees	2.56	3.77
Intensity of water consumption	m ³ /no. of employees	10.00	9.37

Note: The data above have not accounted for the Company's Hong Kong office where only 3 employees are hired responsible for a relatively more independent operation management and consume a low amount of resources during the year.

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4.2 Waste Management

The Company always emphasizes on waste management, by classifying and recycling hazardous wastes, electronic wastes and domestic wastes, and striving to create environment-friendly and comfortable office space.

The Company designates specific collection area and set up specific recycling processes for hazardous wastes such as printer ink cartridges and waste light tubes pursuant to the *Law of The People's Republic of China on Prevention of Environmental Pollution by Solid Wastes*. For electronic wastes, the Company provides specialized treatment pursuant to the *Management Measures on Prevention of Environmental Pollution by Electronic Wastes*, disposing electronic wastes such as discarded magnetic disks, computer accessories and used batteries collectively according to their categories in such a way to minimize their environmental impacts.

During the Reporting Period, an insignificant portion of hazardous wastes was generated such as cleaning chemicals, pesticides, electrical equipment, batteries and fluorescent light bulbs from the Company's office operations, which had been properly disposed by the above mentioned process.

For domestic wastes, the Company sets up different kinds of dustbins in the office area to separate kitchen wastes, recyclable wastes and other wastes and guide the employees to classify wastes properly. In addition, cleaning staff is arranged to clear the wastes at regular intervals every day and carry out disinfection of the dustbins.

Due to the characteristics of the Company's business, the operating activities will not have material impact on natural resources, or involve the use of packaging materials.

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5 Working with the Employees to Benefit the Community

The Company always views “people” as the most precious wealth of a Company. Internally, the Company adopts the human management concept and properly protects the legal rights and interests of employees. The Company takes good care of employees and pay attention to their trainings to create a cohesive corporate culture, and at the same time, devotes to give back to the community, fostering a harmonious relationship with the community through community care, support work.

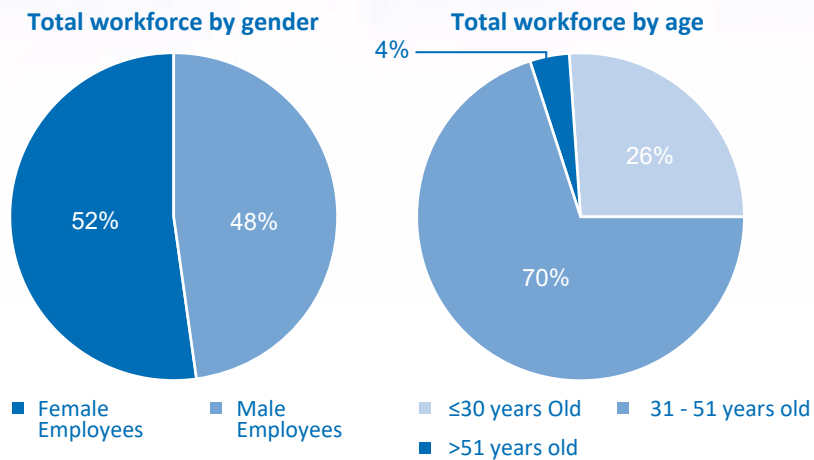
5.1 Protecting Employee's Interests

The Company is in strict accordance with the laws and regulations such as *the Labor Law of the People's Republic of China*, the *Labor Contract Law*, the *Regulation on the Prohibition of Child Labor*, sticks to legitimate employment and prevents child labor and forced labor from happening at all costs. There has been no incident nor any complaints of violations related in human rights or labor codes in the Reporting Period. The Company employs people through fair and open channels, adhering to equal opportunity employment and the principle of matching positions with the right people. Any forms of discrimination such as gender, ethnicity, marital status, and religion is strictly prohibited in employment process, remuneration system, training, and promotion mechanism.

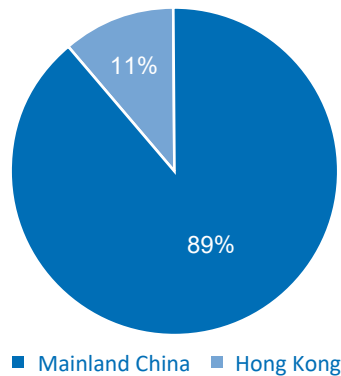
During the reporting period, the Company continuously improves the management system of human resources, adding a new avoidance of nepotism policy whereby employees shall abstain from appointment or business dealings relating to families or relatives, safe-guarding the equal development opportunity of employees and providing a development platform for diversified talents. Our remuneration packages are competitive and not lower than our peer level. The Group makes contributions to the “*Five Social Insurances and One Housing Fund*” and supplementary medical insurance for all our contract employees, with their coverage rate reaching 100%.

As at December 31, 2020, the Group had 27 full time employees in total with 14 female employees, representing 52% of the whole staff.

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Total workforce by geographical region



Due to the economy uncertainty, the Company tends to employ less new staff, therefore the low existing employee formulate the relative high turnover rate. The employee turnover rate for the Reporting Period disclose as follow:

Employee Turnover Rate

Overall employee turnover rate	46%
Turnover rate by Age Group	
≤30 years old	57%
31 – 51 years old	38%

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5.2 Facilitate Employee's Growth

Talents are the core competitiveness of the Company. As always, the Company develops the ability of every employee and facilitates their growth by identifying key positions, establishing a talent echelon, regulating the management process, sustaining improvement of employees' professional development path, refining the system of employee training and development and creating a comprehensive award colligation mechanism.

The Company refines its job ranking system to perfect the talent development path. The positions in non-technical hierarchy and technical hierarchy are well organized. According to employees' work experience, knowledge, skills and other factors, the Company identified the hierarchy and rank which the employees positioned in, as well as the corresponding salary standard. For identifying talents and maintaining a sound employee promotion path, the Company carries out its appraisal on monthly basis. The monthly performance bonus will be reviewed with reference to the employees' appraisal results, so as to ensure that all employees have enjoyed fair and smooth promotion opportunities.

The Company provides diverse professional training courses to employees on different tiers, raising competence in their current positions. Through these courses, knowledge, skills, working methods of the employees are improved and raised, realizing their personal values in the process of common development with the Company. The Company divides its employees' development requirements through GOME Finance Technology Training Management Measures, matching the resources required for development in accordance to the actual needs of employees. Training works can be proceeded in an orderly manner, thus effectively raises the professional quality of our employees and increases the corporation's soft power.

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2020 Training Programs of the Company

Orientation and Company's Culture	<p>Have a basic understanding of the current situation of the company and the culture that the company promotes.</p> <p>Number of session: 2</p> <p>Form: Online assembly and submit learning experience after class</p>
Company policy and Compliance	<p>Industry violations occur from time to time. In order to protect the interests of the company and customers and comply with regulatory requirements, it is necessary to continuously improve employees' awareness of legal compliance.</p> <p>Number of session: 2</p> <p>Form: Online assembly and case study</p>
Leadership Training	<p>Specifically designed for the leadership development of mid- and high-level managerial personnel, with courses including sandbox deduction in operation management, high performance team, and innovative decoding, to comprehensively enhance the leadership capability of the managers.</p> <p>Number of session: 4</p> <p>Form: Online assembly, submit learning experience and review regularly</p>
Experts' sharing meeting	<p>Influential experts from relevant areas were invited both internally and externally to share on specific topics, with contents including financial knowledge, technological languages, cutting-edge science and technology, to comprehensively improve the employees' professional development.</p> <p>Number of session: 6</p> <p>Form: Online sharing</p>

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Percentage of Employees Trained by Grade and Average Hours of Training of the Company in 2020

	Distribution of Employee grade	Percentage of Employees Trained	Average Hours of Training
Senior Level	4%	100%	8
Middle Level	57%	100%	29
General	39%	100%	33
Total	100%	N/A	N/A

Note: The data above have not accounted for the Company's Hong Kong office where only 3 employees are hired.

5.3 Employee Cares

The Company provides a comfortable working environment for our employees and set up a special activity room for our employees as a place for rest, where shoulder and neck massages were provided to employees from time to time for the relieve of fatigue. Moreover, employees are also provided with diversified welfare policies such as holiday gifts, employees' birthday parties and afternoon tea.

At the same time, the Company cares for the employees' health. Medical examination is arranged for the employees annually.

With the outbreak of COVID-19 brought huge challenges to the Group. One of the crucial tasks was to promote the resumption of work and production, during this special period, it was even more important to safeguard the health rights of employees and care about the their physical and mental health.

The Company proactively distributed disinfection materials and medical masks to employees, and conducted regular health examinations for employees on necessary business trips while the Company conducted health lectures in various forms and offered medical consultation services.

Also, the Company comply to the *Guidelines for prevention and control of office premises during the epidemic of new coronavirus pneumonia* issued by Beijing Center for Disease Prevention and Control implement the preventive measures and the notice issued by Beijing Government to arrange staff work from home and rotation duties in order to prevent crowd gathering and office infection.

The Company timely released related knowledge-based newsfeed on pandemic prevention and control for all employees via email to raise their awareness of risks. In this way, the Company could guarantee their security and enable employee resume work safely in an exhaustive and multidimensional manner, thus achieving zero infection in workplace. All these efforts have made great contribution to the normal operation of each business line of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.4 *Giving Back to Community Development*

As a member of the community, the Company is enthusiastic about social welfare and proactive in assuming corporate social responsibility, and giving back to the community with love. The Company actively responded to Gome Group's advocacy of promoting public welfare and encouraged employees to participate in all kinds of welfare activities such as community assistance, caring visits and donation of books activities, facilitating the harmonious development of community.

INDEPENDENT AUDITOR'S REPORT



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

Opinion

We have audited the consolidated financial statements of Gome Finance Technology Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) set out on pages 94 to 187, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

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

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of trade and loans receivables</i>	
<p>The Group uses complex models and assumptions in the measurement of expected credit losses ("ECL") of its trade and loans receivables. These models and assumptions relate to future macroeconomic conditions and the creditworthiness of borrowers. The Group uses judgements, assumptions and estimates in the measurement of ECL in accordance with the requirements of HKFRS 9 "Financial Instruments", for example:</p> <ul style="list-style-type: none">• The selection of criteria for identifying significant increases in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses of loans with longer remaining maturities;• Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; and• Individual impairment assessments are dependent upon estimates of future cash flows.	<p>We inquired the Group's management to understand the approach applied on ECL models.</p> <p>We obtained an understanding of the key controls relating to how management estimates impairment of trade and loans receivables, including relevant data quality.</p> <p>We selected samples of trade and loans receivables based on credit risk characteristics and performed loan review procedures. We assessed the debtors' repayment ability and evaluated the Group's trade and loans receivable grading.</p> <p>We reviewed the Group's historical loss experience.</p> <p>We evaluated and tested the key parameters of the expected credit loss models, management's major judgements and related assumptions.</p> <p>We tested mathematical accuracy of the loss allowance for ECL.</p> <p>We checked relevant disclosures in the consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
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Impairment assessment of trade and loans receivables (continued)

Since trade and loans receivable impairment assessment involved significant management judgements and assumptions, and the amounts of gross trade and loans receivables of approximately RMB786,827,000, and impairment of trade and loans receivables of approximately RMB45,818,000 were significant, we consider it as a key audit matter.

Relevant disclosures are included in note 3 and note 16.

Existence and recoverability of prepayment for acquisition of a third-party payment company

In connection with a proposed acquisition of Tianjin Guanchuang Mei Tong Electronic Commerce Limited (the "Target Company"), in a circular dated 29 June 2017, the Group announced that Gome Xinda Commercial Factoring Limited (the "Xinda Factoring"), a wholly-owned subsidiary of the Group, entered into a loan agreement with Beijing Bosheng Huifeng Business Consulting Co., Limited (the "OPCO"), a company 90% owned by a controlling shareholder of the Company, pursuant to which Xinda Factoring agreed to provide a non-interest bearing loan of a maximum amount of RMB720,000,000 to the OPCO solely for the purpose of acquiring the Target Company from Tibet Yang Guan LLP and Mr. Mao Deyi (together the "Sellers"). Pursuant to the loan agreement, the loan shall be repayable within 10 working days if the abovementioned equity acquisition transaction has been cancelled.

We discussed with the Group's management about the progress of the acquisition and enquired the reason for the delay in completion. We confirmed with the Group's management their intention not to cancel the equity share transfer agreement even though more than 24 months have passed since signing of the loan agreement and equity share transfer agreement.

We interviewed the Group's project task force and reviewed a status memo prepared by the Group's project task force who has been following up on the acquisition with the People's Bank of China.

We reviewed the loan agreement and the equity share transfer agreement.

We checked the payment for the loan drawn by the OPCO and the transfer from the OPCO to the Sellers.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Existence and recoverability of prepayment for acquisition of a third-party payment company (continued)</i>	
<p>The OPCO and the Sellers entered into an equity share transfer agreement dated 25 July 2017, pursuant to which the OPCO agreed to buy and the Sellers agreed to sell the entire equity interest of the Target Company. Pursuant to the agreement, after 24 months of the date of signing of the agreement, if the transaction has not been completed, the OPCO is entitled to notify the Sellers for cancelling the transaction and all prepayment made for the acquisition shall be refunded to the OPCO.</p>	<p>We sent confirmation to the OPCO and the Sellers to verify the existence of the prepayment.</p>
<p>The OPCO is a PRC incorporated limited company 90% owned by Ms. Du Juan, a controlling shareholder of the Company.</p>	<p>We performed search of company background information on the OPCO and the Target Company.</p>
<p>As at 31 December 2020, the transaction has not yet been completed and RMB576,000,000 had been paid to the OPCO according to the aforesaid loan agreement and was recorded as a prepayment by the Group. The Group assessed the carrying value of the prepayment based on an external valuation performed by an independent valuer of business value of the Target Company.</p>	<p>We obtained external valuation report assessing the business value of the Target Company. With the assistance from an independent valuation specialist engaged by us, we discussed with the external valuer engaged by the Group and challenged the valuation process, valuation model, methodologies used and market evidence to support significant judgements and assumptions applied in the valuation model.</p>
<p>Since the amount of the prepayment involved was significant and more than 24 months has lapsed since the signing of the loan agreement and equity share transfer agreement, we considered that the existence and recoverability of the amount of prepayment is a key audit matter.</p>	<p>We evaluated the competence, capabilities, objectivity and independence of the external valuer.</p>
<p>Relevant disclosures are included in note 3, note 17 and note 29(b).</p>	<p>We checked relevant disclosures in the consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="204 390 794 418"><i>Related party transactions and disclosures</i></p> <p data-bbox="204 444 794 789">The Group has under taken a number of transactions with related parties, including providing commercial factoring loans to companies indirectly controlled by close members of the beneficial controlling person of the Group. Related party relationships, particularly those not on arm's length terms, if any, may affect the financial performance of the Group.</p> <p data-bbox="204 842 794 1069">During the year ended 31 December 2020, a significant amount of interest income was derived from commercial factoring loans to related parties, which amounted to RMB7,423,000 approximately, representing 8.5% of the Group's total revenue.</p> <p data-bbox="204 1123 794 1144">Relevant disclosures are included in note 29.</p>	<p data-bbox="837 444 1431 584">We discussed with the Group's management and evaluated the management's process for identifying and recording related party transactions.</p> <p data-bbox="837 638 1431 950">We read contracts and agreements with related parties to obtain an understanding of the nature of the transactions, compared the terms of related party transactions to terms of arm's length transactions and performed revenue cut-off testing at the year-end. We kept professional skepticism on related party transactions.</p> <p data-bbox="837 1004 1431 1144">We reviewed supporting documents of significant transactions carried out by the Group during the year to ensure completeness of disclosure of related party transactions.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Derecognition of financial assets</i> The Group entered into transfer agreements of creditor's rights and transferred certain trade and loans receivables to certain companies, which involved management's assessment upon whether derecognition should be applied to part of a financial asset or the financial asset in its entirety, as well as the evaluation of whether, and to what extent, derecognition is appropriate. Considering the significant impact and the usage of judgement and subjective estimation by the management in relation to the accounting treatment, we treated the derecognition of financial assets as a key audit matter. During the year ended 31 December 2020, the trade and loans receivables amounting to approximately RMB50,000,000 had been derecognised by the Group (2019: RMB118,836,000). Relevant disclosures are included in note 28.	 Our audit procedures included obtaining and reviewing related contracts and agreements, mainly with regard to the nature and purpose of the financial assets transferred, the Group's exposure, before and after the transfer, to the variability in the amounts and timing of the net cash flows of the transferred assets, and reviewing whether the Group had retained the control of the transferred assets. We checked relevant disclosures in the consolidated financial statements.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 prepared in accordance with Hong Kong Financial Reporting Standards were audited by another auditor who expressed an unmodified opinion on those statements on 27 March 2020.

Other information included in the Annual Report

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (continued)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Moore Stephens CPA Limited

Certified Public Accountants

Chu Mei Yue, Michelle

Practising Certificate Number: P05826

Hong Kong, 26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	86,664	69,886
Other income and gains	5	31,254	29,363
Administrative expenses		(30,506)	(73,204)
Provision for expected credit loss on trade and loans receivables	16	(22,402)	(25,434)
Finance costs	7	(40,457)	(40,806)
(Losses)/gains on financial assets at fair value through profit or loss	6	(1,974)	4,999
Profit/(loss) before tax	6	22,579	(35,196)
Income tax (expense)/credit	10	(8,263)	3,228
Profit/(loss) for the year		14,316	(31,968)
Attributable to:			
Owners of the Company		14,316	(31,968)
Earnings/(loss) per share attributable to ordinary equity holders of the Company	12		
Basic and diluted			
Earnings/(loss) per share		RMB0.53 cents	RMB(1.18) cents

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

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

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Profit/(loss) for the year	14,316	(31,968)
Other comprehensive (loss)/income:		
Other comprehensive (loss)/income that may not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation from functional currency to presentation currency	(60,500)	21,695
Other comprehensive (loss)/income for the year, net of tax	(60,500)	21,695
Total comprehensive loss for the year	(46,184)	(10,273)
Attributable to:		
Owners of the Company	(46,184)	(10,273)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Trade and loans receivables	16	–	33,851
Prepayment	17	576,000	576,000
Right-of-use assets	14	1,902	4,190
Property, plant and equipment	13	397	723
Other intangible assets	15	–	–
Deferred tax assets	23	5,463	8,469
Total non-current assets		583,762	623,233
Current assets			
Trade and loans receivables	16	741,009	737,966
Prepayments, other receivables and other assets	17	9,130	16,844
Financial assets at fair value through profit or loss	31(b)	149,451	105,657
Pledged deposits for bank loans	18	734,704	922,865
Cash and cash equivalents	18	350,228	316,429
Total current assets		1,984,522	2,099,761
Current liabilities			
Trade payables	19	7,607	2,249
Other payables and accruals	20	11,782	8,459
Tax payables		8,130	4,292
Interest-bearing bank and other borrowings	21	809,500	927,000
Lease liabilities	14	1,202	–
Total current liabilities		838,221	942,000
Net current assets		1,146,301	1,157,761
Total assets less current liabilities		1,730,063	1,780,994

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Bonds issued	22	28,223	29,495
Lease liabilities	14	650	4,125
Total non-current liabilities		28,873	33,620
Net assets			
		1,701,190	1,747,374
Equity			
Equity attributable to owners of the Company			
Share capital	24	230,159	230,159
Reserves	26	1,471,031	1,517,215
Total equity		1,701,190	1,747,374

Approved and authorised for issue by the board of directors on 26 March 2021.

Zhou Yafei
Director

Wei Qiuli
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company								Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Reserves				Total reserves RMB'000	
				Capital reserves RMB'000	Revaluation reserves RMB'000	Exchange reserves RMB'000	Accumulated losses RMB'000		
At 1 January 2019	230,159	1,944,601	520,838	87,072	603	(40,705)	(984,921)	1,527,488	1,757,647
Loss for the year	-	-	-	-	-	-	(31,968)	(31,968)	(31,968)
Exchange differences on translation from functional currency to presentation currency	-	-	-	-	-	21,695	-	21,695	21,695
Total comprehensive income/(loss) for the year	-	-	-	-	-	21,695	(31,968)	(10,273)	(10,273)
At 31 December 2019	230,159	1,944,601	520,838	87,072	603	(19,010)	(1,016,889)	1,517,215	1,747,374
Profit for the year	-	-	-	-	-	-	14,316	14,316	14,316
Exchange differences on translation from functional currency to presentation currency	-	-	-	-	-	(60,500)	-	(60,500)	(60,500)
Total comprehensive income/(loss) for the year	-	-	-	-	-	(60,500)	14,316	(46,184)	(46,184)
At 31 December 2020	230,159	1,944,601	520,838	87,072	603	(79,510)	(1,002,573)	1,471,031	1,701,190

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

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/(loss) before tax:		22,579	(35,196)
Adjustments for:			
Written off of prepayments, other receivables and other assets	6	4,669	–
Bank interest income	5	(26,739)	(33,787)
Finance costs	7	40,457	40,806
Losses/(gains) on financial assets at fair value through profit or loss	6	1,974	(4,999)
Provision for impairment loss on trade and loans receivables	16	22,402	25,434
Depreciation	13	303	443
Depreciation of right-of-use assets	14	1,459	1,764
Amortisation of intangible assets	15	–	5,100
Software maintenance		–	2,590
Impairment of prepayments, other receivables and other assets	6	–	11,254
Impairment of Intangible assets	6	–	7,500
Exchange (gains)/losses	5	(3,799)	5,620
(Gain)/loss on disposal of property, plant and equipment		(9)	165
		63,296	26,694
Decrease/(increase) in trade and loans receivables		8,406	(183,015)
Decrease in prepayments, other receivables and other assets		5,214	4,257
Increase/(decrease) in trade payables		72	(365)
Increase/(decrease) in other payables and accruals		3,323	(4,470)
Cash generated from /(used in) operations		80,311	(156,899)
Income tax (paid)/refunded		(1,256)	331
Net cash generated from/(used) in operating activities		79,055	(156,568)

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from investing activities			
Interest received		24,570	29,125
Purchases of property, plant and equipment	13	–	(9)
Proceeds from disposal of property, plant and equipment		13	–
Gains on financial assets at fair value through profit or loss		–	5,061
Proceeds from disposal of financial assets at fair value through profit or loss		108,511	605,000
Purchases of financial assets at fair value through profit or loss		(154,000)	(579,000)
Decrease/(increase) in pledged deposit for bank loans		139,808	(13,315)
Net cash generated from investing activities		118,902	46,862
Cash flows from financing activities			
New borrowings		809,500	1,082,000
Repayment of borrowings		(927,000)	(929,000)
Principal portion of lease payments		(1,443)	(1,539)
Interest and other finance charges paid		(36,191)	(40,905)
Net cash (used in)/generated from financing activities		(155,134)	110,556
Effect of foreign exchange rate changes		(9,024)	(2,942)
Net increase/(decrease) in cash and cash equivalents		33,799	(2,092)
Cash and cash equivalents at beginning of year		316,429	318,521
Cash and cash equivalents at end of year	18	350,228	316,429
Analysis of balances of cash and cash equivalents			
Cash and bank balances		350,228	316,429

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of its subsidiaries comprise commercial factoring, financial leasing and other financial services in Mainland China.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2020 (%)	2019 (%)	
Ability Wealth Holdings Limited*	British Virgin Islands	HKD390,000 Ordinary	100*	100*	Investment holding
Guangdong Lido Pawnshop Co., Ltd. (Note)*®	Mainland China	RMB100,000,000 Registered capital	100	100	Ceased operations
Guangzhou City Yuenqian Investment Consultancy Limited Liability Company*®	Mainland China	HKD750,000 Registered capital	100	100	Consultation service
Gome Xinda Commercial Factoring Limited*® (“Xinda Factoring”)	Mainland China	RMB1,000,000,000 Registered capital	100	100	Commercial factoring
Tianjin Gome Financial Leasing Company Limited*®	Mainland China	RMB500,000,000 Registered capital	100	100	Financial leasing
Gome Wangjin (Beijing) Technology Co., Ltd.*®	Mainland China	RMB50,000,000 Registered capital	100	100	Financial information service

Directly held

* The statutory/separate financial statements of these subsidiaries are not audited by Moore Stephens CPA Limited or another member firm of Moore Global Network Limited.

® These subsidiaries are registered as wholly-foreign-owned enterprises under the law of the People’s Republic of China (“PRC”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

For the year ended 31 December 2020, the revenue subject to contractual arrangements was nil (2019: nil). As at 31 December 2020, the total assets and the trade and loans receivables (net of provision of impairment loss) subject to the contractual arrangements amounted to approximately RMB96,210,000 (including an amount due from a group company of RMB96,100,000) and nil (2019: approximately RMB100,741,000 and RMB3,000).

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the years ended 31 December 2020 and 2019 or formed a substantial portion of the net assets of the Group as at 31 December 2020 and 2019. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the years ended 31 December 2020 and 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the preparation of the consolidated financial statements for the year ended 31 December 2020, the Group has applied, for the first time, the following revised standards issued by the HKICPA.

Amendments to HKAS1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, in the preparation of the consolidated financial statements for the year ended 31 December 2020, the Group has early applied the Amendments to HKFRS 16 Covid-19-Related Rent Concessions, which are mandatorily effective for annual reporting periods beginning on or after 1 June 2020.

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the consolidated financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

2.2.2 Impacts on application of Amendments to HKFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.2 Impacts on application of Amendments to HKFRS 3 *Definition of a Business* (continued)

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

2.2.3 Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to entities where they apply hedge accounting to their benchmark interest rate exposures.

The amendments had no impact on the consolidated financial statements of the Group.

2.2.4 Impacts on early application of Amendment to HKFRS 16 *Covid-19-Related Rent Concessions*

The Group has early applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- 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;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2.4 Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions (continued)

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB86,000, which has been recognised as variable lease payments in profit or loss for the current year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

		Effective for annual reporting periods beginning on or after
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020	1 January 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the “Conceptual Framework”) instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010);
- add a requirement that, for transactions and other events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures to accompany the amendments regarding modifications and hedge accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* (continued)

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;
- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) What is meant by a right to defer settlement;
 - (ii) That a right to defer must exist at the end of the reporting period;
 - (iii) That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
 - (iv) That only if an option at the discretion of the counterparty included in the terms of a convertible liability is itself an equity instrument in accordance with HKAS 32 Financial Instrument: Presentation would not affect the current or non-current classification of the liability.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

The amendments require retrospective application.

Amendments to HKAS 16 *Property, Plant and Equipment – Proceeds before Intended Use*

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items is measured in accordance with HKAS 2 Inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, the unavoidable costs under the contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The application of the above amendments is not expected to have significant impact on the financial position and performance of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

Licences

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

Leases

Definition of a lease

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold property that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The Group mainly leases office premises as right-of-use assets. Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, any lease payments made at or before the commencement date less any lease incentives received, and an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities (continued)

Lease modifications (continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- 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;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at amortised cost (continued)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired. Interest income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets at fair value through other comprehensive income

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

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (continued)

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

Financial assets at fair value through profit or loss

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

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

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- 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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when the financial instrument has been downgraded within the five-tier loan classification or the debtor's contractual payments (including principal and interest) are past due for certain days.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. Irrespective of the above, the Group considers that default has occurred when the financial instrument is overdue and remained unsettled despite follow-up actions have been taken.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

The Group classified its trade and loans receivables into five-tiers:

Commercial factoring loans:

Normal	Not yet due
Special mention	Past due for 1-90 days
Substandard	Past due for 91-180 days
Doubtful	Past due for 181-365 days
Loss	Past due over 365 days

Finance lease receivables – Motor vehicles:

Normal	Not yet due and overdue for 30 days
Special mention	Past due for 31-60 days
Substandard	Past due for 61-120 days
Doubtful	Past due for 121-210 days
Loss	Past due over 211 days

Finance lease receivables – Mobile phones:

Normal	Not yet due
Special mention	Past due for 1-30 days
Substandard	Past due for 31-60 days
Doubtful	Past due for 61-120 days
Loss	Past due over 121 days

Personal properties pawn loans and other trade receivables:

Normal	Not yet due and overdue for 60 days
Special mention	Past due for 61-120 days
Substandard	Past due for 121-180 days
Doubtful	Past due for 181-365 days
Loss	Past due over 365 days

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

- (e) the disappearance of an active market for that financial asset because of financial difficulties.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments
- Stage 3: Financial assets with objective evidence of impairment at the reporting date are included in Stage 3, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments

Simplified approach

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risk. Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Offsetting of financial instruments

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

Cash and cash equivalents

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

Provisions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when (or as) a performance obligation is satisfied, i.e. when control of services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- The Group's performance 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Financial information service income are recognised when the services are provided.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

Other employee benefits

Retirement benefit schemes

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee long service payment

The provision for long service is provided based on the employees' basic salaries and their respective length of service in accordance with the applicable rules and regulations in their respective countries of employment.

Borrowing costs

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

Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgments

In the process of applying the Group's accounting policies, the directors have made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

Acquisition of Tianjin Guanchuang Mei Tong Electronic Commerce Limited ("TJGCMT")

As disclosed in the Company's circular dated 29 June 2017, Xinda Factoring, a subsidiary of the Group, entered into a loan agreement with Beijing Bosheng Huifeng Business Consulting Co., Limited (the "OPCO") a company 90% owned by a controlling shareholder of the Company, meanwhile the OPCO, and Tibet Yang Guan LLP and Mr. Mao Deyi (together the "Sellers") entered into a framework agreement, pursuant to which Xinda Factoring agreed to provide a non-interest-bearing loan of an amount of RMB720 million to the OPCO solely for the Group's purpose of acquiring the entire equity interest in TJGCMT from the Sellers (the "Acquisition"). Up to 31 December 2020 and 2019, RMB576,000,000 was advanced to OPCO and it was recorded as a non-current prepayment in the consolidated statement of financial position. Although up to now, the approval from People's Bank of China ("PBOC") has not been received, the directors' intention is to continue the Acquisition. As of 31 December 2020, the directors are of the view that up to the date these consolidated financial statements were authorised for issue, all documents requested by the PBOC regarding the Acquisition have been submitted and approval from the PBOC is expected to be received in the next 3 to 21 months.

Estimation uncertainty

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

Impairment of trade and loans receivables

The policy for provision for impairment of trade and loans receivables and prepayments of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables and prepayments, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details are included in note 16 and note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued) Estimation uncertainty (continued)

Impairment of non-financial assets

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

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset. Further details are included in note 15 and note 17.

In relation to the prepayment to acquire TJGCMT, management assessed the recoverable amount of the prepayment by reference to an external valuation performed by an independent valuer of the business value of TJGCMT. At 31 December 2020 and 2019, management concluded that no impairment should be recognised on the prepayment.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

4 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the internal reports reviewed and used by executive directors for strategic decision making. The executive directors consider the business from a product and service perspective. The Group's business is divided into three operating segments, namely commercial factoring business, finance lease business and other financing services segments. Summary of details of the operating segments is as follows:

Operating segments	Nature of business activities
Commercial factoring business	Commercial factoring business in Mainland China
Finance lease business	Finance lease business in Mainland China
Other financing services	Financial information services and consultation service in Mainland China

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

4 OPERATING SEGMENT INFORMATION (continued)

	Year ended 31 December 2020			
	Commercial factoring business RMB'000	Finance lease business RMB'000	Other financing services RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers	70,141	9,054	7,469	86,664
Segment results	41,423	(245)	2,154	43,332
<i>Reconciliation:</i>				
Bank interest income				8,443
Losses on financial assets at fair value through profit or loss				(4,803)
Finance costs				(14,969)
Exchange gain				3,799
Unallocated expenses				(13,223)
Profit before tax				22,579
Income tax expenses				(8,263)
Profit for the year				<u>14,316</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

4 OPERATING SEGMENT INFORMATION (continued)

	At 31 December 2020			
	Commercial factoring business RMB'000	Finance lease business RMB'000	Other financing services RMB'000	Total RMB'000
Segment assets	1,439,277	119,797	3,757	1,562,831
<i>Reconciliation:</i>				
Unallocated assets				1,005,453
Total assets				2,568,284
Segment liabilities	829,414	4,711	573	834,698
<i>Reconciliation:</i>				
Unallocated liabilities				32,396
Total liabilities				867,094

	Year ended 31 December 2020				
	Commercial factoring business RMB'000	Finance lease business RMB'000	Other financing services RMB'000	Unallocated items RMB'000	Total RMB'000
Other segment information:					
Depreciation and amortisation	877	264	475	146	1,762
Provision for ECL on trade and loans receivables	17,242	5,160	–	–	22,402
Written off of prepayments, other receivables and other assets	–	–	–	4,669	4,669
Additions to non-current assets	1,850	600	–	–	2,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

4 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019

	Commercial factoring business RMB'000	Finance lease business RMB'000	Other financing services RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers	43,794	13,359	12,733	69,886
Segment results	(11,644)	(8,102)	(16,921)	(36,667)
<i>Reconciliation:</i>				
Bank interest income				33,787
Finance costs				(17,034)
Exchange loss				(5,620)
Unallocated expenses				(9,662)
Loss before taxation				(35,196)
Taxation				3,228
Loss for the year				(31,968)

At 31 December 2019

	Commercial factoring business RMB'000	Finance lease business RMB'000	Other financing services RMB'000	Total RMB'000
Segment assets	1,267,205	312,510	113,938	1,693,653
<i>Reconciliation:</i>				
Unallocated assets				1,029,341
Total assets				2,722,994
Segment liabilities	830,360	106,623	7,547	944,530
<i>Reconciliation:</i>				
Unallocated liabilities				31,090
Total liabilities				975,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

4 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019

	Commercial factoring business RMB'000	Finance lease business RMB'000	Other financing services RMB'000	Unallocated items RMB'000	Total RMB'000
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Other segment information:

Depreciation and amortisation	2,743	1,405	3,159	–	7,307
Provision for/(reversal of) ECL on trade and loans receivables	19,857	5,933	(356)	–	25,434
Impairment of intangible assets	2,667	1,500	3,333	–	7,500
Impairment of prepayments, other receivables and other assets	5,893	3,246	2,115	–	11,254
Additions to non-current assets	–	–	9	–	9

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
Hong Kong	–	–
Mainland China	86,664	69,886
	86,664	69,886

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

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
Hong Kong	282	562
Mainland China	578,017	580,351
	578,299	580,913

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

Information about major customers

Interest income derived from commercial factoring loans receivables of approximately RMB31,136,000 and RMB14,231,000 for the year ended 31 December 2020 were from the largest and second largest customers, respectively (2019: RMB4,503,000 from the largest customer).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

5 REVENUE, OTHER INCOME AND GAINS

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

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers not within the scope of HKFRS 15		
Interest income		
Commercial factoring loans	70,141	43,794
Finance lease receivables	9,054	13,359
	<u>79,195</u>	<u>57,153</u>
Revenue from contracts with customers within the scope of HKFRS 15		
Financial information service income – point in time	7,469	12,733
	<u>86,664</u>	<u>69,886</u>
Other income		
Bank interest income	26,739	33,787
Rent concession	86	–
Others	630	1,196
	<u>27,455</u>	<u>34,983</u>
Other gains/(losses)		
Exchange gains/(losses)	3,799	(5,620)
	<u>31,254</u>	<u>29,363</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

6 PROFIT/(LOSS) BEFORE TAX

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

	2020 RMB'000	2019 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 8)):		
Wages and salaries	10,386	25,044
Retirement benefit scheme contributions	163	2,400
	<u>10,549</u>	<u>27,444</u>
Written off of prepayments, other receivables and other assets	4,669	–
Losses/(gains) on financial assets at fair value through profit or loss	1,974	(4,999)
Provision for ECL on trade and loans receivables (Note 16)	22,402	25,434
Impairment of prepayments, other receivables and other assets (Note 17)	–	11,254
Impairment of intangible assets (Note 15)	–	7,500
Amortisation of intangible assets (Note 15)	–	5,100
Auditor's remuneration	840	1,109
Depreciation of property, plant and equipment (Note 13)	303	443
Depreciation of right-of-use assets	1,459	1,764
Short-term leases	1,923	2,222
	<u><u>40,457</u></u>	<u><u>40,806</u></u>

7 FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest expenses on:		
Bank and other borrowings	37,628	37,919
Bonds issued	2,718	2,643
Lease liabilities	111	244
	<u>40,457</u>	<u>40,806</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

8 DIRECTORS' REMUNERATION

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

	2020 RMB'000	2019 RMB'000
Fees	1,350	1,309
Other emoluments:		
Salaries, allowances and benefits in kind	1,440	1,705
Pension scheme contributions	–	24
	1,440	1,729
	2,790	3,038

In prior years, certain directors were granted share options, in respect of their services to the Group under the share option schemes of the Company, further details are included in note 25. The fair value of such options, which was recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current period was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2020 RMB'000	2019 RMB'000
Mr. Hung Ka Hai, Clement	284	282
Mr. Li Liangwen (Note i)	–	114
Mr. Zhang Liqing	284	282
Mr. Wan Jianhua	284	282
Mr. Cao Dakuan (Note ii)	284	95
	1,136	1,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

8 DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2020				
Executive directors				
Ms. Chen Wei	107	1,440	–	1,547
Mr. Chung Tat Fun (Note iv)	–	–	–	–
Non-executive director				
Ms. Wei Qiuli	107	–	–	107
	214	1,440	–	1,654

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2019				
Executive directors				
Ms. Chen Wei	106	1,434	–	1,540
Mr. Ding Donghua (Note iii)	43	271	24	338
Mr. Chung Tat Fun	–	–	–	–
Non-executive director				
Ms. Wei Qiuli	105	–	–	105
	254	1,705	24	1,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

8 DIRECTORS' REMUNERATION (continued)

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

Notes:

- (i) Mr. Li Liangwen retired as an independent non-executive director on 27 May 2019.
- (ii) Mr. Cao Dakuan was appointed as an independent non-executive director on 29 August 2019.
- (iii) Mr. Ding Donghua retired as an executive director on 27 May 2019.
- (iv) Mr. Chung Tat Fun retired as an executive director on 29 June 2020.

For the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2020, included 1 director (2019: 1), details of whose remuneration are included in note 8 above. Details of the remuneration for the year of the remaining 4 (2019: 4) non-director, highest paid employees are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	2,387	2,750
Pension scheme contributions	28	140
	<u>2,415</u>	<u>2,890</u>

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

	2020	2019
Nil to RMB1,000,000	3	4
RMB1,000,001 to RMB1,500,000	1	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

9 FIVE HIGHEST PAID EMPLOYEES (continued)

In prior years, share options were granted to certain non-director, highest paid employees in respect of their services to the Group, further details of which are included in note 25. The fair value of such options, which is recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

For the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10 INCOME TAX

No provision of Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the years ended 31 December 2020 and 2019. Mainland China income tax has been provided at the rate of 25% for the year ended 31 December 2020 (2019: 25%) on the estimated assessable profits arising in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	2020 RMB'000	2019 RMB'000
Current income tax		
– Mainland China	5,257	1,022
Total current tax	5,257	1,022
Deferred tax (Note 23)	3,006	(4,250)
Total tax expense/(credit) for the year	8,263	(3,228)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

10 INCOME TAX (continued)

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

	2020 RMB'000	2019 RMB'000
Profit/(loss) before tax	22,579	(35,196)
Tax at the statutory tax rates	4,739	(9,579)
Income not subject to tax	(5,300)	(3,958)
Expenses not deductible for tax	2,814	2,161
Tax losses not recognised	3,169	3,948
Temporary differences not recognised	4,115	4,791
Utilisation of previously unrecognised tax losses	(1,015)	(147)
Utilisation of previously unrecognised temporary differences	–	(427)
Adjustments in respect of current tax of previous periods	(387)	(17)
Others	128	–
Tax expense/(credit) at the Group's effective rates	8,263	(3,228)

11 DIVIDENDS

The directors did not recommend the payment of any dividend for the years ended 31 December 2020 and 2019.

12 EARNINGS/(LOSS)PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted earnings/(loss) per share amount is based on the profit or loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,701,123,120 (2019: 2,701,123,120) in issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

12 EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue for the years ended 31 December 2020 and 2019. The basic earnings/(loss) per share equals to the diluted earnings/(loss) per share.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2020 RMB'000	2019 RMB'000
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic and diluted earnings/(loss) per share calculation	<u>14,316</u>	<u>(31,968)</u>
	2020 '000	2019 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings/(loss) per share calculation	<u>2,701,123</u>	<u>2,701,123</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicle RMB'000	Total RMB'000
Cost:				
At 1 January 2019	5,823	2,906	1,613	10,342
Additions	–	9	–	9
Disposal	(2,155)	(1,065)	–	(3,220)
Exchange difference	47	22	16	85
At 31 December 2019 and 1 January 2020	3,715	1,872	1,629	7,216
Disposal	–	(98)	–	(98)
Exchange difference	–	(1)	(44)	(45)
At 31 December 2020	3,715	1,773	1,585	7,073
Accumulated depreciation:				
At 1 January 2019	5,823	2,546	716	9,085
Charge for the year	–	122	321	443
Disposal	(2,117)	(938)	–	(3,055)
Exchange difference	9	4	7	20
At 31 December 2019 and 1 January 2020	3,715	1,734	1,044	6,493
Charge for the year	–	24	279	303
Disposal	–	(94)	–	(94)
Exchange difference	–	–	(26)	(26)
At 31 December 2020	3,715	1,664	1,297	6,676
Net book value:				
At 1 January 2019	–	360	897	1,257
At 31 December 2019 and 1 January 2020	–	138	585	723
At 31 December 2020	–	109	288	397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

14 LEASES

The Group as a lessee

(a) *Right-of-use assets*

The carrying amount of the Group's right-of-use assets and the movements during the year is as follows:

	Office premises RMB'000
As at 1 January 2019	5,948
Depreciation charge	(1,764)
Exchange difference	6
	<hr/>
As at 31 December 2019 and 1 January 2020	4,190
Additions	2,450
Depreciation charge	(1,459)
Termination of lease	(3,279)
	<hr/>
31 December 2020	1,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

14 LEASES (continued) The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Office premises	
	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	4,125	5,657
Additions	2,364	–
Accretion of interest recognised during the year	111	244
Payments	(1,443)	(1,782)
Rent concession	(86)	–
Termination of lease	(3,218)	–
Exchange difference	(1)	6
Carrying amount at 31 December	1,852	4,125
Payable:		
Within one year	1,202	–
Within a period of more than one year but not more than two years	650	1,744
Within a period of more than two years but not more than five years	–	2,381
	1,852	4,125
Less: portion classified as current liabilities	(1,202)	–
Non-current liabilities	650	4,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

14 LEASES (continued)

The Group as a lessee (continued)

(c) *The amounts recognised in profit or loss in relation to leases are as follows:*

	Office premises	
	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	111	244
Depreciation charge of right-of-use assets	1,459	1,764
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December	1,923	2,222
Rent concession	(86)	–
Total amount recognised in profit or loss	3,407	4,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

15 OTHER INTANGIBLE ASSETS

	Pawn shop licence RMB'000	Computer software RMB'000	Total RMB'000
Cost:			
At 1 January 2019	4,656	25,541	30,197
At 31 December 2019 and 1 January 2020	4,656	25,541	30,197
At 31 December 2020	4,656	25,541	30,197
Accumulated amortisation:			
At 1 January 2019	–	12,941	12,941
Charge for the year	–	5,100	5,100
At 31 December 2019 and 1 January 2020	–	18,041	18,041
At 31 December 2020	–	18,041	18,041
Accumulated impairment losses:			
At 1 January 2019	4,656	–	4,656
Provision for the year	–	7,500	7,500
At 31 December 2019 and 1 January 2020	4,656	7,500	12,156
At 31 December 2020	4,656	7,500	12,156
Net carrying value:			
At 1 January 2019	–	12,600	12,600
At 31 December 2019 and 1 January 2020	–	–	–
At 31 December 2020	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

16 TRADE AND LOANS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade and loans receivables		
Commercial factoring loans (Note (a))	757,809	737,422
Finance lease receivables (Note (b))	24,816	67,479
Personal property pawn loans (Note (c))	3,860	3,863
Other trade receivables (Note (d))	342	6,130
	786,827	814,894
Provision for ECL	(45,818)	(43,077)
	741,009	771,817
Carrying amount analysed for reporting purpose:		
Current assets	741,009	737,966
Non-current assets	—	33,851
	741,009	771,817

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

Notes:

- (a) For commercial factoring loans arising from the Group's commercial factoring business, customers are obliged to settle the amounts according to the terms set out in the relevant contracts. The loan periods range from 30 days to 365 days. The effective interest rates of the commercial factoring loans range from 8% to 15% (2019: 11% to 15%) per annum as at 31 December 2020.

As at 31 December 2020, the commercial factoring loans with carrying amount of RMB676,246,000 (2019: RMB452,983,000) were collateralised by the customers' accounts receivables with fair values of approximately RMB866,722,000 (2019: RMB603,797,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

16 TRADE AND LOANS RECEIVABLES (continued)

Notes: (continued)

- (b) For finance lease receivables arising from the Group's leasing business, customers are obliged to settle the amounts according to the terms set out in the relevant contracts. The loan periods range from 30 days to 1,095 days. The effective interest rates of the finance lease receivables range from 6.96% to 13% (2019: 6.96% to 13%) per annum as at 31 December 2020.

	Minimum lease payments		Present value of minimum lease payments	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Finance lease receivables:				
Within one year	26,191	27,191	24,816	24,212
More than one year but not exceeding two years	—	52,788	—	43,267
Total undiscounted minimum finance lease receivables	26,191	79,979		
Less: Future finance income	(1,375)	(12,500)		
Present value of minimum finance lease receivables	24,816	67,479	24,816	67,479
Less: Portion classified as current assets			(24,816)	(24,212)
Non-current portion			—	43,267

Finance lease receivables are mainly secured by the leased assets which are motor vehicles and mobile phones with insignificant fair values at the end of each reporting period. Customers' deposits are collected and calculated based on a certain percentage of the entire value of the lease contract. Certain deposits are returned to the customers in full by end of lease period according to the terms of the lease contract. When the lease contract expires and all liabilities and obligations under the lease contract have been fulfilled, the lessor must return the full lease deposits to the lessee. The balance of the customers' deposits can also be applied and used to settle any outstanding lease payments for the corresponding lease contract. As at 31 December 2020, the customers' deposits of RMB175,000 (2019: RMB177,000) (note 20) will be returned to the customers in full by the end of lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

16 TRADE AND LOANS RECEIVABLES (continued)

Notes: (continued)

- (c) For personal property pawn loans arising from the Group's pawn loan business which was ceased in previous years, customers were obliged to settle the amounts according to the terms set out in the relevant contracts. The loan periods ranged from 30 days to 240 days.
- (d) For other trade receivables arising from other financial services, customers are obliged to settle the amounts according to the terms set out in the relevant contracts.
- (i) An ageing analysis of the commercial factoring loans, personal properties pawn loans and other trade receivables as at the end of the reporting period, based on maturity dates set out in the relevant contracts, is as follows:

	2020	2019
	RMB'000	RMB'000
Not yet matured and within 3 months	740,533	673,323
6 to 12 months	33	–
Over 12 months	21,445	74,092
	762,011	747,415
Provision for ECL	(25,674)	(23,181)
	736,337	724,234

- (ii) The ageing analysis of the commercial factoring loans, personal property pawn loans and other trade receivables that are not individually considered to be impaired is as follows:

	2020	2019
	RMB'000	RMB'000
Neither past due nor impaired	738,791	668,393
Less than 30 days past due	342	4,930
31 to 60 days past due	1,400	–
	740,533	673,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

16 TRADE AND LOANS RECEIVABLES (continued)

(iii) The following is an ageing analysis of the finance lease receivable instalments based on due dates:

	2020 RMB'000	2019 RMB'000
Non-past due	4,399	42,651
Past due by: (note)		
Less than 30 days past due	94	1,474
31 to 60 days past due	55	567
61 to 120 days past due	94	918
More than 120 days past due	20,174	21,869
	24,816	67,479
Less: provision for ECL	(20,144)	(19,896)
	4,672	47,583

Note: In the event that instalments repayment of a finance lease receivable are past due, the entire outstanding balance of the finance lease receivable is classified as past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

16 TRADE AND LOANS RECEIVABLES (continued)

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

	Year ended 31 December 2020			Total RMB'000
	Stage 1 (expected credit loss of 12 months) RMB'000	Stage 2 (expected credit loss of whole period) RMB'000	Stage 3 (impaired expected credit loss of whole period) RMB'000	
As at 1 January 2020	3,453	1,489	38,135	43,077
Transfer to stage 1	449	(73)	(376)	–
Transfer to stage 2	(98)	582	(484)	–
Transfer to stage 3	(183)	(1,066)	1,249	–
Charge for the year	3,909	300	19,013	23,222
Release for the year	(3,164)	(329)	(875)	(4,368)
Stage transfer	(449)	(578)	4,575	3,548
Write-offs and transfer out	–	–	(19,661)	(19,661)
As at 31 December 2020	<u>3,917</u>	<u>325</u>	<u>41,576</u>	<u>45,818</u>

	Year ended 31 December 2019			Total RMB'000
	Stage 1 (expected credit loss of 12 months) RMB'000	Stage 2 (expected credit loss of whole period) RMB'000	Stage 3 (impaired expected credit loss of whole period) RMB'000	
As at 1 January 2019	1,560	1,348	26,726	29,634
Transfer to Stage 1	31	(31)	–	–
Transfer to Stage 2	(333)	363	(30)	–
Transfer to Stage 3	(45)	(354)	399	–
Charge for the year	2,768	731	19,844	23,343
Release for the year	(505)	(596)	(846)	(1,947)
Stage transfer	(23)	28	4,033	4,038
Write-offs and transfer out	–	–	(11,991)	(11,991)
As at 31 December 2019	<u>3,453</u>	<u>1,489</u>	<u>38,135</u>	<u>43,077</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

16 TRADE AND LOANS RECEIVABLES (continued)

(iv) The movements in provision for ECL of trade and loans receivables are as follows:
(continued)

	2020 RMB'000	2019 RMB'000
At beginning of year	43,077	29,634
Impairment loss recognised (Note 6)	26,770	28,104
Impairment loss reversed* (Note 6)	(4,368)	(2,670)
Bad debt allowance written off and transferred out	(19,661)	(11,991)
	45,818	43,077

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

Included in the above provision for impairment of commercial factoring loans, personal properties pawn loans and other trade receivables is a provision for individually impaired trade and loans receivables of approximately RMB21,445,000 (2019: approximately RMB19,685,000) with a carrying amount before provision of approximately RMB21,478,000 (2019: approximately RMB74,902,000).

The individually impaired trade and loans receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments.

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

The Group has concentration risk on trade and loans receivables as it has total outstanding balances as at 31 December 2020 of approximately RMB705,891,000 (2019: approximately RMB437,743,000) from the top five customers, and two (2019: one) of them contributes more than 10% of trade and loans receivables of the Group with an aggregate outstanding balance of approximately RMB641,448,000 (2019: approximately RMB211,773,000).

The Group also has concentration risk on trade and loans receivables from the value-chain perspective. Some of the borrowers are involved in the value-chain of some related parties of the Group and therefore they could share similar risk characteristics.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

17 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Prepayment for acquisition of TJGCMT (note 29(b))	576,000	576,000
Deposits	204	330
Other prepayments	502	4,447
Other receivables	8,424	23,321
	585,130	604,098
Impairment	—	(11,254)
	585,130	592,844

The financial assets included in the above balances relate to prepayments, other receivables and other assets for which there was no recent history of default and past due amounts.

Carrying amount analysed for reporting purpose:

	2020 RMB'000	2019 RMB'000
Current assets	9,130	16,844
Non-current assets	576,000	576,000
	585,130	592,844

Prepayment of RMB576,000,000 was made for the acquisition of TJGCMT which is non-current in nature, therefore, the same prepayment as at 31 December 2019 has been represented.

18 PLEDGED DEPOSITS FOR BANK LOANS AND CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	1,084,932	1,239,294
Less: Pledged deposits for bank loans	734,704	922,865
	350,228	316,429

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

18 PLEDGED DEPOSITS FOR BANK LOANS AND CASH AND CASH EQUIVALENTS (continued)

	31 December 2020		
	Original currency '000	Exchange rate	RMB'000
RMB	264,661	1.0000	264,661
HKD	31,269	0.8416	26,317
USD	121,681	6.5249	793,954
			1,084,932

	31 December 2019		
	Original currency '000	Exchange rate	RMB'000
RMB	220,005	1.0000	220,005
HKD	29,529	0.8958	26,452
USD	142,318	6.9762	992,837
			1,239,294

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

19 TRADE PAYABLES

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

	2020 RMB'000	2019 RMB'000
Within 1 month	6,660	1,803
3 to 12 months	551	50
Over 1 year	396	396
	7,607	2,249

As at 31 December 2020, the trade payables due to related parties were nil (2019: Nil).

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

20 OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Deposits received	1,950	1,950
Accruals	1,884	2,093
Receipts in advance	374	1,513
Other payables	7,574	2,903
	11,782	8,459

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

21 INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective	Maturity	RMB'000	Effective	Maturity	RMB'000
	interest rate			interest rate		
	%			(%)		
Current borrowings						
Bank loans – secured	3.5500%- 4.8000%	2021/1/19- 2021/12/22	809,500	4.1500%- 4.3500%	2020/1/8- 2020/12/29	927,000
			<u>809,500</u>			<u>927,000</u>

Note:

The Group's bank loans of RMB674,500,000 at 31 December 2020 (2019: RMB827,000,000) were secured by the Group's fixed deposits of USD112,600,000 (2019: USD 132,000,000). Relevant disclosures are included in note 18.

The Group's bank loans of RMB135,000,000 at 31 December 2020 were secured by the Group's structured deposit with a principal amount of RMB154,000,000 and its interest (note 31(b)). As at 31 December 2019, the Group's bank loans of RMB100,000,000 were secured by Group's structured deposit with a principal amount of RMB105,000,000 and its interest.

22 BONDS ISSUED

	2020	2019
	RMB'000	RMB'000
Unlisted corporate bonds	<u>28,223</u>	<u>29,495</u>

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

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

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

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

The effective interest rate of the unlisted corporate bonds is approximately 9.28% (2019: 9.28%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

23 DEFERRED TAX

As at 31 December 2020 and 31 December 2019, the Group had no deferred tax liabilities. The movements in deferred tax assets during the year are as follows:

Deferred tax assets

	Impairment of trade and loans receivables RMB'000	Lease liabilities RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2019	4,219	–	–	4,219
Deferred tax credited to the consolidated statement of profit or loss and other comprehensive income during the year (Note 10)	3,513	3	734	4,250
At 31 December 2019 and 1 January 2020	7,732	3	734	8,469
Deferred tax credited to the consolidated statement of profit or loss and other comprehensive income during the year (Note 10)	(2,278)	6	(734)	(3,006)
At 31 December 2020	<u>5,454</u>	<u>9</u>	–	<u>5,463</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

23 DEFERRED TAX (continued)

As at 31 December 2020 and 31 December 2019, the Group had no deferred tax liabilities. The movements in deferred tax assets during the year are as follows:

Deferred tax assets

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

	2020 RMB'000	2019 RMB'000
Tax losses	120,764	108,624
Deductible temporary differences	53,553	37,094

As at 31 December 2020, the Group had tax losses arising from the operation in Hong Kong of approximately equivalent RMB87,755,000 (2019: approximately RMB77,391,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Tax losses as at 31 December 2020 and 31 December 2019 are subject to approval of the Hong Kong Inland Revenue Department.

As at 31 December 2020, the Group also had tax losses arising from the operation in Mainland China of approximately RMB33,009,000 (2019: approximately RMB31,233,000) that will expire in one to five years for offsetting against future taxable profits.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

24 SHARE CAPITAL

Shares

	2020 HKD'000	2019 HKD'000
Authorised:		
6,000,000,000 (at 31 December 2019: 6,000,000,000) ordinary shares of HKD0.1 each	600,000	600,000
	2020 RMB'000	2019 RMB'000
Issued and fully paid:		
2,701,123,120 (at 31 December 2019: 2,701,123,120) ordinary shares of HKD0.1 each	230,159	230,159

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

	Number of shares in issue '000	Share Capital RMB'000
At 1 January 2019	2,701,123	230,159
At 31 December 2019 and 31 December 2020	2,701,123	230,159

25 SHARE OPTION SCHEME

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

25 SHARE OPTION SCHEME (continued)

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

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

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

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

No share options were exercised during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

26 RESERVES

The amounts of the Group's reserves and the movements therein for the current year and prior years are presented in the consolidated statement of changes in equity on page 98 of the consolidated financial statements.

Share premium

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

Contributed surplus

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

Capital reserves

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

Exchange reserve

The exchange reserve represents the exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency in Renminbi. The exchange differences are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to the consolidated statement of profit or loss and other comprehensive income on the disposal of the foreign operations.

27 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2020 and 31 December 2019.

28 TRANSFERS OF FINANCIAL ASSETS

In addition to the transfers of financial assets to a related party during the year ended 31 December 2019 detailed in note 29(c), as part of its normal business, the Group entered into an agreement on transfer of creditor's rights and transferred certain trade and loans receivables to a certain company. The Group assesses whether to derecognise the relevant assets or not based on the extent of risks and rewards retained. If these transfers qualify for derecognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets. During the year ended 31 December 2020, the trade and loans receivables amounting to approximately RMB50,000,000 with no recourse had been derecognised by the Group (2019: RMB118,836,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

29 RELATED PARTY TRANSACTIONS

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

	2020 RMB'000	2019 RMB'000
Transactions with related parties which are significantly influenced by a close member of the controlling shareholder of the Company:		
Rental expense	947	1,047
Property management fee	468	527
Interest income from commercial factoring loans	7,423	5,978
	<u>7,423</u>	<u>5,978</u>

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

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

	2020 RMB'000	2019 RMB'000
Balances with related parties which are significantly influenced by a close member of the controlling shareholder of the Company:		
Trade and loans receivables	–	111,618
Prepayments, other receivables and other assets	268	528
Other payables and accruals	–	1
Prepayments due from a related party controlled by the controlling shareholder of the Company (Note)	576,000	576,000
Other receivables due from the controlling shareholder of the Company	900	900
	<u>900</u>	<u>900</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

29 RELATED PARTY TRANSACTIONS (continued)

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

Note: As disclosed in the circular dated 29 June 2017, Xinda Factoring entered into a loan agreement (the "Loan") with the OPCO, a company 90% owned by a controlling shareholder of the Company, meanwhile the Sellers entered into a framework agreement, pursuant to which Xinda Factoring agreed to provide a non-interest-bearing loan of an amount of RMB720 million to the OPCO solely for the Group's purpose of acquiring the entire equity interest in TJGCMT from the Sellers. On 25 July 2017, the OPCO and the Sellers entered into a formal sale and purchase agreement when the Loan was approved by the Company's Independent Shareholders.

According to the Loan and the sale and purchase agreement, the Loan would be granted based on progress of the above acquisition. As at 31 December 2020, the transaction was subject to approval of the PBOC or its affiliated institutions. As at 31 December 2020, RMB576 million (2019: RMB576 million) was paid to the OPCO according to the aforesaid agreements and was recorded as a prepayment (note 17). The remaining amount of RMB144 million will be paid to the OPCO for the Acquisition after the approval of the PBOC or its affiliated institutions, to facilitate the completion of the contemplated transactions under the aforesaid agreements and the registration for the transfer.

- (c) Other transactions with related parties:

Trade and loans receivables of RMB6,136,000 of a debt portfolio were transferred to a related party which is ultimately wholly owned by a close member of the controlling shareholder of the Company during the year ended 31 December 2019. There was no such transfer during the year ended 31 December 2020.

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

	2020 RMB'000	2019 RMB'000
Salaries, other allowances and benefits in kind	3,214	3,156
Pension scheme contributions	4	40
	3,218	3,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

30 FINANCIAL INSTRUMENTS BY CATEGORY

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

	2020		2019	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial assets:				
Trade and loans receivables	741,009	741,009	771,817	771,817
Other receivables and other assets	8,628	8,628	12,397	12,397
Financial assets at fair value through profit or loss	149,451	149,451	105,657	105,657
Pledged deposits for bank loans	734,704	734,704	922,865	922,865
Cash and cash equivalents	350,228	350,228	316,429	316,429
	1,984,020	1,984,020	2,129,165	2,129,165
Financial liabilities:				
At amortised cost				
Trade payables	7,607	7,607	2,249	2,249
Other payables and accruals	11,408	11,408	6,946	6,946
Bonds issued	28,223	28,223	29,495	29,495
Lease liabilities	1,852	1,852	4,125	4,125
Interest-bearing bank and other borrowings	809,500	809,500	927,000	927,000
	858,590	858,590	969,815	969,815

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

31 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(a) Fair value measurement

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

Financial assets at fair value through profit or loss is stated at fair value. Fair value of the structured deposit is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period. Fair value of the currency forward contract is measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between RMB and USD, which is observable at the end of the reporting period. The carrying amount and fair value of financial assets at fair value through profit or loss are disclosed in note 30.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

(b) Fair value hierarchy

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

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

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

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

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

Assets measured at fair value

	31 December 2020			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Structured deposit and related cross currency swap features	–	149,451	–	149,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

(b) Fair value hierarchy (continued)

Assets measured at fair value (continued)

	31 December 2019			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– structured deposit	–	105,657	–	105,657

During the years ended 31 December 2020 and 2019, the Group placed principal-guaranteed structured deposits in a bank in the PRC with a principal amount of RMB154,000,000 (2019: RMB105,000,000) with a fixed term of 365 days. The yield of the structured deposits is determined on a daily basis and comprised of fixed and floating components. The fixed component of the daily yield is the amount of the principal amount of the structured deposits multiplied by a fixed rate of return (as determined and published by the bank) divided by 365. The floating component of the daily yield is similarly calculated, except that the rate of return may vary and is linked to the gold benchmark price published by the Shanghai Gold Exchange. The overall rate of return to the Group was approximately 3.4% (2019: 3.32%) per annum.

On the same day when the Group placed the principal-guaranteed structured deposit during the year ended 31 December 2020, the Group entered into a currency forward contract to manage its exposure to currency exchange fluctuation on the abovementioned structured deposit with the principal amount of RMB154,000,000, which also included a cross currency swap with a principal amount of RMB154,000,000 at fixed currency exchange rate of RMB to USD at 6.875 and due in January 2021. Under this arrangement, the Group would receive interest at a fixed rate of 2.45% per annum based on the principal amount of approximately USD22,400,000 and pay interest at fixed rate at 3.4% per annum based on the principal amount of RMB154,000,000.

The whole arrangement has been designated as financial assets at fair value through profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

(b) Fair value hierarchy (continued)

Assets measured at fair value (continued)

The movements during the year ended 31 December 2020 in the balance of Level 3 fair value measurements are as follows:

	Financial assets at fair value through profit or loss	
	2020 RMB'000	2019 RMB'000
At 1 January	105,657	131,719
Total gains or losses in profit or loss for the current year	(1,974)	4,999
Purchases	154,000	579,000
Disposals or settlements	(108,511)	(610,061)
Exchange difference	279	–
At 31 December	149,451	105,657
Total gains for the year included in profit or loss for assets held at the end of the reporting period	3,621	657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

As at 31 December 2020, if interest rates had been 50 basis points higher/lower and all other variables had been held constant, the Group's operating results before tax for the year would have increased/decreased by RMB1,355,000 (2019: RMB775,000). This is mainly attributed to the Group's exposure to the risk of changes in the interest rates on its variable-rate bank balances and bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

As at 31 December 2020, if Hong Kong dollar exchange rates had been 50 basis points higher/lower and all other variables had been held constant, the Group's operating results before tax for the year would have decreased/increased by approximately RMB3,970,000 (2019: RMB4,964,000), and the Group's equity as at 31 December 2020 would have decreased/increased by approximately RMB3,970,000 (2019: approximately RMB4,964,000).

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The Group reviews the recoverable amount of each individually significant trade and loans receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and loans receivables are included in note 16.

The Group has a significant amount of prepayment made in connection with a proposed acquisition of TJGCMT (note 17 and note 29(b)). The Group is making effort to complete the acquisition in the next 3 to 21 months. The Group is entitled to receive the refund of the prepayment within 10 days if the proposed acquisition cannot be completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement

Measurement of ECL

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

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

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

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

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

- Criteria for judging significant increases in credit risk
- Parameters of ECL measurement
- Forward-looking information
- Modification of contractual cash flows

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement (continued)

Criteria for judging significant increases in credit risk

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

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

Parameters of ECL measurement

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

Relative definitions are listed as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement (continued)

Parameters of ECL measurement (continued)

- LGD refers to the Group's estimation of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies.
- EAD represents the estimated exposure in the event of a default in the next 12 months or throughout the entire remaining lifetime. The Group derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount at the time of default.

Forward-looking information

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

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

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

Modification of contractual cash flows

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Credit risk measurement (continued)

Modification of contractual cash flows (continued)

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. As at 31 December 2020, the carrying amount of financial assets with such modified contractual cash flows was not significant.

Price risk

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

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's available cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

At 31 December 2020

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
Other payables and accruals	-	11,782	-	-	11,782	11,782
Trade payables	50	7,161	-	396	7,607	7,607
Bonds issued	-	-	2,062	31,753	33,815	28,223
Lease liabilities	-	284	978	660	1,922	1,852
Interest-bearing bank and other borrowings	-	164,919	666,709	-	831,628	809,500
	50	184,146	669,749	32,809	886,754	858,964

At 31 December 2019

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
Other payables and accruals	409	8,050	-	-	8,459	8,459
Trade payables	50	1,803	-	396	2,249	2,249
Bonds issued	-	-	2,195	35,991	38,186	29,495
Lease liabilities	-	288	1,029	3,326	4,643	4,125
Interest-bearing bank and other borrowings	-	163,735	793,980	-	957,715	927,000
	459	173,876	797,204	39,713	1,011,252	971,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2020 and year ended 31 December 2019.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as total debt divided by equity attributable to the owners of the Company.

The debt-to-equity ratios as at the end of the reporting periods were as follows:

	2020 RMB'000	2019 RMB'000
Total debt	858,590	969,815
Equity attributable to owners of the Company	1,701,190	1,747,374
Debt-to-equity ratio	<u>50.47%</u>	<u>55.50%</u>

33 EVENT AFTER THE REPORTING PERIOD

On 19 March 2021, the Group entered into a sale and purchase agreement to dispose of certain dormant subsidiaries to an independent third party for a total consideration of HK\$3. No significant gain or loss on disposal was expected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

34 CASH FLOW INFORMATION

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities:

	Lease liabilities RMB'000	Interest-bearing bank and other borrowings RMB'000	Bonds issued RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2019	–	774,000	28,364	1,951	804,315
Adjustment upon application of HKFRS 16	5,657	–	–	–	5,657
At 1 January 2019	5,657	774,000	28,364	1,951	809,972
Changes from financing cash flows:					
New borrowings	–	1,082,000	–	–	1,082,000
Repayment of borrowings	–	(929,000)	–	–	(929,000)
Principal portion of lease payments	(1,539)	–	–	–	(1,539)
Interest and other finance charges paid	(243)	(37,919)	(2,155)	(588)	(40,905)
Total change from financing cash flows	(1,782)	115,081	(2,155)	(588)	110,556
Other changes:					
Interest expenses	244	37,919	2,643	–	40,806
Exchange adjustments	6	–	643	512	1,161
Total other changes	250	37,919	3,286	512	41,967
At 31 December 2019 and 1 January 2020	4,125	927,000	29,495	1,875	962,495
Changes from financing cash flows:					
New borrowings	–	809,500	–	–	809,500
Repayment of borrowings	–	(927,000)	–	–	(927,000)
Principal portion of lease payments	(1,443)	–	–	–	(1,443)
Interest and other finance charges paid	–	(32,130)	(2,717)	(1,344)	(36,191)
Total change from financing cash flows	(1,443)	(149,630)	(2,717)	(1,344)	(155,134)
Other changes:					
New lease	2,364	–	–	–	2,364
Rent concession	(86)	–	–	–	(86)
Termination of lease	(3,218)	–	–	–	(3,218)
Interest expenses	111	37,628	2,718	–	40,457
Interest expenses accrued	–	(5,498)	(541)	6,039	–
Exchange adjustments	(1)	–	(733)	591	(143)
Total other changes	(830)	32,130	1,444	6,630	39,374
At 31 December 2020	1,852	809,500	28,222	7,161	846,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows

	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets		
Interests in subsidiaries	31,568	31,568
Amounts due from subsidiaries	1,051,465	939,644
Total non-current assets	1,083,033	971,212
Current assets		
Prepayments, other receivables and other assets	3,293	5,872
Pledged deposits for bank loans	715,129	920,858
Cash and cash equivalents	80,319	93,721
Total current assets	798,741	1,020,451
Current liabilities		
Amounts due to subsidiaries	203,623	216,722
Other payables and accruals	1,109	1,594
Total current liabilities	204,732	218,316
Net current assets	594,009	802,135
Total assets less current liabilities	1,677,042	1,773,347
Non-current liabilities		
Bonds issued	28,223	29,495
Total non-current liabilities	28,223	29,495
Net assets	1,648,819	1,743,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2020 RMB'000	31 December 2019 RMB'000
Equity		
Equity attributable to owners of the Company		
Share capital	230,159	230,159
Reserves	1,418,660	1,513,693
Total equity	1,648,819	1,743,852

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Contributed surplus RMB'000	Capital reserves RMB'000	Exchange reserves RMB'000	Accumulated losses RMB'000	Total reserves RMB'000
At 1 January 2019	1,944,601	520,838	87,072	10,756	(1,099,378)	1,463,889
Profit for the year	-	-	-	-	11,738	11,738
Exchange differences on translation from functional currency to presentation currency	-	-	-	38,066	-	38,066
At 31 December 2019 and 1 January 2020	1,944,601	520,838	87,072	48,822	(1,087,640)	1,513,693
Profit for the year	-	-	-	-	8,929	8,929
Exchange differences on translation from functional currency to presentation currency	-	-	-	(103,962)	-	(103,962)
At 31 December 2020	1,944,601	520,838	87,072	(55,140)	(1,078,711)	1,418,660

36 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2021.

FIVE YEAR/PERIOD FINANCIAL SUMMARY

The consolidated results, and assets and liabilities of the Group for the last five financial years/period are summarised below.

Results

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	Nine months period ended 31 December 2016 RMB'000
Continuing operations					
Revenue	86,664	69,886	69,004	73,807	35,500
Profit/(loss) for the year/ period attributable to – Owners of the Company	14,316	(31,968)	1,439	21,724	(31,528)

Assets and liabilities

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Total assets	2,568,284	2,722,994	2,578,826	2,575,486	2,500,325
Total liabilities	(867,094)	(975,620)	(821,179)	(856,461)	(710,276)
Total equity	1,701,190	1,747,374	1,757,647	1,719,025	1,790,049